Board Agenda Item #	Agenda #II B- Consent Item
Date:	December 13, 2018
To:	Magnolia Board of Directors
From:	Alfredo Rubalcava, CEO & Superintendent
Staff Lead:	Nanie Montijo, Chief Financial Officer
RE:	Approval of 2017-18 Audit Report

Proposed Board Recommendation

Motion to approve the Financial Audit Report for fiscal year 2017-18 of all ten (10) schools and the consolidated audit including the home office.

Background

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

The Governing Board of each school district must review the annual audit report for the prior fiscal year at a public meeting. According to EC Section 41020.3, the review will include: ". . . the annual audit of the local education agency for the prior year, any audit exceptions identified in that audit, the recommendations or findings of any management letter issued by the auditor, and any description of correction or plans to correct any exceptions or management letter issue."

The board is required to review and approve annual financial audit report annually and submit to our various oversight entities by December 15.

In an audit engagement:

- The auditor explains that preparing the financial statements and maintaining sound internal control is management responsibility;
- The auditor explains its owns responsibilities, duties and rights regarding the engagement; emphasizes the nature of the audit and states that the auditor only examines the internal controls and accounting records on a sample basis;

- The auditor gives his opinion on the financial statements:
    - ❏ An unqualified report concludes that the financial statements present fairly its affairs in all material aspects. Also known as a clean report, which implies that any changes in the accounting policies, application and effects are adequately determined and disclosed.
    - ❏ A qualified report is when there is a limitation of scope in auditor's work, or when there is disagreement with management regarding application, acceptability or adequacy of accounting policies. The issue must be material or financially worth consideration to qualify a report.
    - ❏ If issues are material and pervasive, the auditor issues a disclaimer or adverse opinion.

Independent auditor's report received from VTD at the end of their audit engagement with MERF for fiscal year 2017-18 states that the financial statements present fairly, in all material aspects, the respective financial position of the Charter School, as of June 30, 2018. The changes in its net assets, its cash flows for the year that ended, in accordance with accounting principles generally accepted in the United States of America.

Budget Implications
None.

How Does This Action Relate/Affect/Benefit All MSAs?
All MPS schools will be in compliance with the federal, state and all authorizers' requirements.

Name of Staff Originator:

Nanie Montijo, Chief Financial Officer

Exhibits (attachments):
2017-18 Audit Reports for each MPS school
2017-18 MERF and Consolidated Audit Reports

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MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Educational & Research Foundation
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Educational & Research Foundation (the Foundation) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities, 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 an opinion 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 *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation'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 opinion

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation, as of June 30, 2018 and 2017, and the changes in its net assets, and its cash flows thereof for the year 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 such as the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedule of Expenditures of Federal Awards and the accompanying supplementary information is fairly stated, in all material respects, in relation to the 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 _________, 2018, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Rancho Cucamonga, California
____________________, 2018

FINANCIAL STATEMENTS

DRAFT 11/20/2018

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 22,600,493	$ 9,834,842
Restricted cash	4,659,987	648,760
Accounts receivable	4,781,620	3,194,412
Prepaid expenses and other current assets	1,027,408	1,620,157
Total Current Assets	33,069,508	15,298,171
Non-Current Assets:		
Debt issue costs, net	1,076,199	358,782
Security deposits	43,117	64,690
Fixed assets	46,055,549	30,157,534
Less: accumulated depreciation	(4,120,699)	(3,115,417)
Total Non-Current Assets	43,054,166	27,465,589
Total Assets	$ 76,123,674	$ 42,763,760
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	$ 3,232,385	$ 3,212,491
Deferred revenue	2,290,659	519,063
Current portion of long-term obligations	306,020	3,129,116
Total Current Liabilities	5,829,064	6,860,670
Long-Term Obligations:		
Non-current portion of long-term obligations	43,383,648	14,424,680
Total Liabilities	49,212,712	21,285,350
NET ASSETS		
Unrestricted	24,467,494	20,413,178
Designated	2,443,468	1,065,232
Total Net Assets	26,910,962	21,478,410
Total Liabilities and Net Assets	$ 76,123,674	$ 42,763,760

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

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MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES		
State apportionments	$ 36,259,514	$ 34,483,963
Federal revenue	3,851,301	3,756,458
Other state revenue	8,196,747	6,383,153
Local revenue	1,528,298	1,400,619
Total Revenues	49,835,860	46,024,193
EXPENSES		
Program services:		
Salaries and benefits	$ 23,353,633	$ 23,151,926
Student services	1,867,468	2,173,408
Materials and supplies	426,368	839,491
Student nutrition	1,472,329	1,670,987
Other expenses	848,175	1,221,591
Subtotal	27,967,973	29,057,403
Management and general:		
Salaries and benefits	5,770,193	5,787,982
Amortization	38,894	12,814
Depreciation	1,228,552	907,827
Insurance	11,628	790
Management fee	16,296	326,637
Occupancy	2,613,954	1,809,451
Operating expenses	5,571,915	6,622,041
Debt service	691,435	360,088
Interest	492,468	173,344
Subtotal	16,435,335	16,000,974
Total Expenses	44,403,308	45,058,377
CHANGE IN NET ASSETS BEFORE EXTRAORDINARY ITEM	5,432,552	965,816
Extraordinary item - MSA Santa Clara	-	(348,866)
CHANGE IN NET ASSETS	5,432,552	616,950
NET ASSETS, BEGINNING OF YEAR	21,478,410	20,861,460
NET ASSETS, END OF YEAR	$ 26,910,962	$ 21,478,410

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

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MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 5,432,552	$ 616,950
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,136,583	776,526
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(1,587,208)	1,122,987
Prepaid expenses and other current assets	592,749	(1,478,486)
Security deposits	21,573	79,460
Increase in liabilities		
Accounts payable and accruals	19,894	95,417
Deferred revenue	1,771,596	11,145
Net Cash Provided by Operating Activities	7,387,739	1,223,999
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(16,029,316)	(6,765,790)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	(3,129,116)	(190,867)
Proceeds from long-term debt obligation	29,264,988	-
Restricted cash	(4,011,227)	5,678,755
Debt issue cost payments	(717,417)	12,814
Net Cash Provided by Financing Activities	21,407,228	5,500,702
NET CHANGE IN CASH	12,765,651	(41,089)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,834,842	9,875,931
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 22,600,493	$ 9,834,842
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ 492,468	$ 173,344

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

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Educational & Research Foundation

Magnolia Educational & Research Foundation (MERF) is a California not-for-profit organization. During the fiscal year ended June 30, 2018, MERF operated ten Magnolia Science Academy (MSA) kindergarten through grade twelve charter schools serving 3,790 students throughout California dedicated to inspiring students to choose career paths in science, technology, engineering, and math (STEM), while providing a robust, standards-based education program within a supportive culture of excellence.

To ensure students have the tools to succeed, the Foundations offer the following programs, which are mostly free of charge:

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

The Foundations operate under the approval of the California State Board of Education, Los Angeles Unified School District and San Diego Unified School District. Each school receives public per-pupil funding from the State of California, in addition to grants from various government sources.

Other Related Entities

Magnolia Properties Management, Inc. (MPM Inc.)

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

MPM Sherman Way, LLC

MERF formed the MPM Sherman Way, LLC exclusively for the acquisition of property and assets of Magnolia Science Academy Charter Schools, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. The Magnolia Science Academy makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA 1 Reseda Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of MERF. MPM Inc. is the sole member of the LLC.

MPM Santa Ana, LLC

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

MPM San Diego, LLC

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

Joint Powers Agency and Risk Management Pools

Magnolia Science Academy Charter Schools are 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 MERF. Additional information is presented in Note 15 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by MERF are described below to enhance the use of the consolidated financial statements to the reader.

Financial Statement Presentation

MERF 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. MERF had no temporarily or permanently restricted net assets, as of June 30, 2018 and 2017, respectively. In addition, MERF is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, Not-for-Profit Organizations accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to 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 Foundation uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses 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 when 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." MERF, MPM Inc., and the LLC had no temporarily or permanently restricted net assets at June 30, 2018 and 2017, respectively.

In-kind contributions are recorded at their estimated fair values at the date of donation. Donated services are recorded if they create or enhance non-financial assets or require a specialized skill that MERF would otherwise need to purchase. As of June 30, 2018 and 2017, respectively, no in-kind contributions of services were received.

Government grants are recognized as revenue in accordance with the terms of the applicable grant agreement, which generally require revenue recognition upon incurrence of expenses related to the specified services. Deferred revenue is recorded to the extent cash received on specific grants exceeds qualified expenses.

Income Taxes

MERF is a nonprofit 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 a public charity described in Section 509(a)(1) Type 1 supporting organizations and is 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. The statute of limitations for Federal and California State purposes is generally three and four years, respectively.

MERF 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 consolidated financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. MERF management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, MERF considers all highly liquid investments available for current use with an initial maturity of three months or less to be considered as 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, 2018 and 2017, respectively, management had determined all accounts receivable are fully collectible and no allowance for bad debts has been established.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by MERF Headquarters to each individual charter school and reimbursement for those resources from each individual charter school to MERF Headquarters.

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, 2018 and 2017, was $1,228,552 and $907,827, respectively.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by MERF prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when MERF has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Certain grants received before the eligibility requirements are met are recorded as deferred revenue.

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. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

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 MERF, MPM Inc., and the LLC.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. MERF and the LLC do not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used. MERF and the LLC do not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. The grant portion of the Foundation Facilities Program is classified as designated assets until the funds are used for the purchase of the land and the construction of the facility. As of June 30, 2018 and 2017, the amount of restricted cash was $4,659,987 and $648,760, respectively. As of June 30, 2018 and 2017, there was a designated balance of $2,443,468 and $1,065,232, respectively, for California Clean Energy Jobs Act, College Readiness funds, National School Lunch Program, and Proposition 1 D funds.

Consolidation

The consolidated financial statements include the accounts of MERF, MPM Inc., the LLC, and all MSA charter schools. All significant intra-company accounts and transactions have been eliminated in consolidation.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases (see Note 12).

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	$22,096,194	$25,888,140	$ 9,043,882	$10,098,608
County pooled investment funds	504,299	N/A	790,960	N/A
Total	$22,600,493	$25,888,140	$ 9,834,842	$10,098,608

The majority of MERF's cash is held in bank accounts, which are subject to federally insured limits of $250,000. MERF has not experienced any losses in such accounts. At June 30, 2018 and 2017, MERF had $25,388,140 and $9,204,748, respectively, in excess of FDIC insured limits in bank accounts.

NOTE 4 - RESTRICTED CASH

At June 30, 2018 and 2017, cash held for restricted purposes consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Bond reserve	$ 4,553,380	$ 4,553,380	$ 446,563	$ 446,563
Facility reserve	106,607	106,607	202,197	202,197
Current Restricted Cash	$ 4,659,987	$ 4,659,987	$ 648,760	$ 648,760

The majority of MERF's restricted cash is held in bank accounts, which are subject to federally insured limits of $250,000. MERF has not experienced any losses in such accounts. At June 30, 2018 and 2017, MERF had $4,553,130 and $196,563, respectively, in excess of FDIC insured limits in bank accounts.

NOTE 5 - INVESTMENTS (CASH EQUIVALENTS)

Summary of Investments

Two MSA charter schools have investments held in county investment pools. Investments as of June 30, 2018 and 2017, are classified in the accompanying financial statements as follows:

Magnolia Science Academy San Diego

	June 30, 2018		June 30, 2017	
Investment Type	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
San Diego County Pooled Investment Funds	$ 62,058	$ 61,400	$ 14,476	$ 14,427

Magnolia Science Academy Santa Ana

	June 30, 2018		June 30, 2017	
Investment Type	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
Orange County Pooled Investment Funds	$ 442,241	$ 440,337	$ 776,484	$ 775,242

All assets have been valued using a market approach, with quoted market prices.

Interest Rate Risk

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

Weighted Average Maturity

MERF monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

NOTE 6 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

Uncategorized - Investments in the Orange and San Diego County Treasury Investment Pools are not measured using the input levels above because the Foundations' transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

The fair value measurements are as follows at June 30, 2018:

Magnolia Science Academy San Diego

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
San Diego County Treasury Investment Pool	Uncategorized	$61,400	370

Magnolia Science Academy Santa Ana

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Pooled Investment Funds	Uncategorized	$ 440,337	302

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Local Control Funding Formula	$ 2,261,602	$ 2,018,722
Federal receivable	965,463	699,232
State receivable	1,216,639	58,203
Due From LACOE	-	16,815
Local receivable	-	21,902
Lottery	335,247	379,538
Other	2,669	-
Total Accounts Receivable	$ 4,781,620	$ 3,194,412

NOTE 8 - FIXED ASSETS

Fixed assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Land	$ 2,386,854	$ 2,386,854
Building improvements	28,388,867	24,123,767
Leasehold improvements	384,879	374,818
Computer and equipment	2,775,055	2,536,238
Work in progress	12,119,894	735,857
Subtotal	46,055,549	30,157,534
Less: accumulated depreciation	(4,120,699)	(3,115,417)
Total Fixed Assets	$ 41,934,850	$ 27,042,117

During the years ended June 30, 2018 and 2017, $1,228,552 and $907,827, respectively, was charged to depreciation expense.

NOTE 9 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Salaries and benefits	$ 733,254	$ 751,947
Compensated absences	121,768	-
Vendor payables	1,981,453	2,324,075
Due to other agencies	395,910	136,469
Total Accounts Payable and Accruals	$ 3,232,385	$ 3,212,491

NOTE 10 - DEFERRED REVENUE

Deferred revenue at June 30, 2018, consisted of the following:

	2018	2017
State sources	$ 2,290,659	$ 446,563
Other	-	72,500
Total Deferred Revenue	$ 2,290,659	$ 519,063

NOTE 11 - LONG-TERM OBLIGATIONS

At June 30, 2018, MERF's long-term obligations summary is as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
Bonds payable (CSFA)	$ 5,870,000	$ 25,000,000	$ 85,000	$ 30,785,000	$ 90,000
Loans (CCSFP)	8,883,784	-	244,116	8,639,668	223,520
Note payable	2,800,000	4,265,000	2,800,000	4,265,000	82,500
Total	$ 17,553,784	$ 29,265,000	$ 3,129,116	$ 43,689,668	$ 396,020

At June 30, 2017, MERF's long-term obligations summary is as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
Bonds payable (CSFA)	$ 5,950,000	$ -	$ 80,000	$ 5,870,000	$ 85,000
Loans (CCSFP)	8,950,465	-	66,669	8,883,796	244,116
Capital leases	44,198	-	44,198	-	-
Note payable	2,800,000	-	-	2,800,000	2,800,000
Total	$ 17,744,663	$ -	$ 190,867	$ 17,553,796	$ 3,129,116

California School Finance Authority (CSFA) School Facility Revenue Bonds

Series 2014A and 2014B

In June 2014, the CSFA issued $6,020,000 in School Facilities Revenues, Series 2014A and Series 2014B for the purpose of a loan to MPM Sherman Way, LLC. The proceeds from the bonds will be used for the purpose of purchase, renovations, and improvement of charter school facilities. The bonds mature in August 2044 with monthly interest payments due commencing July 1, 2044. At June 30, 2018, the principal balance outstanding was $5,785,000.

Series 2017A-1 and 2017A-2

In August 2017, the CSFA issued $25,000,000 in School Facilities Revenues, Series 2017A-1 and Series 2017A-2 for the purpose of a loan to MPM Sherman Way, LLC, MPM Santa Ana, LLC, and MPM Sand Diego, LLC. The proceeds from the bonds will be used for the purpose of purchase, renovations, and improvement of charter school facilities. The bonds mature in July 2044 with monthly interest payments due commencing July 1, 2044. At June 30, 2018, the principal balance outstanding was $25,000,000.

The bonds mature through 2045 as follows:

Repayment Year	Principal	Current Interest to Maturity	Total
2019	$ 90,000	$ 1,660,688	$ 1,750,688
2020	620,000	1,641,088	2,261,088
2021	655,000	1,607,444	2,262,444
2022	685,000	1,572,269	2,257,269
2023	720,000	1,535,387	2,255,387
2024-2028	4,230,000	7,117,626	11,347,626
2029-2033	4,740,000	6,498,538	11,238,538
2034-2038	6,350,000	4,843,338	11,193,338
2039-2043	8,520,000	2,611,500	11,131,500
2044-2045	4,175,000	256,319	4,431,319
Total	$ 30,785,000	$ 29,344,197	$ 60,129,197

Debt Service Coverage and Cash Days on Hand

Under the current bonding agreement, MPM Sherman Way, MPM Santa Ana, and MPM San Diego (the Lessees) or Magnolia Educational and Research Foundation (MERF) is required to maintain a Debt Service Coverage Ratio of 1.10 to 1.00 and Cash Days on Hand of 45 days.

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from Magnolia Science Academy (MSA) by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2018, MSA had a 2.56 Debt Service Coverage Ratio and was in compliance with the 1.10 to 1.00 required ratio and cash on hand of 45 days.

Debt Service Coverage	
Net Income	$ 1,425,567
Depreciation	6,361
Rent	916,260
Income Available for Coverage	2,348,188
Debt Service	916,260
Debt Service Coverage	**2.56**
Limit	1.10
Compliance	Yes

The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2018, MSA had 113 days cash on hand and was in compliance with the 45 days required.

Days Cash on Hand	
Total Expenses	$ 6,599,203
Depreciation	6,361
Cash Expenses	6,592,842
Expense/Day	18,063
Cash	2,044,087
Days Cash on Hand	**113**
Limit	45
Compliance	Yes

Loans (CCSFP)

Summarized below are MERF's loans at June 30, 2018:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
MSA SD (CCSFP)	$ 151,806	$ -	$ -	$ 151,806	$ -
MSA SA (Revolving)	25,000	-	25,000	-	-
MSA SA (CCSFP)	8,706,978	-	219,116	8,487,862	223,520
Total	$ 8,883,784	$ -	$ 244,116	$ 8,639,668	$ 223,520

Magnolia Science Academy Santa Ana (MSA SA)

Magnolia Science Academy Santa Ana received unsecured revolving loan payable to the California Department of Education totaling $150,000 on November 30, 2012. The loan balance as of June 30, 2018, was $75,000. The loan has an interest rate of 0.53 percent and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on October 30, 2013. The State Controller's Office deducts the loan payments from MSA SA's State School Fund Apportionments. At June 30, 2018, the loan was paid in full.

Magnolia Science Academy Santa Ana has been approved by the State of California's Charter School Facilities Program (CCSFP) for $17,413,956 for constructing a new facility, which will cost the same amount. The State will fund 50 percent of the total amount of $17,413,956; the State will fund 50 percent of the total project cost through a loan in the amount of $8,706,990 and the other 50 percent through a grant in the amount of $8,706,978. The loan has an annual interest rate of 3.00 percent and it matures 30 years after the completion of the project. The outstanding loan balance as of June 30, 2018, was $8,487,862. The current portion due in 2017-2018 is $223,520.

Magnolia Science Academy San Diego (MSA SD)

Magnolia Science Academy San Diego has been approved by the State of California's Charter School Facilities Program (CCSFP) for $3,036,122 for constructing a new facility, which will cost the same amount. The State will fund 50 percent of the total amount of $3,036,122; the State will fund 50 percent of the total project cost through a loan in the amount of $1,518,061 and the other 50 percent through a grant in the amount of $1,518,061. The loan has an annual interest rate of 2.00 percent and it matures 30 years after the completion of the project, which is estimated to be in the middle of calendar year 2016. The repayment schedule will be determined after completion of the project. The State Controller's Office will deduct the loan payments from MSA SD's State School Fund Apportionments. The outstanding loan balance as of June 30, 2018, was $151,806.

Note Payable

Magnolia Science Academy (MSA 1)

MSA entered into a promissory note agreement with Luxor Properties, Inc. and Michael William Spivak, to purchase the property located at 18220-18228 Sherman Way, Los Angeles, California. MSA 1 received a loan in the amount of $2,800,000. The loan bears an interest rate of 6.50 percent. The terms of the loan require monthly interest payments of $15,667 for a 23-month period and the remaining principal balance on the final payment. At June 30, 2018, this note was paid in full.

On December 1, 2017, Magnolia Educational & Research Foundation entered into a promissory note agreement with MPM Santa Ana LLC. The loan agreement provides that the loan will be funded in two tranches. The initial advance of $1,480,000 on September 6, 2017 and the second advance of $2,785,000 on December 22, 2017. Monthly payment terms include an interest rate of ten percent beginning in 2017 and maturing June 30, 2045. Total payment made in 2017-2018 was $226,533 in interest only. Principle payments begin August 1, 2018. The balance as of June 30, 2018 was $4,265,000.

Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2019	509,000
2020	512,833
2021	508,375
2022	503,417
2023	497,958
2024-2028	2,380,666
2029-2033	2,137,583
2034-2038	1,983,127
2039-2043	1,777,458
2044-2045	352,625
Less: Amount Representing Interest	(6,898,042)
Total	$ 4,265,000

NOTE 12 - FACILITIES USES AGREEMENTS/OPERATING LEASES

Total rental and facility expenses were $1,027,496 for year ended June 30, 2018, for the sole purpose of operating the Foundations' education programs, related Charter Schools' activities. Future rental and facility expenses are as follows:

Fiscal Year Ending	Future Lease Commitments
2019	$ 926,408
2020	1,153,425
2021	927,619
2022	944,561
2023	639,275
Thereafter	10,763,284
Total	$ 15,354,572

Lease Commitments

Charter School	Future Lease Commitments
MSA 1	$ 12,937,551
MSA 7	1,079,021
MSA SD	480,000
MERF Office	858,000
Total	$ 15,354,572

NOTE 13 - FAIR VALUE FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of MERF financial instruments as of June 30, 2018 are as follows:

	June 30, 2018		June 30, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 22,600,493	$ 22,600,493	$ 9,834,842	$ 9,833,550
Restricted cash and cash equivalents	4,659,987	4,659,987	648,760	648,760
Revolving and CCSF loans	8,639,668	8,639,668	8,883,796	8,883,796
Notes payable	4,265,000	4,265,000	2,800,000	2,800,000
Bonds payable (CSFA)	30,785,000	30,785,000	5,870,000	5,870,000

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Foundation chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Foundation 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 Foundation 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, 2017, total actuarial value of assets are $180 billion, the actuarial obligation is $287 billion, contributions from all employers totaled $4.0 billion, and the plan is 62.6 percent funded.

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, 2017, 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 Foundation 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, 2018, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before	On or after
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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and the Foundation's total contributions were $2,272,070.

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, 2016, the Schools Pool total plan assets are $55.8 billion, the total accrued liability is $77.5 billion, contributions from all employers totaled $1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. 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.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before	On or after
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%	6.50%
Required employer contribution rate	15.531%	15.531%

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 Foundation 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, 2018, are presented above and the total Charter School contributions were $485,547.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $1,087,636 (9.328 percent of 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 15 - PARTICIPATION IN JOINT POWERS AUTHORITY

Magnolia Science Academy Charter Schools are participants 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 MERF and CharterSAFE is such that CharterSAFE is not considered a component unit of MERF 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 Magnolia Science Academy Charter Schools are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the years ended June 30, 2018 and 2017, Magnolia Science Academy Charter Schools made payments of $448,499 and $392,554, respectively, to CharterSAFE for services received. At June 30, 2018 and 2017, MERF had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 16 - CONTINGENCIES

Grants

MERF 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

MERF is not currently a party to any legal proceedings.

NOTE 17 - SUBSEQUENT EVENTS

MERF's management has evaluated events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements through _____, 2018, which is the date the consolidated 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 consolidated financial statements.

SUPPLEMENTARY INFORMATION

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Special Education:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	$ 572,884
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	1,428,512
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	271
Title II, Part A, Supporting Effective Instruction	84.367	14341	165,992
Title III, English Learner Student Program	84.365	14346	66,026
State Charter School Facilities Incentive Grants	84.242D	[1]	507,580
Total U.S. Department of Education			2,741,265
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Basic School Breakfast Program	10.553	13525	68,717
Especially Needy Breakfast	10.553	13526	280,828
National School Lunch Program	10.555	13524	731,203
Food Distribution	10.555	13524	29,288
Total Child Nutrition Cluster			1,110,036
Total U.S. Department of Agriculture			1,110,036
Total Federal Programs			$ 3,851,301

[1] Pass-Through Entity Identifying Number not available.

See accompanying note to supplementary information.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
FOR THE YEAR ENDED JUNE 30, 2018

ORGANIZATION

MERF operates ten schools in California under ten charters. Each school is operated on the same tax identification number as MERF. Charters were granted for each school for up to five years, with an opportunity for renewal. Charters may be revoked by the charter authorizer for material violations of the charter, failure to meet or make progress toward student outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law. As of June 30, 2018, the Foundations operated by MERF were as follows:

Charter School Name	Charter Number	Sponsoring District	Charter Expiration	Grades Served	Number of Students Served
Magnolia Science Academy	0438	Los Angeles COE	June 30, 2022	6-12	537
Magnolia Science Academy 2	0906	Los Angeles COE	June 30, 2022	6-12	448
Magnolia Science Academy 3	0917	Los Angeles COE	June 30, 2022	6-12	455
Magnolia Science Academy 4	0986	Los Angeles USD	June 30, 2023	6-12	185
Magnolia Science Academy 5	0987	Los Angeles COE	June 30, 2023	6-12	206
Magnolia Science Academy 6	0988	Los Angeles USD	June 30, 2019	6-8	155
Magnolia Science Academy 7	0989	Los Angeles USD	June 30, 2019	K-5	200
Magnolia Science Academy Bell	1236	Los Angeles USD	June 30, 2020	6-8	487
Magnolia Science Academy San Diego	0698	San Diego USD	June 30, 2020	6-8	397
Magnolia Science Academy Santa Ana	1686	CDE	June 30, 2019	K-12	720

See accompanying note to supplementary information.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE, *Continued*
FOR THE YEAR ENDED JUNE 30, 2018

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Mr. Saken Sherkhanov	President	December 11, 2018
Mr. Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Director	October 11, 2022

ADMINISTRATION

Alfredo Rubalcava[1]	Chief Executive Officer, Superintendent
Caprice Young, Ed.D.[2]	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

[1] Effective July 1, 2018
[2] Resigned June 30, 2018

See accompanying note to supplementary information.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

	MERF	MSA-1	MSA-2	MSA-3	MSA-4	MSA-5	MSA-6
ASSETS							
Current Assets:							
Cash and cash equivalents	$ 475,054	$2,044,087	$1,094,844	$ 740,137	$1,336,770	$1,731,955	$ 1,442,531
Restricted cash and cash equivalents	-	-	-	-	-	-	-
Accounts receivable	-	1,349,175	521,854	440,748	156,659	157,623	162,484
Intra-company receivable	2,263,534	588,400	62,177	6,604	936	22,592	2,500
Prepaid expenses and other current assets	419,062	260,679	87,263	1,743	377	11,698	14,884
Total Current Assets	3,157,650	4,242,341	1,766,138	1,189,232	1,494,742	1,923,868	1,622,399
Non-Current Assets:							
Debt issue cost, net	-	-	-	-	-	-	-
Investments in LLC's	-	161,923	-	-	-	-	-
Security deposits	16,000	-	-	-	-	-	-
Fixed assets	134,513	1,489,734	410,237	267,427	178,296	205,518	158,971
Less: accumulated depreciation	(117,723)	(665,047)	(294,698)	(181,398)	(131,837)	(123,576)	(130,981)
Total Non-Current Assets	32,790	986,610	115,539	86,029	46,459	81,942	27,990
Total Assets	$3,190,440	$5,228,951	$1,881,677	$1,275,261	$1,541,201	$2,005,810	$ 1,650,389
LIABILITIES							
Current Liabilities:							
Accounts payable and accruals	$ 296,731	$ 267,565	$ 729,383	$ 208,639	$ 70,621	$ 102,310	$ 46,433
Intra-company payable	2,099,748	149,542	35,064	2,905	66	8,168	58
Deferred revenue	-	-	-	-	-	-	-
Current portion of long-term obligations	-	-	-	-	-	-	-
Total Current Liabilities	2,396,479	417,107	764,447	211,544	70,687	110,478	46,491
Long-Term Obligations:							
Non-current portion of long-term obligations	-	-	-	-	-	-	-
Total Liabilities	2,396,479	417,107	764,447	211,544	70,687	110,478	46,491
NET ASSETS							
Unrestricted (deficit)	793,961	4,446,128	834,378	788,750	1,205,407	1,644,202	1,491,714
Designated	-	365,716	282,852	274,967	265,107	251,130	112,184
Total Net Assets	793,961	4,811,844	1,117,230	1,063,717	1,470,514	1,895,332	1,603,898
Total Liabilities and Net Assets	$3,190,440	$5,228,951	$1,881,677	$1,275,261	$1,541,201	$2,005,810	$ 1,650,389

See accompanying note to supplementary information.

MSA-7	MSA-Bell	MSA-SD	MSA-SA	MPM Inc./ LLC	Elimination	Total	Memo 2017 Total
$ 1,269,979	$ 1,907,434	$ 657,784	$ 708,858	$ 9,191,060	$ -	$ 22,600,493	$ 9,834,842
-	-	106,607	-	4,553,380	-	4,659,987	648,760
318,241	385,404	271,945	1,017,487	-	-	4,781,620	3,194,412
-	1,722,916	-	34,430	-	(4,704,089)	-	-
22,337	79,980	128,519	866	-	-	1,027,408	1,620,157
1,610,557	4,095,734	1,164,855	1,761,641	13,744,440	(4,704,089)	33,069,508	15,298,171
-	-	-	-	1,076,199	-	1,076,199	358,782
-	-	198,191	75,554	-	(435,668)	-	-
7,227	-	-	19,890	-	-	43,117	64,690
290,998	320,329	667,450	22,622,538	19,309,538	-	46,055,549	30,157,534
(122,900)	(187,190)	(372,561)	(1,091,112)	(701,676)	-	(4,120,699)	(3,115,417)
175,325	133,139	493,080	21,626,870	19,684,061	(435,668)	43,054,166	27,465,589
$ 1,785,882	$ 4,228,873	$ 1,657,935	$ 23,388,511	$ 33,428,501	$ (5,139,757)	$ 76,123,674	$ 42,763,760
$ 277,107	$ 144,722	$ 137,405	$ 951,469	$ -	$ -	$ 3,232,385	$ 3,212,491
10,579	434	215,638	2,181,887	-	(4,704,089)	-	-
-	-	-	-	2,290,659	-	2,290,659	519,063
-	-	-	306,020	-	-	306,020	3,129,116
287,686	145,156	353,043	3,439,376	2,290,659	(4,704,089)	5,829,064	6,860,670
-	-	151,806	12,446,842	30,785,000	-	43,383,648	14,424,680
287,686	145,156	504,849	15,886,218	33,075,659	(4,704,089)	49,212,712	21,285,350
1,243,634	3,810,806	803,763	7,487,577	352,842	(435,668)	24,467,494	20,413,178
254,562	272,911	349,323	14,716	-	-	2,443,468	1,065,232
1,498,196	4,083,717	1,153,086	7,502,293	352,842	(435,668)	26,910,962	21,478,410
$ 1,785,882	$ 4,228,873	$ 1,657,935	$ 23,388,511	$ 33,428,501	$ (5,139,757)	$ 76,123,674	$ 42,763,760

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MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING STATEMENT OF ACTIVITIES
JUNE 30, 2018

	MERF	MSA-1	MSA-2	MSA-3	MSA-4	MSA-5	MSA-6
CHANGES IN UNRESTRICTED NET ASSETS							
REVENUES							
State apportionments	$ -	$ 5,502,695	$ 4,472,148	$ 4,459,164	$ 1,713,551	$ 1,927,351	$ 1,449,785
Federal revenue	-	980,659	489,784	444,672	243,319	218,909	143,028
Other State revenue	-	1,589,193	825,899	925,197	444,462	481,588	374,247
Rent revenue	-	-	-	-	-	-	-
Local revenue	6,803,273	175,333	105,589	84,847	45,510	124,580	52,349
Total Revenues	6,803,273	8,247,880	5,893,420	5,913,880	2,446,842	2,752,428	2,019,409
EXPENSES							
Program services:							
Salaries and benefits	2,377,403	3,015,806	2,627,816	2,575,050	1,005,461	1,207,677	887,176
Student services	-	151,514	183,325	220,659	173,790	167,097	80,009
Materials and supplies	-	63,887	70,533	-	29,527	33,358	18,712
Student nutrition	16,645	238,193	222,727	189,326	64,698	85,556	44,443
Other expenses	88,051	90,337	103,544	74,152	38,253	56,762	34,220
Subtotal	2,482,099	3,559,737	3,207,945	3,059,187	1,311,729	1,550,450	1,064,560
EXPENSES (Continued)							
Management and general:							
Salaries and benefits	594,351	753,952	666,961	643,762	247,132	291,913	221,794
Depreciation	933	6,361	48,000	22,407	15,656	11,392	28,726
Insurance	11,628	-	-	-	-	-	-
Management fee	-	1,095,870	993,132	993,132	82,190	82,190	82,190
Occupancy	165,442	982,094	356,041	261,243	134,184	119,251	125,889
Operating expenses	1,988,081	378,797	401,197	502,393	215,596	177,457	151,273
Debt service	-	-	-	-	-	-	-
Interest	-	45,500	-	-	-	-	-
Subtotal	2,760,435	3,262,574	2,465,331	2,422,937	694,758	682,203	609,872
Total Expenses	5,242,534	6,822,311	5,673,276	5,482,124	2,006,487	2,232,653	1,674,432
CHANGE IN UNRESTRICTED NET ASSETS BEFORE EXTRAORDINARY ITEM	1,560,739	1,425,569	220,144	431,756	440,355	519,775	344,977
Extraordinary item - MSA Santa Clara	-	-	-	-	-	-	-
CHANGE IN UNRESTRICTED NET ASSETS	1,560,739	1,425,569	220,144	431,756	440,355	519,775	344,977
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(766,778)	3,386,275	897,086	631,961	1,030,159	1,375,557	1,258,921
Contributed capital	-	-	-	-	-	-	-
NET ASSETS (DEFICIT), END OF YEAR	$ 793,961	$ 4,811,844	$ 1,117,230	$ 1,063,717	$ 1,470,514	$ 1,895,332	$ 1,603,898

See accompanying note to supplementary information.

MSA-7	MSA-Bell	MSA-SD	MSA-SA	MPM Inc./ LLC	Elimination	Total	Memo 2017 Total
$ 2,565,977	$ 4,538,699	$ 2,947,210	$ 6,682,934	$ -	$ -	$ 36,259,514	$ 34,483,963
241,181	342,604	117,595	629,550	-	-	3,851,301	3,756,458
945,358	980,866	788,908	841,029	-	-	8,196,747	6,383,153
-	-	-	-	880,748	(880,748)	-	-
98,633	74,954	99,365	173,872	66,546	(6,376,553)	1,528,298	1,400,619
3,851,149	5,937,123	3,953,078	8,327,385	947,294	(7,257,301)	49,835,860	46,024,193
1,393,792	2,287,778	1,901,413	4,074,261	-	-	23,353,633	23,151,926
177,626	231,491	181,840	300,117	-	-	1,867,468	2,173,408
45,381	27,207	8,906	128,857	-	-	426,368	839,491
93,406	144,444	31,385	341,506	-	-	1,472,329	1,670,987
48,552	124,961	50,080	139,263	-	-	848,175	1,221,591
1,758,757	2,815,881	2,173,624	4,984,004	-	-	27,967,973	29,057,403
348,448	539,574	472,297	990,009	-	-	5,770,193	5,787,982
18,515	57,572	30,567	527,830	460,593	-	1,228,552	907,827
-	-	-	-	-	-	11,628	790
547,935	1,095,870	324,470	1,095,870	-	(6,376,553)	16,296	326,637
293,076	318,111	698,460	40,911	-	(880,748)	2,613,954	1,809,451
398,552	392,797	349,260	616,512	-	-	5,571,915	6,622,041
-	-	-	-	691,435	-	691,435	360,088
-	-	-	446,968	-	-	492,468	173,344
1,606,526	2,403,924	1,875,054	3,718,100	1,190,922	(7,257,301)	16,435,335	16,000,974
3,365,283	5,219,805	4,048,678	8,702,104	1,190,922	(7,257,301)	44,403,308	45,058,377
485,866	717,318	(95,600)	(374,719)	(243,628)	-	5,432,552	965,816
-	-	-	-	-	-	-	(348,866)
485,866	717,318	(95,600)	(374,719)	(243,628)	-	5,432,552	616,950
1,012,330	3,366,399	1,248,686	7,877,012	160,802	-	21,478,410	20,861,460
-	-	-	-	435,668	(435,668)	-	-
$ 1,498,196	$ 4,083,717	$ 1,153,086	$ 7,502,293	$ 352,842	$ (435,668)	$ 26,910,962	$ 21,478,410

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION DRAFT 11/20/2018
(A California Nonprofit Public Benefit Corporation)

FOUNDTATION ONLY COMPARATIVE STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 475,054	$ 52,671
Accounts receivable	-	463
Intra-company receivable	2,263,534	2,798,858
Prepaid expenses and other current assets	419,062	417,711
Total Current Assets	3,157,650	3,269,703
Non-Current Assets:		
Security deposits	16,000	16,000
Fixed assets	134,513	134,513
Less: accumulated depreciation	(117,723)	(116,790)
Total Non-Current Assets	32,790	33,723
Total Assets	$ 3,190,440	$ 3,303,426
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	$ 296,731	$ 443,504
Intra-company payable	2,099,748	3,554,200
Deferred revenue	-	72,500
Total Liabilities	2,396,479	4,070,204
NET ASSETS		
Unrestricted	793,961	(766,778)
Total Liabilities and Net Assets	$ 3,190,440	$ 3,303,426

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

FOUNDATION ONLY COMPARATIVE STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES		
Local revenue	$ 6,803,273	$ 6,522,442
EXPENSES		
Program services:		
Salaries and benefits	2,377,403	2,817,654
Materials and supplies	-	12,200
Student nutrition	16,645	28,445
Other expenses	88,051	107,407
Subtotal	2,482,099	2,965,706
Management and general:		
Salaries and benefits	$ 594,351	$ 704,413
Depreciation	933	1,440
Insurance	11,628	790
Occupancy	165,442	157,972
Operating expenses	1,988,081	2,368,307
Interest	-	74
Subtotal	2,760,435	3,232,996
Total Expenses	5,242,534	6,198,702
CHANGE IN UNRESTRICTED NET ASSETS BEFORE EXTRAORDINARY ITEM	1,560,739	323,740
Extraordinary item - equity transfer	-	(768,450)
Extraordinary item - MSA Santa Clara	-	(348,866)
Total extraordinary items	-	(1,117,316)
CHANGE IN UNRESTRICTED NET ASSETS	1,560,739	(793,576)
NET ASSETS, BEGINNING OF YEAR	(766,778)	26,798
NET ASSETS, END OF YEAR	$ 793,961	$ (766,778)

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MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

FOUNDATION ONLY COMPARATIVE STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Unrestricted Net Assets	$ 1,560,739	$ (793,576)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	933	1,440
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	463	98,152
Intra-company receivable	535,324	(243,308)
Prepaid expenses and other current assets	(1,351)	(376,983)
Security deposits	-	1,525
Increase (Decrease) in liabilities		
Accounts payable and accruals	(146,773)	(139,293)
Intra-company payable	(1,454,452)	1,366,413
Deferred revenue	(72,500)	72,500
Net Cash Provided by (Used in) Operating Activities	422,383	(13,130)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	-	(16,667)
NET CHANGE IN CASH	422,383	(29,797)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	52,671	82,468
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 475,054	$ 52,671
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ -	$ 74

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Magnolia Science Academy charter schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Magnolia Science Academy charter schools have not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

Local Education Agency Organization Structure

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

Consolidating Statements

The accompanying consolidating financial statements report the individual programs of MERF and are presented on the accrual basis of accounting. Eliminating entries in the consolidated financial statements are due to rent payments between the LLC and MSA 1, MSA Santa Ana, MSA San Diego, and CMO fees paid to MERF from the MSA charter schools in accordance with the structured fee schedule.

Foundation Only Comparative Statements

The accompanying foundation only comparative financial statements report the individual program of MERF and are presented on the accrual basis of accounting.

INDEPENDENT AUDITOR'S REPORTS

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

Governing Board
Magnolia Educational & Research Foundation
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Educational & Research Foundation (the Foundation) which comprise the statement of financial position as of June 30, 2018, 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 ____________________, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation'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 the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Rancho Cucamonga, California
____________________, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Governing Board
Magnolia Educational & Research Foundation
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on Compliance for Each Major Federal Program

We have audited Magnolia Educational & Research Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Magnolia Educational & Research Foundation's (the Charter) major Federal programs for the year ended June 30, 2018. Magnolia Educational & Research Foundation's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Magnolia Educational & Research Foundation's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Magnolia Educational & Research Foundation'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 opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Magnolia Educational & Research Foundation's compliance.

Opinion on Each Major Federal Program

In our opinion, Magnolia Educational & Research Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Magnolia Educational & Research Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Magnolia Educational & Research Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Magnolia Educational & Research Foundation's internal control over compliance.

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

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

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

Rancho Cucamonga, California
____________________, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	No

Identification of major Federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I, Part A, Basic Grants Low Income and Neglected

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year.

Governing Board
Magnolia Educational & Research Foundation
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

In planning and performing our audit of the financial statements of Magnolia Educational & Research Foundation (MERF) for the year ended June 30, 2018, 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 year ended June 30, 2018.

Rancho Cucamonga, California
__________, 2018

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MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Governing Board of Directors
Magnolia Science Academy
(A California Nonprofit Public Benefit Corporation)
Reseda, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy (MSA) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 an opinion 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 *2017-2018 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'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'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA, as of June 30, 2018 and 2017, 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.

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 such as the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the other 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other accompanying supplementary information is fairly stated, in all material respects, in relation to the 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 __________, 2018, on our consideration of MSA'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'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's internal control over financial reporting and compliance.

Rancho Cucamonga, California
__________, 2018

DRAFT 11/14/2018

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,044,087	$ 1,311,426
Accounts receivable	1,349,175	878,726
Intra-company receivable	588,400	472,932
Prepaid expenses and other current assets	260,679	280,865
Total Current Assets	4,242,341	2,943,949
Non-Current Assets:		
Investments in LLC	161,923	-
Fixed assets	1,489,734	4,731,515
Less: accumulated depreciation	(665,047)	(892,019)
Total Non-Current Assets	986,610	3,839,496
Total Assets	$ 5,228,951	$ 6,783,445
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	$ 267,565	$ 361,845
Intra-company payable	149,542	235,325
Current portion of long-term obligation	-	2,800,000
Total Current Liabilities	417,107	3,397,170
NET ASSETS		
Unrestricted	4,446,128	3,220,044
Designated	365,716	166,231
Total Net Assets	4,811,844	3,386,275
Total Liabilities and Net Assets	$ 5,228,951	$ 6,783,445

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

DRAFT 11/14/2018

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	$ 5,502,695	$ 5,303,302
Federal revenue	980,659	877,014
Other State revenue	1,589,193	1,303,726
Local revenue	175,333	170,676
Total Revenues	8,247,880	7,654,718
EXPENSES		
Program services:		
Salaries and benefits	3,015,806	3,072,266
Student services	151,514	251,718
Materials and supplies	63,887	214,078
Student nutrition	238,193	261,320
Other expenses	90,337	171,166
Subtotal	3,559,737	3,970,548
Management and general:		
Salaries and benefits	$ 753,952	$ 768,066
Depreciation	6,361	146,154
Management fee	1,095,870	1,055,710
Occupancy	982,094	571,057
Operating expenses	378,797	744,118
Interest	45,500	173,203
Subtotal	3,262,574	3,458,308
Total Expenses	6,822,311	7,428,856
CHANGE IN UNRESTRICTED NET ASSETS	1,425,569	225,862
NET ASSETS, BEGINNING OF YEAR	3,386,275	3,160,413
NET ASSETS, END OF YEAR	$ 4,811,844	$ 3,386,275

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

DRAFT 11/14/2018

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 1,425,569	$ 225,862
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	6,361	146,154
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(470,449)	(438,707)
Intra-company receivable	(115,468)	(472,932)
Prepaid expenses and other current assets	20,186	(280,865)
Cash received for security deposits - net	-	39,035
Increase (Decrease) in liabilities		
Accounts payable and accruals	(94,280)	296,932
Intra-company payable	(85,783)	235,325
Net Cash Provided (Used) by Operating Activities	686,136	(249,196)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital contribution in LLC's	(161,923)	-
Capital expenditures	3,008,448	(2,977,092)
Net Cash Provided (Used) by Investing Activities	2,846,525	(2,977,092)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan Proceeds	-	2,800,000
Loan principal payments	(2,800,000)	-
Net Cash Provided (Used) by Investing Activities	(2,800,000)	2,800,000
NET CHANGE IN CASH	732,661	(426,288)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,311,426	1,737,714
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,044,087	$ 1,311,426
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ 45,500	$ 173,203

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

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy

Charter school number authorized by the State: 0438

Magnolia Science Academy (MSA) is a charter school located in Reseda, California that provides sixth through twelfth grade education to approximately 537 students. MSA 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. Los Angeles County Office of Education approved a new charter agreement in 2016 for a period of five years ending in 2022. MSA is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

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

MPM Sherman Way, LLC

The Foundation has the following consolidated affiliates (where the Foundation is the sole member) that were formed to provide assistance with funding capital improvement on behalf of the Foundation's activities: MPM Sherman Way LLC, a California limited liability company.

Other Related Entities

Joint Powers Agency and Risk Management Pools - MSA 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. Additional information is presented in Note 14 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Statement Presentation

MSA 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 had no temporarily or permanently restricted net assets, as of June 30, 2018 and 2017, respectively. In addition, MSA is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, Not-for-Profit Organizations accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to 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 uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses 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 2017-2018, MSA did not receive any donor-restricted contributions.

Income Taxes

MSA is operated by MERF 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 2014 and forward may be audited by regulatory agencies; however, MSA is not aware of any such actions at this time.

MSA 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 considers all highly liquid investments available for current use with an initial maturity of three months or less to be 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, 2018 and 2017, management had 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 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, 2018 and 2017, was $6,361 and $146,154, respectively.

Deferred Revenue

Deferred revenue arises when resources are received by MSA prior to the incurrence of qualifying expenditures. In subsequent periods, when the obligation in which the resources were received are met, or when MSA have a legal claim to the resources, the liability for deferred revenue is removed from the Statement of Net Assets and revenue is recognized.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to MSA' 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. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

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 MSA 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.
>
> **Temporarily restricted -** These net assets are restricted by donors to be used for specific purposes. MSA 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 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, 2018 and 2017, MSA has $365,716 and $166,231, respectively, designated balance for California Clean Energy Jobs Act and Educator Effectiveness and College Readiness.

Intra-company Receivable/Payable

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

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases (see Note 11).

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - CASH

Cash at June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	$ 2,044,087	$ 2,188,763	$ 1,311,426	$ 1,412,747

Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). MSA maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA has not experienced any losses in such accounts. At June 30, 2018 and 2017, MSA had a balance of $2,153,528 and $1,376,354, respectively, in excess of FDIC insured limits. Management believes MSA is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
State principal apportionment	$ 388,547	$ 347,155
Due from other agencies	-	3,284
Federal receivable	160,149	360,441
State receivable	748,648	112,034
Lottery	51,831	46,655
Local receivable	-	9,157
Total Accounts Receivable	$ 1,349,175	$ 878,726

NOTE 5 - INTRA–COMPANY RECEIVABLE

The June 30, 2018, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA and reimbursement for those resources from MSA to the Foundation, and cash transfers for cash flow purposes. MSA 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, 2018 and 2017, MSA had an intra-company receivable balance of $588,400 and $472,932, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Prepaid rent, security deposits, insurance, and miscellaneous vendors	$ 260,679	$ 280,865

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Building	$ -	$ 2,800,000
Computer and equipment	422,141	283,867
Land	-	1,000,000
Building improvements	374,818	647,648
Work in progress	692,775	692,775
Subtotal	1,489,734	5,424,290
Less: accumulated depreciation	(665,047)	(892,019)
Total Fixed Assets	$ 824,687	$ 4,532,271

During the year ended June 30, 2018 and 2017, $6,361 and $146,154, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Salaries and benefits	$ 94,591	$ 77,720
Vendor payables	64,974	275,408
Due to other agencies	108,000	8,717
Total Accounts Payable	$ 267,565	$ 361,845

NOTE 9 - INTRA-COMPANY PAYABLE

The June 30, 2018, intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA and reimbursement for those resources from MSA to the Foundation, and cash transfers for cash flow purposes. MSA 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, 2018 and 2017, MSA had an intra-company payable balance of $149,542 and $235,325, respectively, from the Foundation.

NOTE 10 - LONG–TERM OBLIGATIONS

Debt Service Coverage and Cash Days on Hand

Under the current bonding agreement, the Lessee or Magnolia Educational and Research Foundation (MERF) is required to maintain a Debt Service Coverage Ratio of 1.10 to 1.00 and Cash Days on Hand of 45 days.

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from Magnolia Science Academy (MSA) by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2018, MSA had a 2.56Debt Service Coverage Ratio and was in compliance with the 1.10 to 1.00 required ratio.

Debt Service Coverage		
Net Income	$	1,425,567
Depreciation		6,361
Rent		916,260
Income Available for Coverage		2,348,188
Debt Service		916,260
Debt Service Coverage		**2.56**
Limit		1.10
Compliance		Yes

The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2018, MSA had 113 days cash on hand and was in compliance with the 45 days required.

Days Cash on Hand		
Total Expenses	$	6,599,203
Depreciation		6,361
Cash Expenses		6,592,842
Expense/Day		18,062.58
Cash		2,044,087
Days Cash on Hand		**113**
Limit		45
Compliance		Yes

Purpose: To ensure that the charter is in compliance with the debt covenants.

Procedure: The auditor obtained the covenant calculation from Brock Atar (Senior Financial Analyst) and footed for accuracy check tied to the Balance sheet and Income Statement.

Conclusion: Based on the procedure performed the auditor determined that the charter is in conjunction with the debt covenants.

NOTE 11 - OPERATING LEASES

Magnolia Science Academy entered into a lease agreement with MPM Sherman Way LLC, a California limited liability company on June 1, 2014 and August 1, 2017 for the refinancing of the acquisition and construction of charter school facilities under the Series 2014 and 2017 Loans for property located at 18238 Sherman Way, Reseda, California. The 2014 and 2017 loans are in relations to California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014A and Series 2014B (Taxable) and (Magnolia Public Schools- Obligated Group) Draw Down Series 2017, respectively. Monthly payments shall begin September 25, 2017 and the lease expires on June 25, 2044. Lease payments during 2017-2018 were $ 916,260.

The future minimum lease commitments are as follows:

Fiscal Year	Facility Lease Payment
2019	$ 1,291,901
2020	1,295,589
2021	1,295,476
2022	1,297,781
2023	1,302,336
Thereafter	28,563,252
Total	$35,046,335

NOTE 12 - RELATED PARTY TRANSACTIONS

MSA is part of the Foundation. MSA pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for fiscal years ended June 30, 2018 and 2017, were $1,095,870 and $1,055,710, respectively.

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).

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 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 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 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, 2017, total actuarial value of assets are $180 billion, the actuarial obligation is $287 billion, contributions from all employers totaled $4.0 billion, and the plan is 62.6 percent funded.

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, 2017, 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.

MSA 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, 2018, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before	On or after
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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and MSA's total contributions were $404,295.

<u>California Public Employees Retirement System (CalPERS)</u>

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, 2016, the Schools Pool total plan assets are $55.8 billion, the total accrued liability is $77.5 billion, contributions from all employers totaled $1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. 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.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	December 31,	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%	6.5%
Required employer contribution rate	15.531%	15.531%

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 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, 2018, are presented above and the total Charter School contributions were $73,135.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $218,863 (9.328 percent of 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 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA are a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between MSA and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 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 MSA are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2018 and 2017, MSA made payments of $61,724 and $33,177, respectively, to CharterSAFE for services received. At June 30, 2018 and 2017, MSA had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 15 - CONTINGENCIES

Grants

MSA 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

Magnolia Science Academy is not currently a party to any legal proceedings.

NOTE 16 - SUBSEQUENT EVENTS

MSA's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through __________, 2018, 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 statements.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Special Education:			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14981	235,579
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330	14831	26,218
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	65,612
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	414
State Charter School Facilities Incentive Grants	84.242D	[1]	355,411
Section 611	84.027	13379	69,887
Total U.S. Department of Education			753,121
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	75,295
National School Lunch Program	10.555	13524	147,998
Food Distribution	10.555	13524	4,245
Total Child Nutrition Cluster			227,538
Total U.S. Department of Agriculture			227,538
Total Federal Programs			$ 980,659

[1] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

Magnolia Science Academy (Charter Number 0438) was granted on December 20, 2016, by the Los Angeles County of Education. MSA operates one school, grades six through twelve.

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Mr. Saken Sherkhanov	President	December 11, 2018
Rabbi Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Director	October 11, 2022

ADMINISTRATION

Alfredo Rubalcava[1]	Chief Executive Officer, Superintendent
Caprice Young, Ed.D[2].	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

[1] Effective July 1, 2018
[2] Resigned June 30, 2018

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	85.05	84.62
Seventh and eighth	163.26	163.74
Ninth through twelfth	274.54	273.37
Total Regular ADA	522.85	521.73
Classroom based ADA		
Sixth	85.05	84.62
Seventh and eighth	163.26	163.74
Ninth through twelfth	274.54	273.37
Total Classroom based ADA	522.85	521.73

MSA did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		66,165	180	N/A	Complied
Grade 7		66,165	180	N/A	Complied
Grade 8		66,165	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		66,165	180	N/A	Complied
Grade 10		66,165	180	N/A	Complied
Grade 11		66,165	180	N/A	Complied
Grade 12		66,165	180	N/A	Complied

See accompanying note to supplementary information.

DRAFT 11/14/2018

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

NET ASSETS	
Net Assets, June 30, 2018, Unaudited Actuals	$ 4,811,844
Increase (Decrease) in:	
Accounts Receivable	(1,232,592)
Intra-company receivable	588,400
Prepaid expenses and other current assets	258,995
Investment in LLC	161,923
Fixed assets	354,192
(Increase) Decrease in:	
Accounts payable and accruals	18,624
Intra-company payable	(149,542)
Net Assets, June 30, 2018, Audited Financial Statement	$ 4,811,844

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of MSA and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. MSA has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

Local Education Agency Organization Structure

This schedule provides information about the schools 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. 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 and whether MSA complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

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.

INDEPENDENT AUDITOR'S REPORTS

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
(A California Nonprofit Public Benefit Corporation)
Reseda, 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 (MSA) which comprise the statement of financial position as of June 30, 2018 and 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 ____________________, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA'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's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA'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'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'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*.

We noted certain matters that we reported to management of MSA in a separate letter dated ____________________, 2018.

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'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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
____________________, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

(*Unmodified Opinion on Compliance for Each Major Program; No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified*)

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

Report on Compliance for Each Major Federal Program

We have audited Magnolia Science Academy's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Magnolia Science Academy's (MSA) major Federal programs for the year ended June 30, 2018 and 2017. Magnolia Science Academy's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Magnolia Science Academy's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Magnolia Science Academy'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 opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of Magnolia Science Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, Magnolia Science Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Magnolia Science Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Magnolia Science Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Magnolia Science Academy's internal control over compliance.

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

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

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

Rancho Cucamonga, California
____________________, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy's (MSA) compliance with the types of compliance requirements as identified in the *2017-2018 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's State government programs as noted below for the year ended June 30, 2018.

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'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 *2017-2018 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'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's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 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, 2018.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
CHARTER SCHOOLS	
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	Yes

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

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

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

MSA did not operate 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.

Rancho Cucamonga, California
______________________, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major Federal programs:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance	No

Identification of major Federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I, Basic Grants Low-Income and Neglected

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year.

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

In planning and performing our audit of the financial statements of Magnolia Science Academy (MSA), for the year ended June 30, 2018, 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 for the year ended June 30, 2018

Rancho Cucamonga, California
____________________, 2018

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 2
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 2 (MSA 2) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 an opinion 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 *2017-2018 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 2'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 2'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 2, as of June 30, 2018 and 2017, and the changes in its net assets, and its cash flows thereof for the year 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 _________, 2018, on our consideration of MSA 2'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 2'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 2's internal control over financial reporting and compliance.

Rancho Cucamonga, California
____________________, 2018

FINANCIAL STATEMENTS

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,094,844	$ 780,732
Accounts receivable	521,854	372,689
Intra-company receivable	62,177	143,253
Prepaid expenses and other current assets	87,263	21,802
Total Current Assets	1,766,138	1,318,476
Non-Current Assets:		
Fixed assets	410,237	384,728
Less: accumulated depreciation	(294,698)	(236,637)
Total Non-Current Assets	115,539	148,091
Total Assets	$ 1,881,677	$ 1,466,567
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	$ 729,383	$ 553,995
Intra-company payable	75,090	15,486
Total Liabilities	804,473	569,481
NET ASSETS		
Unrestricted	794,352	788,456
Designated	282,852	108,630
Total Net Assets	1,077,204	897,086
Total Liabilities and Net Assets	$ 1,881,677	$ 1,466,567

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

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	$ 4,472,148	$ 4,239,354
Federal revenue	489,784	464,894
Other State revenue	825,899	688,822
Local revenue	105,589	100,029
Total Revenues	5,893,420	5,493,099
EXPENSES		
Program services:		
Salaries and benefits	2,667,842	2,690,380
Student services	183,325	258,650
Materials and supplies	70,533	102,589
Student nutrition	222,727	304,100
Other expenses	103,544	116,495
Subtotal	3,247,971	3,472,214
Management and general:		
Salaries and benefits	666,961	672,595
Depreciation	48,000	56,349
Management fee	993,132	953,736
Occupancy	356,041	137,682
Operating expenses	401,197	444,322
Interest	-	67
Subtotal	2,465,331	2,264,751
Total Expenses	5,713,302	5,736,965
CHANGE IN NET ASSETS	180,118	(243,866)
NET ASSETS, BEGINNING OF YEAR	897,086	1,140,952
NET ASSETS, END OF YEAR	$ 1,077,204	$ 897,086

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

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MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in unrestricted net assets	$ 180,118	$ (243,866)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	48,000	46,289
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(149,165)	60,902
Intra-company receivable	81,076	(16,840)
Prepaid expenses and other current assets	(65,461)	(10,943)
Increase (Decrease) in liabilities		
Accounts payable and accruals	175,388	308,547
Intra-company payable	59,604	(302,377)
Net Cash Provided (used) by Operating Activities	329,560	(158,288)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(15,448)	(10,365)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan principal payments	-	(25,006)
NET CHANGE IN CASH	314,112	(193,659)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	780,732	974,391
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,094,844	$ 780,732
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ -	$ 67

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

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 2

Charter school number authorized by the State: 0906

Magnolia Science Academy 2 (MSA 2) is a charter school located in Van Nuys, California that provides sixth through twelfth grade education to approximately 448 students. MSA 2 was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. Los Angeles County Office of Education approved a new charter agreement in 2018 for a period of five years ending in 2022. MSA 2 is economically dependent on Federal and State funding. Magnolia Public Schools provides a college preparatory educational program emphasizing science, technology, engineering, and math (STEM) in a safe environment that cultivates respect for self and others. Graduates of Magnolia Public Schools are scientific thinkers who contribute to the global community as socially responsible and educated members of society.

Magnolia Educational and Research Foundation

MSA 2 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 2's Charter School Management Organization (CMO) that manages MSA 2's nonacademic operation such as financial, general administration, and human resource management. MSA 2'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 tiered 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 2 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 2. Additional information is presented in Note 14 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by MSA 2 are described below to enhance the financial statements.

Financial Statement Presentation

MSA 2 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 2 had no temporarily or permanently restricted net assets as of June 30, 2018 and 2017, respectively. In addition, MSA 2 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. MSA 2 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 2017-2018, MSA 2 did not receive any donor-restricted contributions.

Income Taxes

MSA 2 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 2014 and forward may be audited by regulatory agencies; however, MSA 2 is not aware of any such actions at this time.

MSA 2 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 2 considers all highly liquid investments available for current use with an initial maturity of three months or less to be 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, 2018 and 2017, 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 2 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, 2018 and 2017, was $48,000 and $56,349, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to MSA 2'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 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 2 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 2.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. MSA 2 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 2 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, 2018 and 2017, MSA 2 has a $282,852 and $108,630, 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 2 and reimbursement for those resources.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	$ 1,094,844	$ 1,262,083	$ 780,732	$ 855,379

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 2 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 2 has not experienced any losses in such accounts. At June 30, 2018 and 2017, MSA 2 had $1,241,766 and $833,344, respectively, in excess of insured limits.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
State principal apportionment	$ 280,263	$ 269,667
Federal receivable	159,670	61,679
Due from other agencies	-	2,904
State receivable	37,137	1,784
Lottery	43,499	36,655
Other	1,285	-
Total Accounts Receivable	$ 521,854	$ 372,689

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2018, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 2 and reimbursement for those resources from MSA 2 to the Foundation, and cash transfers for cash flow purposes. MSA 2 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, 2018 and 2017, MSA 2 had an intra-company receivable balance of $62,177 and $143,253, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2018, consisted of the following:

	2018	2017
Prepaid rent, security deposit, insurance, and miscellaneous vendors	$ 87,263	$ 21,802

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Computers and equipment	$ 379,284	$ 394,789
Leasehold improvements	10,061	-
Work in progress	20,892	-
Subtotal	410,237	394,789
Less: accumulated depreciation	(294,698)	(246,698)
Total Fixed Assets	$ 115,539	$ 148,091

During the year ended June 30, 2018 and 2017, $48,000 and $56,349, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Salaries and benefits	$ 139,121	$ 101,673
Vendor payables	260,848	444,523
Due to other agencies	329,414	7,799
	$ 729,383	$ 553,995

NOTE 9 - INTRA–COMPANY PAYABLE

The June 30, 2018, intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 2 and reimbursement for those resources from MSA 2 to the Foundation, and cash transfers for cash flow purposes. MSA 2 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, 2018 and 2017, MSA 2 had an intra-company payable balance of $75,090 and $15,486, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 2 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA 2 education programs and related Charter School's activities. The terms of this agreement are renewed annually and include rental fees shall that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2018 and 2017, was $149,352 and $130,000, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 2 is part of the Foundation. MSA 2 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, 2018 and 2017, were $993,132 and $953,736, 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 2 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 2 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 2 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, 2017, total actuarial value of assets are $180 billion, the actuarial obligation is $287 billion, contributions from all employers totaled $4.0 billion, and the plan is 62.6 percent funded.

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, 2017, 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.

MSA 2 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, 2018, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before	On or after
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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and MSA 2's total contributions were $266,980.

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, 2016, the Schools Pool total plan assets are $55.8 billion, the total accrued liability is $77.5 billion, contributions from all employers totaled $1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. 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.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before	On or after
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%	6.50%
Required employer contribution rate	15.531%	15.531%

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 2 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, 2018, are presented above and the total Charter School contributions were $59,003.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $146,492 (9.328 percent of 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 13 - CONTINGENCIES

Grants

MSA 2 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 2 is not currently a party to any legal proceedings.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 2 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 2 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 2 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 MSA 2 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2018 and 2017, MSA 2 made payments of $39,165 and $146,363, respectively, to CharterSAFE for services received. At June 30, 2018 and 2017, respectively, MSA 2 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 15 - SUBSEQUENT EVENTS

MSA 2's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ___________, 2018, 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.

SUPPLEMENTARY INFORMATION

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

Magnolia Science Academy 2 (Charter Number 0906) was granted on July 1, 2002, by the Los Angeles Unified School District. MSA 2 operates one school, grades six through twelve.

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Mr. Saken Sherkhanov	President	December 11, 2018
Rabbi Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Director	October 11, 2022

ADMINISTRATION

Alfredo Rubalcava[1]	Chief Executive Officer, Superintendent
Caprice Young, Ed.D.[2]	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

[1] Effective July 1, 2018
[2] Resigned June 30, 2018

See accompanying note to supplementary information.

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MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	94.52	93.77
Seventh and eighth	168.00	166.40
Ninth through twelfth	178.36	176.75
Total Regular ADA	440.88	436.92
Classroom based ADA		
Sixth	94.52	93.77
Seventh and eighth	168.00	166.40
Ninth through twelfth	177.28	175.78
Total Classroom based ADA	439.80	435.95

MSA 2 did 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, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		64,825	180	N/A	Complied
Grade 7		64,825	180	N/A	Complied
Grade 8		64,825	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,825	180	N/A	Complied
Grade 10		64,825	180	N/A	Complied
Grade 11		64,825	180	N/A	Complied
Grade 12		64,825	180	N/A	Complied

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

NET ASSETS		
Balance, June 30, 2018, Unaudited Actuals	$	1,255,567
Increase in:		
Accounts payable and accruals		(178,363)
Balance, June 30, 2018,		
Audited Financial Statements	$	1,077,204

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 2
(A California Non-Profit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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 2. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 2 and whether MSA 2 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

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.

INDEPENDENT AUDITOR'S REPORTS

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 2
(A California Nonprofit Public Benefit Corporation)
Van Nuys, 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 2 (MSA 2) which comprise the statement of financial position as of June 30, 2018 and 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 ____________________, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 2'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 2's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 2'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 2'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 2'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*.

We noted certain matters that we reported to management of MSA 2 in a separate letter dated ____________________, 2018.

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 2'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 2's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
____________________, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 2
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

Report on State Compliance

We have audited Magnolia Science Academy 2's (MSA 2) compliance with the types of compliance requirements as identified in the *2017-2018 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 2's State government programs as noted below for the year ended June 30, 2018.

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 2'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 *2017-2018 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 2'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 2's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 2 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, 2018.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 2's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
CHARTER SCHOOLS	
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 2 did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

MSA 2 does not operate a Before or After School Program within the After/Before School Education and Safety Program; therefore, we did not perform and related procedures.

MSA 2 does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

ADA was below the threshold required for testing; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Finding for Non Classroom-Based Instruction.

MSA 2 did not receive funding for Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
______________________, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 2
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year.

Governing Board
Magnolia Science Academy 2
(A California Nonprofit Public Benefit Corporation)
Van Nuys, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 2, for the year ended June 30, 2018, 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 2 for the year ended June 30, 2018.

Rancho Cucamonga, California
___________, 2018

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 3
(A California Nonprofit Public Benefit Corporation)
Carson, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 3 (MSA 3) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 an opinion 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 *2017-2018 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 3'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 3'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 3, as of June 30, 2018 and 2017, and the changes in its net assets, and its cash flows thereof for the year 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 _________, 2018, on our consideration of MSA 3'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 3'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 3's internal control over financial reporting and compliance.

Rancho Cucamonga, California
____________________, 2018

FINANCIAL STATEMENTS

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 740,137	$ 178,629
Accounts receivable	440,748	317,618
Intra-company receivable	6,604	91,362
Prepaid expenses and other current assets	1,743	320,505
Total Current Assets	1,189,232	908,114
Non-Current Assets:		
Fixed assets	267,427	226,873
Less: accumulated depreciation	(181,398)	(158,991)
Total Non-Current Assets	86,029	67,882
Total Assets	$ 1,275,261	$ 975,996
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	$ 208,639	$ 230,779
Intra-company payable	2,905	113,256
Total Current Liabilities	211,544	344,035
NET ASSETS		
Unrestricted	788,750	518,637
Designated	274,967	113,324
Total Net Assets	1,063,717	631,961
Total Liabilities and Net Assets	$ 1,275,261	$ 975,996

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

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	$ 4,459,164	$ 4,255,160
Federal revenue	444,672	477,370
Other State revenue	925,197	813,720
Local revenue	84,847	66,643
Total Revenues	5,913,880	5,612,893
EXPENSES		
Program services:		
Salaries and benefits	$ 2,575,050	$ 2,826,246
Student services	220,659	237,598
Student nutrition	189,326	264,096
Other expenses	74,152	114,460
Subtotal	3,059,187	3,442,400
Management and general:		
Salaries and benefits	643,762	706,562
Depreciation	22,407	19,096
Management fee	993,132	954,479
Occupancy	261,243	278,867
Operating expenses	502,393	554,952
Subtotal	2,422,937	2,513,956
Total Expenses	5,482,124	5,956,356
CHANGE IN UNRESTRICTED NET ASSETS	431,756	(343,463)
NET ASSETS, BEGINNING OF YEAR	631,961	975,424
NET ASSETS, END OF YEAR	$ 1,063,717	$ 631,961

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

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 431,756	$ (343,463)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	22,407	19,096
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(123,130)	216,684
Intra-company receivable	88,457	256,822
Prepaid expenses and other current assets	340,656	(309,538)
Increase (Decrease) in liabilities		
Accounts payable and accruals	(47,733)	(13,175)
Deferred revenue	(110,351)	(6,295)
Net Cash Provided (Used) by Operating Activities	602,062	(179,869)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(40,554)	(5,434)
NET CHANGE IN CASH	561,508	(185,303)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	178,629	363,932
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 740,137	$ 178,629
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ -	$ -

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

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 3

Charter school number authorized by the State: 0917

Magnolia Science Academy 3 (MSA 3) is a charter school located in Carson, California that provides sixth through twelfth grade education to approximately 455 students. MSA 3 was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. Los Angeles County Office of Education approved a new charter agreement in 2016 for a period of five years ending in 2022. MSA 3 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 3 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 3's Charter School Management Organization (CMO) that manages MSA 3's nonacademic operation such as financial, general administration, and human resource management. MSA 3'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 3 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 3. Additional information is presented in Note 14 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by MSA 3 are described below to enhance the financial statements.

Financial Statement Presentation

MSA 3 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 3 had no temporarily or permanently restricted net assets as of June 30, 2018 and 2017, respectively. In addition, MSA 3 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. MSA 3 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 2017-2018, MSA 3 did not receive any donor-restricted contributions.

Income Taxes

MSA 3 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 2014 and forward may be audited by regulatory agencies; however, MSA 3 is not aware of any such actions at this time.

MSA 3 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, MSA 3 considers all highly liquid investments available for current use with an initial maturity of three months or less to be 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, 2018 and 2017, 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 3 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, 2018 and 2017, was $22,407 and $19,096, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to MSA 3'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 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 3.
>
> **Temporarily restricted -** These net assets are restricted by donors to be used for specific purposes. MSA 3 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 3 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, 2018 and 2017, MSA 3 has $274,967 and $113,324, respectively, designated balance for California Clean Energy Jobs Act, Educator Effectiveness, and College Readiness funds.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	$ 740,137	$ 855,539	$ 178,629	$ 314,392

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 3 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 3 has not experienced any losses in such accounts. At June 30, 2018 and 2017, MSA 3 had $841,766 and $306,293, respectively, in excess of insured limits.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
State principal apportionment	$ 202,714	$ 196,092
Due from other agencies	-	2,777
Federal receivable	145,084	68,793
State receivable	46,855	11,779
Lottery	45,141	37,723
Local receivable	-	454
Other	954	-
Total Accounts Receivable	$ 440,748	$ 317,618

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2018, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 3 and reimbursement for those resources from MSA 3 to the Foundation, and cash transfers for cash flow purposes. MSA 3 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. On June 30, 2018 and 2017, MSA 3 had an intercompany receivable balance of $6,604 and $91,362, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Prepaid rent, security deposit, insurance, and miscellaneous vendors	$ 1,743	$ 320,505

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Computer and equipment	$ 250,814	$ 226,873
Work in progress	16,613	-
Subtotal	267,427	226,873
Less: accumulated depreciation	(181,398)	(158,991)
Total Fixed Assets	$ 86,029	$ 67,882

During the year ended June 30, 2018 and 2017, $22,407 and $19,096, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Salaries and benefits	$ 64,352	$ 72,003
Vendor payables	77,326	154,433
Due to other agencies	66,961	4,343
Total Accounts Payable	$ 208,639	$ 230,779

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 3 and reimbursement for those resources from MSA 3 to the Foundation, and cash transfers for cash flow purposes. MSA 3 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, 2018 and 2017, MSA 3 had an intra-company payable balance of $2,905 and $113,256, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 3 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA 3 education programs and related Charter School's 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, 2018 and 2017, was $256,444 and $222,266, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 3 is part of the Foundation. MSA 3 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, 2018 and 2017, was $993,132 and $954,479, 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 3 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 3 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 3 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, 2017, total actuarial value of assets are $180 billion, the actuarial obligation is $287 billion, contributions from all employers totaled $4.0 billion, and the plan is 62.6 percent funded.

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, 2017, 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.

MSA 3 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, 2018, are summarized as follows:

	STRP Defined Benefit Program	
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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and MSA 3's total contributions were $223,107.

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, 2016, the Schools Pool total plan assets are $55.8 billion, the total accrued liability is $77.5 billion, contributions from all employers totaled $1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. 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.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	December 31,	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%	6.50%
Required employer contribution rate	15.531%	15.531%

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 3 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, 2018, are presented above and the total Charter School contributions were $86,521.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $139,481 (9.328 percent of 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 13 - CONTINGENCIES

Grants

MSA 3 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 3 is not currently a party to any legal proceedings.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 3 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 3 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 3 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 MSA 3 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2018 and 2017, MSA 3 made payments of $52,039~~43,143~~ and $22,812, respectively, to CharterSAFE for services received. At June 30, 2018 and 2017, respectively, MSA 3 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 15 - SUBSEQUENT EVENTS

MSA 3's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ___________, 2018, 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.

SUPPLEMENTARY INFORMATION

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MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

Magnolia Science Academy 3 (Charter Number 0917) was granted on December 20, 2016, for a period of five years expiring June 30, 2022, by the Los Angeles County of Education. MSA 3 operates one school, grades six through twelve.

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Mr. Saken Sherkhanov	President	December 11, 2018
Rabbi Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Director	October 11, 2022

ADMINISTRATION

A;fredp Rubalcava[1]	Chief Executive Officer, Superintendent
Caprice Young, Ed.D.[2]	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

[1] Effective July 1, 2018
[2] Resigned June 30, 2018

See accompanying note to supplementary information.

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MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	85.04	85.02
Seventh and eighth	170.72	170.42
Ninth through twelfth	185.74	186.84
Total Regular ADA	441.50	442.28
Classroom based ADA		
Sixth	85.04	85.02
Seventh and eighth	170.72	170.42
Ninth through twelfth	185.74	186.84
Total Classroom based ADA	441.50	442.28

MSA 3 did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		67,024	180	N/A	Complied
Grade 7		67,024	180	N/A	Complied
Grade 8		67,024	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		67,024	180	N/A	Complied
Grade 10		67,024	180	N/A	Complied
Grade 11		67,024	180	N/A	Complied
Grade 12		67,024	180	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

NET ASSETS		
Net Assets, June 30, 2018, Unaudited Actuals	$	1,071,973
Increase (Decrease) in:		
Accounts receivable		(3,698)
Intra-company receivable		6,604
(Increase) Decrease in:		
Accounts payable and accruals		(7,989)
Intra-company receivable		(2,905)
Net Assets, June 30, 2018,		
Audited Financial Statement	$	1,063,985

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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 3. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 3 and whether MSA 3 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

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.

INDEPENDENT AUDITOR'S REPORTS

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
(A California Nonprofit Public Benefit Corporation)
Carson, 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 (MSA 3) which comprise the statement of financial position as of June 30, 2018 and 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 ____________________, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 3'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 3's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 3'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 3'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 3'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*.

We noted certain matters that we reported to management of MSA 3 in a separate letter dated ____________________, 2018.

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 3'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 3's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
____________________, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy's (MSA 3) compliance with the types of compliance requirements as identified in the *2017-2018 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 3's State government programs as noted below for the year ended June 30, 2018.

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 3'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 *2017-2018 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 3'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 3's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 3 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, 2018.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 3's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
CHARTER SCHOOLS	
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 3 does not operate a before school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 3 does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

MSA 3 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 3 did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
______________________, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY 3
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year.

Governing Board
Magnolia Science Academy 3
(A California Nonprofit Public Benefit Corporation)
Carson, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 3 (MSA 3), for the year ended June 30, 2018, 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 3 for the year ended June 30, 2018.

Rancho Cucamonga, California
___________, 2018

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MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 4
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 4 (MSA 4) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 an opinion 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 *2017-2018 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 4'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 4'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 4, as of June 30, 2018 and 2017, and the changes in its net assets, and its cash flows thereof for the year 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 _________, 2018, on our consideration of MSA 4'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 4'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 4's internal control over financial reporting and compliance.

Rancho Cucamonga, California
____________________, 2018

FINANCIAL STATEMENTS

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,336,770	$ 776,350
Accounts receivable	156,659	175,940
Intra-company receivable	936	253,943
Prepaid expenses and other current assets	377	8,944
Total Current Assets	1,494,742	1,215,177
Non-Current Assets:		
Fixed assets	178,296	169,911
Less: accumulated depreciation	(131,837)	(116,181)
Total Non-Current Assets	46,459	53,730
Total Assets	$ 1,541,201	$ 1,268,907
LIABILITIES		
Current Liabilities		
Accounts payable and accruals	$ 70,621	$ 210,556
Intra-company payable	66	28,192
Total Current Liabilities	70,687	238,748
NET ASSETS		
Unrestricted	1,205,407	906,855
Designated	265,107	123,304
Total Net Assets	1,470,514	1,030,159
Total Liabilities and Net Assets	$ 1,541,201	$ 1,268,907

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

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	$ 1,713,551	$ 1,828,007
Federal revenue	243,319	216,088
Other State revenue	444,462	331,828
Local revenue	45,510	51,712
Total Revenues	2,446,842	2,427,635
EXPENSES		
Program services:		
Salaries and benefits	1,005,461	1,053,767
Student services	173,790	218,254
Materials and supplies	29,527	17,584
Student nutrition	64,698	51,818
Other expenses	38,253	40,550
Subtotal	1,311,729	1,381,973
Management and general:		
Salaries and benefits	$ 247,132	$ 263,442
Depreciation	15,656	15,656
Management fee	82,190	90,995
Occupancy	134,184	104,583
Operating expenses	215,596	203,317
Subtotal	694,758	677,993
Total Expenses	2,006,487	2,059,966
CHANGE IN UNRESTRICTED NET ASSETS	440,355	367,669
NET ASSETS, BEGINNING OF YEAR	1,030,159	662,490
NET ASSETS, END OF YEAR	$ 1,470,514	$ 1,030,159

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

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 440,355	$ 367,669
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	15,656	15,655
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	19,281	22,778
Intra-company receivable	251,609	(50,615)
Prepaid expenses and other current assets	8,567	(3,320)
Increase (Decrease) in liabilities		
Accounts payable and accruals	(138,537)	68,634
Intra-company payable	(28,126)	(133,713)
Net Cash Provided by Operating Activities	568,805	287,088
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(8,385)	(5,241)
NET CHANGE IN CASH	560,420	281,847
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	776,350	494,503
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,336,770	$ 776,350
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ -	$ -

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

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 4

Charter school number authorized by the State: 0986

Magnolia Science Academy 4 (MSA 4) is a charter school located in Los Angeles, California that provides sixth through twelfth grade education to approximately 185 students. MSA 4 was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. MSA 4 was granted a five year extension through June 30, 2025. MSA 4 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 4 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 4's Charter School Management Organization (CMO) that manages MSA 4's nonacademic operation such as financial, general administration, and human resource management. MSA 4's financial statements are included in the consolidated financial statements of Magnolia Educational and Research Foundation.

Other Related Entities

Joint Powers Agency and Risk Management Pools - MSA 4 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 4. Additional information is presented in Note 14 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by MSA 4 are described below to enhance the financial statements.

Financial Statement Presentation

MSA 4 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 4 had no temporarily or permanently restricted net assets as of June 30, 2018 and 2017, respectively. In addition, MSA 4 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. MSA 4 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 2017-2018, MSA 4 did not receive any donor-restricted contributions.

Income Taxes

MSA 4 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 2014 and forward may be audited by regulatory agencies; however, MSA 4 is not aware of any such actions at this time.

MSA 4 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, MSA 4 considers all highly liquid investments available for current use with an initial maturity of three months or less to be 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, 2018 and 2017, respectively, management 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 4 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, 2018 and 2017, was $15,656 and $15,656, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to MSA 4'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 4 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 4 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 4.
>
> **Temporarily restricted -** These net assets are restricted by donors to be used for specific purposes. MSA 4 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 4 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, 2018 and 2017, MSA 4 has a $265,107 and $123,304, 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 4 and reimbursement for those resources.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	$ 1,336,770	$ 1,414,246	$ 776,350	$ 801,382

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 4 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 4 has not experienced any losses in such accounts. At June 30, 2018 and 2017, MSA 4 had $1,391,479 and $780,738, respectively, in excess of insured limits.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
State principal apportionment	$ 70,394	$ 124,430
Due from other agencies	-	1,124
Federal receivable	49,072	32,350
State receivable	22,095	351
Lottery	14,885	17,685
Other	213	-
Total Accounts Receivable	$ 156,659	$ 175,940

NOTE 5 - INTRA–COMPANY RECEIVABLE

The June 30, 2018, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 4 and reimbursement for those resources from MSA 4 to the Foundation, and cash transfers for cash flow purposes. MSA 4 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, 2018 and 2017, MSA 4 had an intra-company receivable balance of $936 and $253,943, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Prepaid rent, security deposit, insurance, and miscellaneous vendors	$ 377	$ 8,944

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Computer and equipment	$ 164,670	$ 169,911
Work in progress	13,626	-
Subtotal	178,296	169,911
Less: accumulated depreciation	(131,837)	(116,181)
Total Fixed Assets	$ 46,459	$ 53,730

During the year ended June 30, 2018 and 2017, $15,656 and $15,656, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Salaries and benefits	$ 35,401	$ 23,904
Vendor payables	35,192	183,640
Due to other agencies	28	3,012
Total Accounts Payable	$ 70,621	$ 210,556

NOTE 9 - INTRA-COMPANY PAYABLE

The June 30, 2018, intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 4 and reimbursement for those resources from MSA 4 to the Foundation, and cash transfers for cash flow purposes. MSA 4 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, 2018 and 2017, MSA 4 had an intra-company payable balance of $66 and $28,192, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 4 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA 4 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, 2018 and 2017, was $134,184 and $145,840, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 4 is part of the Foundation. MSA 4 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, 2018 and 2017, was $82,190 and $90,995, 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 4 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 4 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 4 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, 2017, total actuarial value of assets are $180 billion, the actuarial obligation is $287 billion, contributions from all employers totaled $4.0 billion, and the plan is 62.6 percent funded.

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, 2017, 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.

MSA 4 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, 2018, are summarized as follows:

	STRP Defined Benefit Program	
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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and MSA 4's total contributions were $90,278.

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, 2016, the Schools Pool total plan assets are $55.8 billion, the total accrued liability is $77.5 billion, contributions from all employers totaled $1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. 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.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	December 31,	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%	6.50%
Required employer contribution rate	15.531%	15.531%

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 4 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, 2018, are presented above and the total Charter School contributions were $11,951.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $63,150 (9.328 percent of 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 13 - CONTINGENCIES

Grants

MSA 4 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 4 is not currently a party to any legal proceedings.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 4 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 4 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 4 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 MSA 4 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2018 and 2017, MSA 4 made payments of $21,542 and $11,054, respectively, to CharterSAFE for services received. At June 30, 2018 and 2017, respectively, MSA 4 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 15 - SUBSEQUENT EVENTS

MSA 4's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ___________, 2018, 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.

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

Magnolia Science Academy 4 (Charter Number 0986) was granted on May 8, 2008, by the Los Angeles Unified School District. MSA 4 operates one school, grades six through twelve.

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Mr. Saken Sherkhanov	President	December 11, 2018
Rabbi Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Director	October 11, 2022

ADMINISTRATION

Alfredo Rubalcava[1]	Chief Executive Officer, Superintendent
Caprice Young, Ed.D.[2]	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

[1] Effective July 1, 2018
[2] Resigned June 30, 2018

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	3.77	3.89
Seventh and eighth	41.70	42.70
Ninth through twelfth	122.40	123.06
Total Regular ADA	167.87	169.65
Classroom based ADA		
Sixth	3.77	3.89
Seventh and eighth	41.70	42.70
Ninth through twelfth	122.40	123.06
Total Classroom based ADA	167.87	169.65

MSA 4 did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

	1986-87	2017-18	Number of Days		
Grade Level	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		65,447	180	N/A	Complied
Grade 7		65,447	180	N/A	Complied
Grade 8		65,447	180	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,447	180	N/A	Complied
Grade 10		65,447	180	N/A	Complied
Grade 11		65,447	180	N/A	Complied
Grade 12		65,447	180	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

NET ASSETS	
Net Assets, June 30, 2018, Unaudited Actuals	$ 1,493,108
Increase (Decrease) in:	
Intra-company receivable	1,764
(Increase) Decrease in:	
Intra-company payable	(66)
Accounts payable and accruals	(24,292)
Net Assets, June 30, 2018, Audited Financial Statement	$ 1,470,514

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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 4. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 4 and whether MSA 4 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

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.

INDEPENDENT AUDITOR'S REPORTS

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 4
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy 4 (MSA 4) which comprise the statement of financial position as of June 30, 2018 and 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 ____________________, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 4'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 4's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 4'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 4'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 4'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*.

We noted certain matters that we reported to management of MSA 4 in a separate letter dated ____________________, 2018.

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 4'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 4's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
____________________, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 4
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on State Compliance

We have audited Magnolia Science Academy 4's (MSA 4) compliance with the types of compliance requirements as identified in the *2017-2018 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 4's State government programs as noted below for the year ended June 30, 2018.

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 4'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 *2017-2018 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 4'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 4's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 4 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, 2018,

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 4's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
CHARTER SCHOOLS	
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 4 does not operate a before or after school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 4 does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

MSA 4 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 4 did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
______________________, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY 4
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year.

Governing Board
Magnolia Science Academy 4
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 4 (MSA 4), for the year ended June 30, 2018, 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 report for MSA 4 for the year ended June 30, 2018.

Rancho Cucamonga, California
___________, 2018

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 5
(A California Nonprofit Public Benefit Corporation)
Reseda, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 5 (MSA 5) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 an opinion 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 *2017-2018 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 5'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 5'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 5, as of June 30, 2018 and 2017, and the changes in its net assets, and its cash flows thereof for the year 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 _________, 2018, on our consideration of MSA 5'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 5'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 5's internal control over financial reporting and compliance.

Rancho Cucamonga, California
____________________, 2018

FINANCIAL STATEMENTS

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,731,955	$ 1,000,807
Accounts receivable	157,623	226,139
Intra-company receivable	62,618	152,180
Prepaid expenses and other current assets	11,698	121,849
Total Current Assets	1,963,894	1,500,975
Non-Current Assets:		
Fixed assets	205,518	134,541
Less: accumulated depreciation	(123,576)	(112,184)
Total Non-Current Assets	81,942	22,357
Total Assets	$ 2,045,836	$ 1,523,332
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	$ 102,310	$ 113,039
Intra-company payable	8,168	34,736
Total Current Liabilities	110,478	147,775
NET ASSETS		
Unrestricted	1,684,228	1,304,697
Designated	251,130	70,860
Total Net Assets	1,935,358	1,375,557
Total Liabilities and Net Assets	$ 2,045,836	$ 1,523,332

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

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	$ 1,927,351	$ 1,652,001
Federal revenue	218,909	213,304
Other State revenue	481,588	231,392
Local revenue	124,580	175,803
Total Revenues	2,752,428	2,272,500
EXPENSES		
Program services:		
Salaries and benefits	1,167,651	959,417
Student services	167,097	137,126
Materials and supplies	33,358	12,627
Student nutrition	85,556	67,687
Other expenses	56,762	95,173
Subtotal	1,510,424	1,272,030
Management and general:		
Salaries and benefits	$ 291,913	$ 239,854
Depreciation	11,392	7,177
Management fee	82,190	90,202
Occupancy	119,251	91,457
Operating expenses	177,457	273,738
Subtotal	682,203	702,428
Total Expenses	2,192,627	1,974,458
CHANGE IN UNRESTRICTED NET ASSETS	559,801	298,042
NET ASSETS, BEGINNING OF YEAR	1,375,557	1,077,515
NET ASSETS, END OF YEAR	$ 1,935,358	$ 1,375,557

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

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 559,801	$ 298,042
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	11,392	7,176
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	68,516	51,299
Intra-company receivable	89,562	53,970
Prepaid expenses and other current assets	110,151	(120,617)
Increase (Decrease) in liabilities		
Accounts payable and accruals	(10,729)	(14,977)
Intra-company payable	(26,568)	20,353
Net Cash Provided by Operating Activities	802,125	295,246
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(70,977)	(22,623)
NET CHANGE IN CASH	731,148	272,623
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,000,807	728,184
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,731,955	$ 1,000,807
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ -	$ -

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

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 5

Charter school number authorized by the State: 0987

Magnolia Science Academy 5 (MSA 5), formerly located in Hollywood, now located in Reseda, California provides sixth through ninth grade education to approximately 206 students. MSA 5 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. During 2018, MSA 5 was approved for a five year period ending June 30, 2023 under Los Angeles County Office of Education. MSA 5 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 5 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 5's Charter School Management Organization (CMO) that manages MSA 5's nonacademic operation such as financial, general administration, and human resource management. MSA 5'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 5 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 5. Additional information is presented in Note 13 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by MSA 5 are described below to enhance the financial statements.

Financial Statement Presentation

MSA 5 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 5 had no temporarily or permanently restricted net assets as of June 30, 2018 and 2017, respectively. In addition, MSA 5 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. MSA 5 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 2017-2018, MSA 5 did not receive any donor-restricted contributions.

Income Taxes

MSA 5 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 2014 and forward may be audited by regulatory agencies; however, MSA 5 is not aware of any such actions at this time.

MSA 5 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 5 considers all highly liquid investments available for current use with an initial maturity of three months or less to be 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, 2018 and 2017, respectively, management 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 5 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, 2018 and 2017, was $11,392 and $7,177.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to MSA 5'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 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 5.
>
> **Temporarily restricted -** These net assets are restricted by donors to be used for specific purposes. MSA 5 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 5 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, 2018 and 2017, MSA 5 has a $251,130 and $70,860, 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 5 and reimbursement for those resources.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in bank	$ 1,731,955	$ 1,827,198	$ 1,000,807	$ 1,030,293

Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). MSA 5 maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA 5 has not experienced any losses in such accounts. At June 30, 2018 and 2017, MSA 5 had a balance of $1,797,783 and $1,003,752, respectively, in excess of FDIC insured limits. Management believes MSA 5 is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
State principal apportionment	$ 80,927	$ 110,951
Due from other agencies	-	906
Federal receivable	33,944	74,915
State receivable	21,005	20,480
Lottery	21,747	18,887
Total Accounts Receivable	$ 157,623	$ 226,139

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2015, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 5 and reimbursement for those resources from MSA 5 to the Foundation, and cash transfers for cash flow purposes. MSA 5 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, 2018 and 2017, MSA 5 had an intra-company receivable balance of $62,618 and $152,180, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Prepaid rent, security deposits, insurance, and miscellaneous vendors	$ 11,698	$ 121,849

NOTE 7 - FIXED ASSETS

Property and equipment consisted of the following at June 30, 2018 and 2017:

	2018	2017
Computer and equipment	$ 191,682	$ 134,541
Work in progress	13,836	-
Subtotal	205,518	134,541
Less: accumulated depreciation	(123,576)	(112,184)
Total Fixed Assets	$ 81,942	$ 22,357

During the year ended June 30, 2018 and 2017, $11,392 and $7,177, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Salaries and benefits	$ 40,053	$ 45,410
Vendor payables	58,713	41,793
Due to other agencies	3,544	25,836
Total Accounts Payable	$ 102,310	$ 113,039

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 MSA 5 and reimbursement for those resources from MSA 5 to the Foundation, and cash transfers for cash flow purposes. MSA 5 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, 2018 and 2017, MSA 5 had an intra-company payable balance of $8,168 and $34,736, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy 5 renewed a Facilities Use Agreement with LAUSD for the sole purpose of operating MSA 5 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, 2018 and 2017, was $119,195 and $83,452, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 5 is part of the Foundation. MSA 5 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, 2018 and 2017, were $82,190 and $90,202, 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 5 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 5 has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

<u>California State Teachers' Retirement System (CalSTRS)</u>

Plan Description

MSA 5 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, 2017, total actuarial value of assets are $180 billion, the actuarial obligation is $287 billion, contributions from all employers totaled $4.0 billion, and the plan is 62.6 percent funded.

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, 2017, 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.

MSA 5 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, 2018, are summarized as follows:

	STRP Defined Benefit Program	
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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and MSA 5's total contributions were $127,705.

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, 2016, the Schools Pool total plan assets are $55.8 billion, the total accrued liability is $77.5 billion, contributions from all employers totaled $1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. 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.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before	On or after
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%	6.50%
Required employer contribution rate	15.531%	15.531%

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 5 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, 2018, are presented above and the total Charter School contributions were $18,940.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $55,921 (9.328 percent of 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 13 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 5 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 5 and the CharterSAFE is such that the CharterSAFE is not considered a component unit of MSA 5 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 5 are included in these statements. Audited financial statements for the CharterSAFE were not available for fiscal year 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2018 and 2017, MSA 5 made payments of $20,163 and $14,538, respectively, to CharterSAFE for services received. At June 30, 2018 and 2017, respectively, MSA 5 had no recorded accounts receivable or accounts payable to the CharterSAFE.

NOTE 14 - CONTINGENCIES

Grants

MSA 5 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 5 is not currently a party to any legal proceedings.

NOTE 15 - SUBSEQUENT EVENTS

MSA 5's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through __________, 2018, 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.

SUPPLEMENTARY INFORMATION

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

Magnolia Science Academy (Charter Number 0987) was granted on January 23, 2018, by the Los Angeles County Office of Education for a five year period ending June 30, 2023. MSA 5 has been approved for grades six through eight and operated one school, grades six through nine.

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Mr. Saken Sherkhanov	President	December 11, 2018
Rabbi Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Director	October 11, 2022

ADMINISTRATION

Alfredo Rubalcava[1]	Chief Executive Officer, Superintendent
Caprice Young, Ed.D.[2]	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

[1] Effective July 1, 2018
[2] Resigned June 30, 2018

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	59.05	59.02
Seventh and eighth	99.46	98.90
Ninth	39.15	39.13
Total Regular ADA	197.66	197.05
Classroom based ADA		
Sixth	59.05	59.02
Seventh and eighth	99.46	98.90
Ninth	39.15	39.13
Total Classroom based ADA	197.66	197.05

MSA 5 did not operate a non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		65,554	180	N/A	Complied
Grade 7		65,554	180	N/A	Complied
Grade 8		65,554	180	N/A	Complied
Grade 9	64,800	65,554	180	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

NET ASSETS		
Balance, June 30, 2018, Unaudited Actuals	$	1,935,072
Increase (Decrease) in:		
Intra-company receivable		(54,450)
Prepaid expenses and other current assets		62,618
(Increase) in:		
Accounts payable and accruals		286
Intra-company payable		(8,168)
Balance, June 30, 2018, Audited Financial Statement	$	1,935,358

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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 5. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 5 and whether MSA 5 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

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.

INDEPENDENT AUDITOR'S REPORTS

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 5
(A California Nonprofit Public Benefit Corporation)
Reseda, 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 5 (MSA 5) which comprise the statement of financial position as of June 30, 2018 and 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 ____________________, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 5'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 5's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 5'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 5'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 5'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*.

We noted certain matters that we reported to management of MSA 5 in a separate letter dated ____________________, 2018.

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 5'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 5's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
____________________, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 5
(A California Nonprofit Public Benefit Corporation)
Reseda, California

Report on State Compliance

We have audited Magnolia Science Academy 5's (MSA 5) compliance with the types of compliance requirements as identified in the *2017-2018 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 5's State government programs as noted below for the year ended June 30, 2018.

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 5'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 *2017-2018 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 5'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 5's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 5 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, 2018.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 5's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
CHARTER SCHOOLS	
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 5 does not operate a before school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 5 does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

MSA 5 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 5 did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
______________________, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY 5
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year.

Governing Board
Magnolia Science Academy 5
(A California Nonprofit Public Benefit Corporation)
Reseda, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 5 (MSA 5), for the year ended June 30, 2018, 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 5 for the year ended June 30, 2018.

Rancho Cucamonga, California
__________, 2018

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 6 (MSA 6) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 an opinion 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 *2017-2018 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 6'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 6'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 6, as of June 30, 2018 and 2017, and the changes in its net assets, and its cash flows thereof for the year 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 __________, 2018, on our consideration of MSA 6'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 6'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 6's internal control over financial reporting and compliance.

Rancho Cucamonga, California
____________________, 2018

FINANCIAL STATEMENTS

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,442,531	$ 754,059
Accounts receivable	162,484	168,102
Intra-company receivable	2,500	450,000
Prepaid expenses and other current assets	14,884	17,566
Total Current Assets	1,622,399	1,389,727
Non-Current Assets:		
Fixed assets	158,971	153,988
Less: accumulated depreciation	(130,981)	(102,255)
Total Non-Current Assets	27,990	51,733
Total Assets	$ 1,650,389	$ 1,441,460
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	$ 46,433	$ 156,147
Intra-company payable	58	26,392
Total Current Liabilities	46,491	182,539
NET ASSETS		
Unrestricted	1,491,714	1,204,609
Designated	112,184	54,312
Total Net Assets	1,603,898	1,258,921
Total Liabilities and Net Assets	$ 1,650,389	$ 1,441,460

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	$ 1,449,785	$ 1,552,530
Federal revenue	143,028	148,639
Other State revenue	374,247	303,769
Local revenue	52,349	28,043
Total Revenues	2,019,409	2,032,981
EXPENSES		
Program services:		
Salaries and benefits	$ 887,176	$ 893,030
Student services	80,009	76,545
Materials and supplies	18,712	57,669
Student nutrition	44,443	48,940
Other expenses	34,220	40,095
Subtotal	1,064,560	1,116,279
Management and general:		
Salaries and benefits	221,794	223,258
Depreciation	28,726	19,778
Management fee	82,190	89,797
Occupancy	125,889	113,421
Operating expenses	151,273	168,792
Subtotal	609,872	615,046
Total Expenses	1,674,432	1,731,325
CHANGE IN UNRESTRICTED NET ASSETS	344,977	301,656
NET ASSETS, BEGINNING OF YEAR	1,258,921	957,265
NET ASSETS, END OF YEAR	$ 1,603,898	$ 1,258,921

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

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 344,977	$ 301,656
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	28,726	19,778
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	5,618	129,308
Intra-company receivable	447,500	(150,000)
Prepaid expenses and other current assets	2,682	(13,731)
Increase (Decrease) in liabilities		
Accounts payable and accruals	(109,714)	19,923
Intra-company payable	(26,334)	(83,618)
Net Cash Provided by Operating Activities	693,455	223,316
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(4,983)	(5,111)
NET CHANGE IN CASH	688,472	218,205
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	754,059	535,854
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,442,531	$ 754,059
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ -	$ -

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

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 6

Charter school number authorized by the State: 0988

Magnolia Science Academy-6 (MSA 6) is a charter school located in Los Angeles, California that provides sixth through eighth grade education to approximately 155 students. The School was created under the approval of the Los Angeles Unified School District (ending June 30, 2019) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 6 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 6's Charter School Management Organization (CMO) that manages MSA 6′s nonacademic operation such as financial, general administration, and human resource management. MSA 6′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 6 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 6. Additional information is presented in Note 14 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by MSA 6 are described below to enhance the financial statements.

Financial Statement Presentation

MSA 6 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 6 had no temporarily or permanently restricted net assets as of June 30, 2018 and 2017, respectively. In addition, MSA 6 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. MSA 6 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 2017-2018, MSA 6 did not receive any donor-restricted contributions.

Income Taxes

MSA 6 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 2014 and forward may be audited by regulatory agencies; however, MSA 6 is not aware of any such actions at this time.

MSA 6 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 6 considers all highly liquid investments available for current use with an initial maturity of three months or less to be 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, 2018 and 2017, respectively, management 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 6 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, 2018 and 2017, was $28,726 and $19,778, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to MSA 6′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 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 6.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. MSA 6 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 6 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, 2018 and 2017, MSA 6 has $112,184 and $54,312, respectively, designated balance for California Clean Energy Jobs Act, Educator Effectiveness, National School Lunch Program, 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 6 and reimbursement for those resources.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases (see Note 10).

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in bank	$ 1,442,531	$ 1,496,957	$ 754,059	$ 776,573

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA 6 maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA 6 has not experienced any losses in such accounts. At June 30, 2018 and 2017, MSA 6 had $1,472,859 and $756,568, respectively, in excess of insured limits.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
State principal apportionment	$ 36,937	$ 99,113
Due from other agencies	-	1,055
Federal receivable	37,474	15,246
State receivable	74,645	25,242
Lottery	13,428	15,618
Local receivable	-	11,828
Total Accounts Receivable	$ 162,484	$ 168,102

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 6 and reimbursement for those resources from MSA 6 to the Foundation, and cash transfers for cash flow purposes. MSA 6 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, 2018 and 2017, MSA 6 had an intra-company receivable balance of $2,500 and $450,000, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Prepaid rent, security deposits, insurance, and miscellaneous vendors	$ 14,884	$ 17,566

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Computer and equipment	$ 148,877	$ 153,988
Work in progress	10,094	-
Subtotal	158,971	153,988
Less: accumulated depreciation	(130,981)	(102,255)
Total Fixed Assets	$ 27,990	$ 51,733

During the year ended June 30, 2018 and 2017, $28,726 and $19,778, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Salaries and benefits	$ 37,359	$ 40,242
Vendor payables	5,646	115,905
Due to other agencies	3,428	-
Total Accounts Payable	$ 46,433	$ 156,147

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 6 and reimbursement for those resources from MSA 6 to the Foundation, and cash transfers for cash flow purposes. MSA 6 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, 2018 and 2017, MSA 6 had an intra-company payable balance of $58 and $26,392, respectively, from the Foundation.

NOTE 10 - OPERATING LEASE

Magnolia Science Academy 6 entered into a lease agreement with First Lutheran Church of Culver City and Palms on August 1, 2015, for the property located at 3754 Dunn Drive, Los Angeles, California for the sole purpose of operating MSA 6 educational programs and related Charter School activities. Lease payments during 2018 and 2017, were $114,000 and $113,500, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 6 is part of the Foundation. MSA 6 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, 2018 and 2017, was $82,190 and $89,797, 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 6 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 6 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 6 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, 2017, total actuarial value of assets are $180 billion, the actuarial obligation is $287 billion, contributions from all employers totaled $4.0 billion, and the plan is 62.6 percent funded.

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, 2017, 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.

MSA 6 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, 2018, are summarized as follows:

	STRP Defined Benefit Program	
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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and MSA 6's total contributions were $96,199.

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, 2016, the Schools Pool total plan assets are $55.8 billion, the total accrued liability is $77.5 billion, contributions from all employers totaled $1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. 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.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before	On or after
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%	6.50%
Required employer contribution rate	15.531%	15.531%

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 6 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, 2018, are presented above and the total Charter School contributions were $15,954.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $49,077 (9.328 percent of 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 13 - CONTINGENCIES

Grants

MSA 6 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 6 is not currently a party to any legal proceedings.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 6 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 6 and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA 6 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 MSA 6 are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2018 and 2017, MSA 6 made payments of $19,055 and $19,014, respectively, to CharterSAFE for services received. At June 30, 2018 and 2017, respectively, MSA 6 had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 15 - SUBSEQUENT EVENTS

MSA 6′s management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through _________, 2018, 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

SUPPLEMENTARY INFORMATION

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

Magnolia Science Academy 6 (Charter Number 0988) was granted on May 8, 2008, by the Los Angeles Unified School District and renewed for a five year period ending June 30, 2019. MSA 6 operates one school, grades six through eight.

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Mr. Saken Sherkhanov	President	December 11, 2018
Rabbi Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Director	October 11, 2022

ADMINISTRATION

Alfredo Rubalcava[1]	Chief Executive Officer, Superintendent
Caprice Young, Ed.D.[2]	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

[1] Effective July 1, 2018
[2] Resigned June 30, 2018

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	44.03	43.34
Seventh and eighth	111.09	111.26
Total Regular ADA	155.12	154.60
Classroom based ADA		
Sixth	44.03	43.34
Seventh and eighth	111.09	111.26
Total Classroom based ADA	155.12	154.60

MSA 6 did not operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		63,846	180	N/A	Complied
Grade 7		63,846	180	N/A	Complied
Grade 8		63,846	180	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

NET ASSETS	
Net Assets, June 30, 2018, Unaudited Actuals	$ 1,603,577
Increase (Decrease) in:	
Accounts receivable	(2,441)
Intra-company receivable	2,500
(Increase) Decrease in:	
Accounts payable and accruals	320
Intra-company payable	(58)
Net Assets, June 30, 2018, Audited Financial Statement	$ 1,603,898

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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 6. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 6 and whether MSA 6 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

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

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.

INDEPENDENT AUDITOR'S REPORTS

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 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy 6 (MSA 6) which comprise the statement of financial position as of June 30, 2018 and 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 ____________________, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 6'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 6's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 6'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 6'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 6'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*.

We noted certain matters that we reported to management of MSA 6 in a separate letter dated ____________________, 2018.

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 6'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 6's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
____________________, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

Report on State Compliance

We have audited Magnolia Science Academy 6's (MSA 6) compliance with the types of compliance requirements as identified in the *2017-2018 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 6's State government programs as noted below for the year ended June 30, 2018.

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 6'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 *2017-2018 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 6'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 6's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 6 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, 2018.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 6's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
CHARTER SCHOOLS	
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	Yes

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

MSA 6 does not operate a before or after school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 6 does not operate Independent Study – Course Based instruction; therefore, we did not perform any related procedures.

MSA 6 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.

Rancho Cucamonga, California
______________________, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY 6
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year.

Governing Board
Magnolia Science Academy 6
(A California Nonprofit Public Benefit Corporation)
Los Angeles, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 6 (MSA 6), for the year ended June 30, 2018, 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 6 for the year ended June 30, 2018.

Rancho Cucamonga, California
__________, 2018

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 7
(A California Nonprofit Public Benefit Corporation)
Northridge, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy 7 (MSA 7) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 an opinion 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 *2017-2018 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 7'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 7'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA 7, as of June 30, 2018 and 2017, and the changes in its net assets, and its cash flows thereof for the year 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 _________, 2018, on our consideration of MSA 7'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 7'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 7's internal control over financial reporting and compliance.

Rancho Cucamonga, California
____________________, 2018

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,269,979	$ 830,140
Accounts receivable	318,241	271,398
Intra-company receivable	-	-
Prepaid expenses and other current assets	22,337	135,483
Total Current Assets	1,610,557	1,237,021
Non-Current Assets		
Security deposits	7,227	4,000
Fixed assets	290,998	135,974
Less: accumulated depreciation	(122,900)	(104,385)
Total Non-Current Assets	175,325	35,589
Total Assets	$ 1,785,882	$ 1,272,610
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	$ 277,107	$ 109,231
Intra-company payable	10,579	151,049
Total Current Liabilities	287,686	260,280
NET ASSETS		
Unrestricted	1,243,634	959,589
Designated	254,562	52,741
Total Net Assets	1,498,196	1,012,330
Total Liabilities and Net Assets	$ 1,785,882	$ 1,272,610

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

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	$ 2,565,977	$ 2,586,389
Federal revenue	241,181	230,631
Other State revenue	945,358	716,536
Local revenue	98,633	87,049
Total Revenues	3,851,149	3,620,605
EXPENSES		
Program services:		
Salaries and benefits	$ 1,393,792	$ 1,390,844
Student services	177,626	172,011
Materials and supplies	45,381	101,080
Student nutrition	93,406	117,260
Other expenses	48,552	78,570
Subtotal	1,758,757	1,859,765
Management and general:		
Salaries and benefits	348,448	347,711
Depreciation	18,515	20,286
Management fee	547,935	656,701
Occupancy	293,076	293,806
Operating expenses	398,552	377,358
Subtotal	1,606,526	1,695,862
Total Expenses	3,365,283	3,555,627
CHANGE IN NET ASSETS	485,866	64,978
NET ASSETS, BEGINNING OF YEAR	1,012,330	947,352
NET ASSETS, END OF YEAR	$ 1,498,196	$ 1,012,330

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

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 485,866	$ 64,978
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	18,515	20,286
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(46,843)	101,100
Intra-company receivable	-	112,514
Prepaid expenses and other current assets	113,146	(107,374)
Increase (Decreased) in liabilities:		
	167,876	(280,618)
Net Cash Provided (Used) by Operating Activities	594,863	(71,063)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(155,024)	(13,074)
NET CHANGE IN CASH	439,839	(84,137)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	830,140	914,277
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,269,979	$ 830,140
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ -	$ -

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

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy 7

Charter school number authorized by the State: 0989

Magnolia Science Academy 7 (MSA 7) is a charter school located in Northridge, California that provides kindergarten through sixth grade education to approximately 200 students. MSA 7 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. Los Angeles Unified School District approved the charter on February 26, 2008, and renewed the charter agreement in 2014 for a period of five years ending in 2019. MSA 7 is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA 7 is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA 7's Charter School Management Organization (CMO) that manages MSA 7's nonacademic operation such as financial, general administration, and human resource management. MSA 7'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.

MPM Sherman Way, LLC

The Foundation has the following consolidated affiliates (where the Foundation is the sole member) that were formed to provide assistance with funding capital improvement on behalf of the Foundation's activities. MPM Sherman Way LLC, a California limited liability company.

Other Related Entities

Joint Powers Agency and Risk Management Pools - MSA 7 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 7. Additional information is presented in Note 13 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by MSA 7 are described below to enhance the financial statements.

Financial Statement Presentation

MSA 7 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 7 had no temporarily or permanently restricted net assets, as of June 30, 2018 and 2017, respectively. In addition, MSA 7 is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, Not-for-Profit Organizations accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to 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 7 uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses 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 2017-2018, MSA 7 did not receive any donor-restricted contributions.

Income Taxes

MSA 7 are 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 2014 and forward may be audited by regulatory agencies; however, MSA 7 is not aware of any such actions at this time.

MSA 7 have 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 7 considers all highly liquid investments available for current use with an initial maturity of three months or less to be 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, 2018 and 2017, respectively, management had 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 7 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, 2018 and 2017, was $18,515 and $20,286, respectively.

Deferred Revenue

Deferred revenue arises when resources are received by MSA 7 prior to the incurrence of qualifying expenditures. In subsequent periods, when the obligation in which the resources were received are met, or when MSA 7 have a legal claim to the resources, the liability for deferred revenue is removed from the Statement of Net Assets and revenue is recognized.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to MSA 7' 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. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Net Asset Classes

Magnolia Science Academy 7 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 7 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 7.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. MSA 7 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 7 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, 2018 and 2017, MSA 7 has a $254,562 and $52,741, respectively, designated balance for California Clean Energy Jobs Act and Educator Effectiveness funds.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to MSA 7 and reimbursement for those resources.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases (see Note 10).

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2018, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand	$ 1,269,979	$ 1,327,872	$ 830,140	$ 861,042

Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). MSA 7 maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA 7 has not experienced any losses in such accounts. At June 30, 2018 and 2017, MSA 7 had a balance of $1,306,496 and $838,861, respectively, in excess of FDIC insured limits. Management believes MSA 7 is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted of the following:

	2018	2017
State principal apportionment	$ 88,402	$ 141,304
Due from other agencies	-	1,751
Federal receivable	52,117	19,645
State receivable	151,786	83,082
Lottery	25,719	25,616
Other	217	-
Total Accounts Receivable	$ 318,241	$ 271,398

NOTE 5 - INTRA-COMPANY RECEIVABLE

The June 30, 2018, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA 7 and reimbursement for those resources from MSA 7 to the Foundation, and cash transfers for cash flow purposes. MSA 7 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, 2018 and 2017, MSA 7 had an intra-company receivable balance of $0 and $0, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Prepaid rent, security deposits, insurance, and miscellaneous vendors	$ 29,564	$ 139,483

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Building improvements	$ 27,904	$ 40,978
Computer and equipment	94,996	94,996
Work in progress	168,098	-
Subtotal	290,998	135,974
Less: accumulated depreciation	(122,900)	(104,385)
Total Fixed Assets	$ 168,098	$ 31,589

During the year ended June 30, 2018 and 2017, $18,515 and $20,286, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Salaries and benefits	$ 80,072	$ 70,760
Vendor payables	185,047	22,180
Due to other agencies	11,988	16,291
Total Accounts Payable	$ 277,107	$ 109,231

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 7 and reimbursement for those resources from MSA 7 to the Foundation, and cash transfers for cash flow purposes. MSA 7 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, 2018 and 2017, MSA 7 had an intra-company payable balance of $10,579 and $151,049, respectively, from the Foundation.

NOTE 10 - OPERATING LEASES

Magnolia Science Academy 7 entered into a lease extension agreement with First Lutheran Church of Northridge on June 20, 2017, for the property located at 18355 Roscoe Boulevard, Northridge, California for the sole purpose of operating MSA 7 educational programs and related Charter School activities and include rental fees that shall be paid on the first of every month. Monthly payments in the amount of $20, 867 shall be made beginning in fiscal year 2017-2018 and increase 3 percent annually. The term of the lease expired on August 1, 2022. Lease payments during 2018 and 2017, were $271,754 and $260,628, respectively.

The future minimum lease commitments are as follows:

Fiscal Year	Payment
2019	$ 257,916
2020	265,656
2021	273,624
2022	281,832
Total	$ 1,079,028

NOTE 11 - RELATED PARTY TRANSACTIONS

MSA 7 is part of the Foundation. MSA 7 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, 2018 and 2017, were $547,935 and $656,701, 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 7 chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA 7 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 7 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, 2017, total actuarial value of assets are $180 billion, the actuarial obligation is $287 billion, contributions from all employers totaled $4.0 billion, and the plan is 62.6 percent funded.

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, 2017, 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.

MSA 7 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, 2018, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before	On or after
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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and MSA 7's total contributions were $140,104.

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, 2016, the Schools Pool total plan assets are $55.8 billion, the total accrued liability is $77.5 billion, contributions from all employers totaled $1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. 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.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before	On or after
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%	6.50%
Required employer contribution rate	15.531%	15.531%

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 7 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, 2018, are presented above and the total Charter School contributions were $32,737.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $68,179 (9.328 percent of 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 13 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA 7 are a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between MSA 7 and the CharterSAFE is such that the CharterSAFE is not considered a component unit of MSA 7 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 7 are included in these statements. Audited financial statements for the CharterSAFE were not available for fiscal year 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2018 and 2017, MSA 7 made payments of $31,480 and $31,152, respectively, to CharterSAFE for services received. At June 30, 2018 and 2017, respectively, MSA 7 had no recorded accounts receivable or accounts payable to the CharterSAFE.

NOTE 14 - CONTINGENCIES

Grants

MSA 7 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

Magnolia Science Academy 7 is not currently a party to any legal proceedings.

NOTE 15 - SUBSEQUENT EVENTS

MSA 7's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ____________, 2018, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

Magnolia Science Academy 7 (Charter Number 0989) was granted on February 26, 2008, by the Los Angeles Unified School District and renewed for a five year period ending June 30, 2019. MSA 7 operates one school, grades kindergarten through five.

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Mr. Saken Sherkhanov	President	December 11, 2018
Rabbi Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Director	October 11, 2022

ADMINISTRATION

Alfredo Rubalcava[1]	Chief Executive Officer, Superintendent
Caprice Young, Ed.D.[2]	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

[1] Effective July 1, 2018
[2] Resigned June 30, 2018

See accompanying note to supplementary information.

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MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	152.39	149.02
Fourth through fifth	122.36	121.99
Total Regular ADA	274.75	271.01
Classroom based ADA		
Transitional kindergarten through third	152.39	149.02
Fourth through fifth	122.36	121.99
Total Classroom based ADA	274.75	271.01

MSA 7 did not operate a non-classroom based Instruction program.

See accompanying note to supplementary information.

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MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	60,645	180	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		56,875	180	N/A	Complied
Grade 2		56,875	180	N/A	Complied
Grade 3		56,875	180	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		56,875	180	N/A	Complied
Grade 5		56,875	180	N/A	Complied

See accompanying note to supplementary information.

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MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

NET ASSETS		
Balance, June 30, 2018, Unaudited Actuals	$	1,498,659
Increase (Decrease) in:		
Accounts receivable		10,279
Prepaid expenses and other current assets		(7,227)
Security deposit		7,227
(Increase) Decrease in:		
Accounts payable and accruals		(163)
Intra-company payable		(10,579)
Balance, June 30, 2018,		
Audited Financial Statement	$	1,498,196

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the schools 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 7. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by MSA 7 and whether MSA 7 complied with the provisions of *Education Code* Sections 47612 and 47612.5, if applicable.

MSA 7 must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5.

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.

INDEPENDENT AUDITOR'S REPORTS

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 7
(A California Nonprofit Public Benefit Corporation)
Northridge, 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 7 (MSA 7) which comprise the statement of financial position as of June 30, 2018 and 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 ____________________, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA 7'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 7's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA 7'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 7'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 7'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*.

We noted certain matters that we reported to management of MSA 7 in a separate letter dated ____________________, 2018.

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 7'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 7's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
____________________, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
Magnolia Science Academy 7
(A California Nonprofit Public Benefit Corporation)
Northridge, California

Report on State Compliance

We have audited Magnolia Science Academy 7's (MSA 7) compliance with the types of compliance requirements as identified in the *2017-2018 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 7's State government programs as noted below for the year ended June 30, 2018.

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 7'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 *2017-2018 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 7'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 7's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA 7 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, 2018.

In connection with the audit referred to above, we selected and tested transactions and records to determine MSA 7's compliance with the State laws and regulations applicable to the following items:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
CHARTER SCHOOLS	
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	Yes

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

MSA 7 does not operate a before school program within the After/Before School Education and Safety Program; therefore, we did not perform any related procedures.

MSA 7 does not operate Independent Study - Course Based instruction; therefore, we did not perform any related procedures.

MSA 7 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.

Rancho Cucamonga, California
______________________, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY 7
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year.

Governing Board
Magnolia Science Academy 7
(A California Nonprofit Public Benefit Corporation)
Northridge, California

In planning and performing our audit of the financial statements of Magnolia Science Academy 7 (MSA 7), for the year ended June 30, 2018, 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 7 for the year ended June 30, 2018.

Rancho Cucamonga, California
____________, 2018

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

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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, 2018 and 2017, and the related statements of activities 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 an opinion 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 *2017-2018 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 opinion.

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, 2018 and 2017, and the changes in its net assets, and its cash flows thereof for the year 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 _________, 2018, 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.

Rancho Cucamonga, California
____________________, 2018

FINANCIAL STATEMENTS

DRAFT 11/15/2018

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

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,907,434	$ 925,839
Accounts receivable	385,404	384,871
Intra-company receivable	1,722,916	2,073,307
Prepaid expenses and other current assets	79,980	20,446
Total Current Assets	4,095,734	3,404,463
Non-Current Assets		
Fixed assets	320,329	313,302
Less: accumulated depreciation	(187,190)	(129,618)
Total Non-Current Assets	133,139	183,684
Total Assets	$ 4,228,873	$ 3,588,147
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	$ 144,722	$ 208,560
Intra-company payable	434	13,188
Total Current Liabilities	145,156	221,748
NET ASSETS		
Unrestricted	3,810,806	3,309,032
Designated	272,911	57,367
Total Net Assets	4,083,717	3,366,399
Total Liabilities and Net Assets	$ 4,228,873	$ 3,588,147

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

DRAFT 11/15/2018

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

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	$ 4,538,699	$ 4,526,038
Federal revenue	342,604	309,446
Other State revenue	980,866	786,188
Local revenue	74,954	71,939
Total Revenues	5,937,123	5,693,611
EXPENSES		
Program services:		
Salaries and benefits	$ 2,287,778	$ 2,391,957
Student services	231,491	207,080
Materials and supplies	27,207	27,006
Student nutrition	144,444	163,222
Other expenses	124,961	185,334
Subtotal	2,815,881	2,974,599
Management and general:		
Salaries and benefits	539,574	597,989
Depreciation	57,572	67,806
Management fee	1,095,870	1,052,849
Occupancy	318,111	235,424
Operating expenses	392,797	402,720
Subtotal	2,403,924	2,356,788
Total Expenses	5,219,805	5,331,387
CHANGE IN UNRESTRICTED NET ASSETS	717,318	362,224
NET ASSETS, BEGINNING OF YEAR	3,366,399	3,004,175
NET ASSETS, END OF YEAR	$ 4,083,717	$ 3,366,399

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

DRAFT 11/15/2018

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

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$ 717,318	$ 362,224
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	57,572	67,806
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(533)	95,041
Intra-company receivable	350,391	(1,460,548)
Prepaid expenses and other current assets	(59,534)	(8,355)
Increase (Decrease) in liabilities		
Accounts payable and accruals	(63,838)	11,667
Intra-company payable	(12,754)	(61,022)
Net Cash Provided by (Used in) Operating Activities	988,622	(993,187)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(7,027)	(110,794)
NET CHANGE IN CASH	981,595	(1,103,981)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	925,839	2,029,820
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,907,434	$ 925,839
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ -	$ -

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

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 487 students. MSA Bell was created under the approval of the Los Angeles Unified School District (ending June 30, 2020) 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, 2018 and 2017, respectively. In addition, MSA Bell 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. 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 2017-2018, 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 2014 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.

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, 2018 and 2017, 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, 2018 and 2017, was $57,572 and $67,806, 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.

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, 2018 and 2017, MSA Bell has a $272,911 and $57,367, 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.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash in banks	$ 1,907,434	$ 2,174,208	$ 925,839	$ 951,115

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, 2018 and 2017, MSA Bell had a balance of $2,139,207 and $926,614, respectively, in excess of FDIC insured limits. Management believes MSA Bell is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
State principal apportionment	$ 199,840	$ 296,662
Due from other agencies	-	3,014
Federal receivable	122,396	27,902
State receivable	17,928	13,391
Lottery	45,240	43,902
Total Accounts Receivable	$ 385,404	$ 384,871

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, 2018 and 2017, MSA Bell had an intra-company receivable balance of $1,722,916 and $2,073,307, respectively, from the Foundation.

NOTE 6 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2018 and 2017, are as follows:

	2018	2017
Prepaid rent, security deposits, insurance, and miscellaneous vendors	$ 79,980	$ 20,446

NOTE 7 - FIXED ASSETS

Fixed assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Computer and equipment	$ 307,565	$ 313,302
Work in progress	12,764	-
Subtotal	320,329	313,302
Less: accumulated depreciation	(187,190)	(129,618)
Total Fixed Assets	$ 133,139	$ 183,684

During the year ended June 30, 2018, $57,572 and $67,806, respectively, was charged to depreciation expense.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Salaries and benefits	$ 98,996	$ 80,371
Vendor payables	45,726	128,189
Total Accounts Payable	$ 144,722	$ 208,560

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, 2018 and 2017, MSA Bell had an intra-company payable balance of $434 and $13,188, respectively, from the Foundation.

NOTE 10 - FACILITIES USE AGREEMENT

Magnolia Science Academy Bell 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, 2018 and 2017, was $318,111 and $235,424, respectively.

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, 2018 and 2017, were $1,095,870 and $1,052,849, 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, 2017, total actuarial value of assets are $180 billion, the actuarial obligation is $287 billion, contributions from all employers totaled $4.0 billion, and the plan is 62.6 percent funded.

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, 2017, 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.

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, 2018, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before	On or after
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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and MSA Bell's total contributions were $232,680.

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, 2016, the Schools Pool total plan assets are $55.8 billion, the total accrued liability is $77.5 billion, contributions from all employers totaled $1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. 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.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before	On or after
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%	6.50%
Required employer contribution rate	15.531%	15.531%

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, 2018, are presented above and the total Charter School contributions were $44,743.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $129,480 (9.328 percent of 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

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 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2018 and 2017, MSA Bell made payments of $50,548 and $50,567, respectively, to CharterSAFE for services received. At June 30, 2018 and 2017, 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 __________, 2018, 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.

SUPPLEMENTARY INFORMATION

DRAFT 11/15/2018

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

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

Magnolia Science Academy Bell (Charter Number 1236) was granted on June 15, 2010, by the Los Angeles Unified School District and extended for a five year period ending June 30, 2020. MSA Bell operates one school, grades six through twelve.

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Mr. Saken Sherkhanov	President	December 11, 2018
Rabbi Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Secretary	October 11, 2022

ADMINISTRATION

Alfredo Rubalcava[1]	Chief Executive Officer, Superintendent
Caprice Young, Ed.D.[2]	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

[1] Effective July 1, 2018
[2] Resigned June 30, 2018

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, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Sixth	131.91	132.02
Seventh and eighth	340.97	340.46
Total Regular ADA	472.88	472.48
Classroom based ADA		
Sixth	131.91	132.02
Seventh and eighth	340.97	340.46
Total Classroom based ADA	472.88	472.48

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

See accompanying note to supplementary information.

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

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		64,320	180	N/A	Complied
Grade 7		64,320	180	N/A	Complied
Grade 8		64,320	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, 2018

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

NET ASSETS	
Net Assets, June 30, 2018, Unaudited Actuals	$ 4,082,888
Increase (Decrease) in:	
Accounts receivable	(1,722,482)
Intra-company receivable	1,722,916
(Increase) Decrease in:	
Accounts payable and accrued payroll	829
Intra-company payable	(434)
Net Assets, June 30, 2018, Unaudited Actuals Audited Financial Statement	$ 4,083,717

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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 at various grade levels and in different programs.

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 47612 and 47612.5, if applicable.

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

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.

INDEPENDENT AUDITOR'S REPORTS

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, 2018 and 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 ____________________, 2018.

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*.

We noted certain matters that we reported to management of MSA Bell in a separate letter dated ____________________, 2018.

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.

Rancho Cucamonga, California
____________________, 2018

DRAFT 11/15/2018

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 *2017-2018 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, 2018.

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 *2017-2018 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

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, 2018.

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:

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
CHARTER SCHOOLS	
Attendance	
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 does not operate a before school program within the After/Before 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 did 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 the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
______________________,2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	Unmodified

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

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

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

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

DRAFT 11/15/2018

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year.

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 (MSA Bell), for the year ended June 30, 2018, 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, 2018.

Rancho Cucamonga, California
__________, 2018

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy Santa Ana (MSA Santa Ana) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 an opinion 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 *2017-2018 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 Ana'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 Ana'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA Santa Ana, as of June 30, 2018 and 2017, and the changes in its net assets, and its cash flows thereof for the year 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 _________, 2018, on our consideration of MSA Santa Ana'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 Santa Ana'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 Santa Ana's internal control over financial reporting and compliance.

Rancho Cucamonga, California
____________________, 2018

FINANCIAL STATEMENTS

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 708,858	$ 1,480,920
Restricted assets:		
Cash held for restricted purposes	-	95,590
Accounts receivable	1,017,487	147,804
Intra-company receivable	34,430	15,416
Prepaid expenses and other current assets	866	28,949
Total Current Assets	1,761,641	1,768,679
Non-Current Assets:		
Investments in LLC's	75,554	-
Security deposits	19,890	19,690
Fixed assets	22,622,538	18,333,010
Less: accumulated depreciation	(1,091,112)	(563,281)
Total Non-Current Assets	21,626,870	17,789,419
Total Assets	$ 23,388,511	$ 19,558,098
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	$ 951,469	$ 688,406
Intra-company payable	2,181,887	2,260,690
Current portion of long-term obligations	306,020	244,116
Total Current Liabilities	3,439,376	3,193,212
Long-Term Obligations:		
Non-current portion of long-term obligations	12,446,842	8,487,874
Total Liabilities	15,886,218	11,681,086
NET ASSETS		
Unrestricted	7,487,577	7,743,647
Designated	14,716	133,365
Total Net Assets	7,502,293	7,877,012
Total Liabilities and Net Assets	$ 23,388,511	$ 19,558,098

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

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	$ 6,682,934	$ 5,507,828
Federal revenue	629,550	713,091
Other State revenue	841,029	644,077
Local revenue	173,872	89,144
Total Revenues	8,327,385	6,954,140
EXPENSES		
Program services:		
Salaries and benefits	$ 4,074,261	$ 3,131,430
Student services	300,117	440,818
Materials and supplies	128,857	276,599
Student nutrition	341,506	329,069
Other expenses	139,263	206,887
Subtotal	4,984,004	4,384,803
Management and general:		
Salaries and benefits	990,009	782,858
Depreciation	527,830	434,567
Management fee	1,095,870	1,079,401
Occupancy	40,911	72,093
Operating expenses	616,512	622,327
Subtotal	3,718,100	2,991,246
Total Expenses	8,702,104	7,376,049
CHANGE IN UNRESTRICTED NET ASSETS	(374,719)	(421,909)
NET ASSETS, BEGINNING OF YEAR	7,877,012	8,298,921
NET ASSETS, END OF YEAR	$ 7,502,293	$ 7,877,012

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

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$ (374,719)	$ (421,909)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	527,830	434,566
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(869,683)	65,708
Intra-company receivable	(19,014)	(12,657)
Prepaid expenses and other current assets	28,083	(23,595)
Security deposits	(200)	7,310
Increase (Decrease) in liabilities		
Accounts payable and accruals	263,064	487,301
Intra-company payable	(78,803)	1,483,858
Deferred revenue	-	(61,355)
Net Cash Provided (Used) by Operating Activities	(523,442)	1,959,227
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital contributions in LLC's	(75,554)	
Restricted cash (received) used for construction	95,590	5,678,755
Capital expenditures	(4,289,528)	(6,302,713)
Net Cash Used by Investing Activities	(4,269,492)	(623,958)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan Proceeds	4,020,872	(24,996)
NET CHANGE IN CASH	(772,062)	1,310,273
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,480,920	170,647
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 708,858	$ 1,480,920
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ 446,968	$ -

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

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy Santa Ana

Charter school number authorized by the State: 0943

Magnolia Science Academy Santa Ana (MSA Santa Ana) (Formerly Pacific Technology School Santa Ana) is a charter school located in Santa Ana, California that provides transitional kindergarten through twelfth grade education to approximately 720 students. MSA Santa Ana was created under the approval the California State Board of Education, and receives public per-pupil funding to help support their operation. MSA Santa Ana is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA Santa Ana is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA Santa Ana's Charter School Management Organization (CMO) that manages MSA Santa Ana's nonacademic operation such as financial, general administration, and human resource management. MSA Santa Ana'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 Santa Ana 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 Santa Ana. Additional information is presented in Note 19 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Statement Presentation

MSA Santa Ana 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 Santa Ana had no temporarily or permanently restricted net assets as of June 30, 2018 and 2017, respectively. In addition, MSA Santa Ana 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. MSA Santa Ana 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 2017-2018, MSA Santa Ana did not receive any donor-restricted contributions.

Income Taxes

MSA Santa Ana 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 2014 and forward may be audited by regulatory agencies; however, MSA Santa Ana is not aware of any such actions at this time.

MSA Santa Ana 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 Santa Ana considers all highly liquid investments available for current use with an initial maturity of three months or less to be 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, 2018 and 2017, respectively, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Fixed Assets

All assets with a useful life of greater than one year and costing more than $5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of $25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed $50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2018 and 2017, was $527,830 and $434,567, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to MSA Santa Ana'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 Ana (formerly Pacific Technology School Santa Ana) 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 Ana (formerly Pacific Technology School Santa Ana) 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 Santa Ana.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. MSA Santa Ana 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 Santa Ana does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. The grant portion of MSA Santa Ana Facilities Program is classified as designated assets until the fund is used for the purchase of the land and the construction of the facility. As of June 30, 2018 and 2017, MSA Santa Ana had a designated balance of $14,716 and $133,365, respectively, for College Readiness.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by the Foundation to MSA Santa Ana 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 Ana's financial statements for the year ended June 30, 2018, from which the comparative information was derived.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	$ 266,617	$ 455,326	$ 704,436	$ 749,046
Orange County Pooled Investment Funds	442,241	N/A	776,484	N/A
Total	$ 708,858	$ 455,326	$ 1,480,920	$ 749,046

Cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). MSA Santa Ana maintains its cash in bank deposit accounts that at times may exceed federally insured limits. MSA Santa Ana has not experienced any losses in such accounts. At June 30, 2018 and 2017, MSA Santa Ana had a balance of $419,062 and $72,375, respectively, in excess of FDIC insured limits. Management believes MSA Santa Ana is not exposed to any significant risk related to cash.

NOTE 4 - RESTRICTED CASH

Restricted cash arises from conditions required by the various financing arrangements. Financial statement classification is based on whether the restricted cash is held to satisfy current or long-term obligations. Restricted cash at June 30, 2018 and 2017, was comprised of the following:

	2018	2017
Current restricted cash	$ -	$ 95,590

Restricted cash balances held in banks are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). MSA Santa Ana maintains its restricted cash in bank deposit accounts that at times may exceed federally insured limits. MSA Santa Ana has not experienced any losses in such accounts. At June 30, 2018 and 2017, MSA Santa Ana had no balance in excess of FDIC insured limits. Management believes MSA Santa Ana is not exposed to any significant risk related to cash.

NOTE 5 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2018 and 2017, are classified in the accompanying financial statements as follows:

	June 30, 2018		June 30, 2017	
Investment Type	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
Orange County Pooled Investment Funds	$ 442,241	$ 440,337	$ 776,484	$ 775,242

All assets have been valued using a market approach, with quoted market prices.

Interest Rate Risk

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

Weighted Average Maturity

MSA Santa Ana monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

NOTE 6- MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

Uncategorized - Investments in the Orange County Treasury Investment Pool are not measured using the input levels above because MSA Santa Ana's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

MSA Santa Ana's fair value measurements are as follows at June 30, 2018:

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Pooled Investment Funds	Uncategorized	$ 440,337	302

MSA Santa Ana's fair value measurements are as follows at June 30, 2017:

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Pooled Investment Funds	Uncategorized	$ 775,242	325

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
State principal apportionment	$ 755,157	$ -
Federal receivable	141,485	32,415
State receivable	57,467	15,051
Lottery	63,378	100,338
Total Accounts Receivable	$ 1,017,487	$ 147,804

NOTE 8 - INTRA–COMPANY RECEIVABLE

The June 30, 2018, intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Santa Ana and reimbursement for those resources from MSA Santa Ana to the Foundation, and cash transfers for cash flow purposes. MSA Santa Ana 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, 2018 and 2017, MSA Santa Ana had an intra-company receivable balance of $34,430 and $15,416, respectively, from the Foundation.

NOTE 9 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Prepaid rent, security deposits, insurance, and miscellaneous vendors	$ 866	$ 48,639

NOTE 10 - FIXED ASSETS

Fixed assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Construction in progress	$ -	$ 170,543
Building and improvements	22,157,822	17,892,822
Computer and equipment	269,645	269,645
Work in progress	195,071	-
Subtotal	22,622,538	18,333,010
Less: accumulated depreciation	(1,091,112)	(563,281)
Total Fixed Assets	$ 21,531,426	$ 17,769,729

During the year ended June 30, 2018 and 2017, $527,830 and $434,567, respectively, was charged to depreciation expense.

NOTE 11 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Salaries and benefits	$ 138,917	$ 100,307
Vendor payables	812,552	473,859
Due to other agencies		114,240
Total Accounts Payable	$ 951,469	$ 688,406

NOTE 12 - INTRA–COMPANY PAYABLE

The intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA Santa Ana and reimbursement for those resources from MSA Santa Ana to the Foundation, and cash transfers for cash flow purposes. MSA Santa Ana 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, 2018 and 2017, MSA Santa Ana had an intra-company payable balance of $2,181,887 and $2,260,690 from the Foundation.

NOTE 13 - LOANS PAYABLE

Charter School Facilities Program

MSA Santa Ana has been approved by the State of California's Charter School Facilities Program for $17,413,956 for constructing a new facility which will cost the same amount. The State will fund 50 percent of the total amount of $17,413,956; the State will fund 50 percent of the total project cost through a loan in the amount of $8,706,978 and the other 50 percent through a grant in the amount of $8,706,978. The loan has an annual interest rate of 2.00 percent and it matures 30 years after the completion of the project. During 2017-2018, MSA Santa Ana made principal and interest payments of $219,116 and $446,968, respectively. The outstanding loan balance as of June 30, 2018, was $8,812,874.

Future payments are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2019	$ 223,520	$ 168,646	$ 392,166
2020	228,013	164,152	392,165
2021	232,597	159,569	392,166
2022	237,272	154,894	392,166
2023	242,040	150,125	392,165
2024-2028	1,285,166	675,663	1,960,829
2029-2033	1,419,620	541,208	1,960,828
2034 2038	1,568,144	392,683	1,960,827
2039-2043	1,732,208	228,621	1,960,829
2044-2047	1,344,294	53,297	1,397,591
Total	$ 8,512,874	$ 2,688,858	$ 11,201,732

NOTE 14 - RELATED PARTY TRANSACTIONS

MSA Santa Ana is part of the Foundation. MSA Santa Ana pays the Foundation management fees for services received. The amount is calculated based on management assessment. Management fees paid to the Foundation for the year ended June 30, 2018 and 2017, were $1,095,870 and $1,079,401, respectively.

NOTE 15 - 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 Santa Ana chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA Santa Ana 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 Santa Ana 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, 2017, total actuarial value of assets are $180 billion, the actuarial obligation is $287 billion, contributions from all employers totaled $4.0 billion, and the plan is 62.6 percent funded.

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, 2017, 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.

MSA Santa Ana 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, 2018, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before	On or after
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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and MSA Santa Ana's total contributions were $404,295

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, 2016, the Schools Pool total plan assets are $55.8 billion, the total accrued liability is $77.5 billion, contributions from all employers totaled $1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. 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.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before	On or after
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%	6.50%
Required employer contribution rate	15.531%	15.531%

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 Santa Ana 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, 2018, are presented above and the total Charter School contributions were $73,135.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $114,224 (9.328 percent of 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 16 - CONTINGENCIES

Grants

MSA Santa Ana 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 Santa Ana is not currently a party to any legal proceedings.

NOTE 17 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA Santa Ana 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 Santa Ana and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA Santa Ana 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 MSA Santa Ana are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2018 and 2017, MSA Santa Ana made payments of $76,477 and $55,252, respectively, to CharterSAFE for services received. At June 30, 2018, MSA Santa Ana had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 18 - SUBSEQUENT EVENTS

MSA Santa Ana's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through ____________, 2018, 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.

SUPPLEMENTARY INFORMATION

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

Magnolia Science Academy Santa Ana (Charter Number 1686) was granted on August 1, 2014, by the California State Board of Education. MSA Santa Ana operates one school, for students in transitional kindergarten through grade twelve.

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Mr. Saken Sherkhanov	President	December 11, 2018
Rabbi Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Director	October 11, 2022

ADMINISTRATION

Alfredo Rubalcava[1]	Chief Executive Officer, Superintendent
Caprice Young, Ed.D.[2]	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

[1] Effective July 1, 2018
[2] Resigned June 30, 2018

See accompanying note to supplementary information.

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	249.53	251.40
Sixth	174.26	178.90
Seventh and eighth	147.64	152.56
Ninth through twelfth	127.23	131.14
Total Regular ADA	698.66	714.00
Classroom based ADA		
Transitional kindergarten through third	249.53	251.40
Sixth	172.49	177.45
Seventh and eighth	147.64	152.56
Ninth through twelfth	126.83	130.81
Total Classroom based ADA	696.49	712.22

MSA Santa Ana did operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days: Traditional Calendar	Number of Days: Multitrack Calendar	Status
Kindergarten	36,000	54,245	181	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		53,500	181	N/A	Complied
Grade 2		53,500	181	N/A	Complied
Grade 3		53,500	181	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,640	181	N/A	Complied
Grade 5		54,640	181	N/A	Complied
Grades 6 - 8	54,000				
Grade 6		61,392	181	N/A	Complied
Grade 7		61,392	181	N/A	Complied
Grade 8		61,392	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		64,825	181	N/A	Complied
Grade 10		64,825	181	N/A	Complied
Grade 11		64,825	181	N/A	Complied
Grade 12		64,825	181	N/A	Complied

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

NET ASSETS	
Net Assets, June 30, 2018, Unaudited Actuals	$ 7,502,296
(Decrease) in:	
Intra-company receivable	(34,430)
(Increase) Decrease in:	
Accounts payable and accruals	646,523
Intra-company payable	2,181,887
Current loan	(2,793,980)
Net Assets, June 30, 2018, Audited Financial Statement	$ 7,502,296

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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 Santa Ana. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

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

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

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.

INDEPENDENT AUDITOR'S REPORTS

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 Ana
(A California Nonprofit Public Benefit Corporation)
Santa Ana, 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 Ana (MSA Santa Ana) which comprise the statement of financial position as of June 30, 2018, 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 ____________________, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MSA Santa Ana'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 Ana's internal control. Accordingly, we do not express an opinion on the effectiveness of MSA Santa Ana'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 Ana'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 Santa Ana'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*.

We noted certain matters that we reported to management of MSA Santa Ana in a separate letter dated ____________________, 2018.

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 Ana'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 Ana's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
____________________, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy's Santa Ana (MSA Santa Ana) compliance with the types of compliance requirements as identified in the *2017-2018 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 Ana's State government programs as noted below for the year ended June 30, 2018.

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 Ana'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 *2017-2018 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 Ana'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 Ana's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA Santa Ana 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, 2018

DRAFT 11/15/2018

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No, see below
After/Before 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
CHARTER SCHOOLS	
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 Ana did not receive funding related to the California Clean Energy Jobs Act; therefore, we did not perform any related procedures.

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

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

ADA was below the threshold required for testing; 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 Ana did not receive funding for the Charter School Facility Grant Program; therefore, we did not perform any related procedures.

Rancho Cucamonga, California
______________________, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS	
Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No
STATE AWARDS	
Type of auditor's report issued on compliance for programs:	Unmodified

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year.

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

In planning and performing our audit of the financial statements of Magnolia Science Academy Santa Ana (MSA Santa Ana), for the year ended June 30, 2018, 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 Santa Ana for the year ended June 30, 2018.

Rancho Cucamonga, California
____________, 2018

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY San Diego
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy San Diego (MSA San Diego) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, 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 an opinion 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 *2017-2018 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 San Diego'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 San Diego'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MSA San Diego, as of June 30, 2018 and 2017, and the changes in its net assets, and its cash flows thereof for the year 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 _________, 2018, on our consideration of MSA San Diego's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 San Diego'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 San Diego's internal control over financial reporting and compliance.

Rancho Cucamonga, California
____________________, 2018

FINANCIAL STATEMENTS

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY San Diego
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2017)

JUNE 30, 2018

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 657,784	$ 620,061
Restricted assets		
Cash held for restricted purposes	106,607	106,607
Accounts receivable	271,945	250,662
Intra-company receivable	-	11,025
Prepaid expenses and other current assets	128,519	246,037
Total Current Assets	1,164,855	1,234,392
Non-Current Assets		
Investments in LLC's	198,191	-
Security deposits	-	25,000
Fixed assets	667,450	649,284
Less: accumulated depreciation	(372,561)	(341,993)
Total Non-Current Assets	493,080	332,291
Total Assets	$ 1,657,935	$ 1,566,683
LIABILITIES		
Current Liabilities:		
Accounts payable and accruals	$ 137,405	$ 136,429
Intra-company payable	215,638	29,762
Total Current Liabilities	353,043	166,191
Long-Term Obligations:		
Non-current portion of long-term obligations	151,806	151,806
Total Liabilities	504,849	317,997
NET ASSETS		
Unrestricted	803,763	1,063,588
Designated	349,323	185,098
Total Net Assets	1,153,086	1,248,686
Total Liabilities and Net Assets	$ 1,657,935	$ 1,566,683

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

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY San Diego
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
Unrestricted revenues:		
State apportionments	$ 2,947,210	$ 3,033,354
Federal revenue	117,595	107,314
Other State revenue	788,908	594,225
Local revenue	99,365	111,765
Total Revenues	3,953,078	3,846,658
EXPENSES		
Program services:		
Salaries and benefits	$ 1,901,413	$ 1,924,008
Student services	181,840	173,608
Materials and supplies	8,906	18,074
Student nutrition	31,385	35,299
Other expenses	50,080	61,812
Subtotal	2,173,624	2,212,801
Management and general:		
Salaries and benefits	472,297	481,002
Depreciation	30,567	39,157
Management fee	324,470	377,766
Occupancy	698,460	330,000
Operating expenses	349,260	331,827
Subtotal	1,875,054	1,559,752
Total Expenses	4,048,678	3,772,553
CHANGE IN UNRESTRICTED NET ASSETS	(95,600)	74,105
NET ASSETS, BEGINNING OF YEAR	1,248,686	1,174,581
NET ASSETS, END OF YEAR	$ 1,153,086	$ 1,248,686

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

DRAFT 11/15/2018

MAGNOLIA SCIENCE ACADEMY San Diego
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2017)

FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in unrestricted net assets	$ (95,600)	$ 74,105
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	30,567	39,157
Changes in operating assets and liabilities:		
Decrease (Increase) in assets		
Accounts receivable	(21,283)	57,459
Intra-company receivable	11,025	(961)
Security deposits	25,000	(25,000)
Prepaid expenses and other current assets	117,518	(237,516)
Increase (Decrease) in liabilities		
Accounts payable and accruals	977	(54,162)
Intra-company payable	185,876	10,320
Deferred revenue	-	-
Net Cash Provided (Used) by Operating Activities	254,080	(136,598)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital contribution in LLC's	(198,191)	-
Capital expenditures	(18,166)	(5,116)
Net Cash Used by Investing Activities	(216,357)	(5,116)
NET CHANGE IN CASH	37,723	(141,714)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	620,061	761,775
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 657,784	$ 620,061
Supplemental cash flow disclosure:		
Cash paid during the period for interest	$ -	$ -

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

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Science Academy San Diego

Charter school number authorized by the State: 0698

Magnolia Science Academy San Diego, formerly Momentum Middle Charter School (MSA San Diego) is a charter school located in San Diego, California that provides educational activities for students in grades sixth through ninth serving approximately 397 students. The School offers a rich academic program with elective classes, tutoring, and after school clubs. It was the most improved middle school according to all API scores in the year 2007. The School was created under the approval of the San Diego Unified School District (SDUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

Magnolia Educational and Research Foundation

MSA San Diego is an integral part of Magnolia Educational and Research Foundation (Foundation), which also serves as MSA San Diego's Charter School Management Organization (CMO) that manages MSA San Diego's nonacademic operation such as financial, general administration, and human resource management. MSA San Diego'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 San Diego 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 San Diego. Additional information is presented in Note 16 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Financial Statement Presentation

MSA San Diego 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 San Diego had no temporarily or permanently restricted net assets as of June 30, 2018 and 2017, respectively. In addition, MSA San Diego 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. MSA San Diego 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 2017-2018, MSA San Diego did not receive any donor-restricted contributions.

Income Taxes

MSA San Diego 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 2014 and forward may be audited by regulatory agencies; however, MSA San Diego is not aware of any such actions at this time.

MSA San Diego 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 San Diego considers all highly liquid investments available for current use with an initial maturity of three months or less to be 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, 2018 and 2017, respectively, management has determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Fixed Assets

All assets with a useful life of greater than one year and costing more than $5,000 will be capitalized and (except for land) will be recorded in the depreciation records. Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Bulk computer, software, and other technology purchases with an aggregate value of $25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed $50,000. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities. Depreciation expense for the year ended June 30, 2018 and 2017, was $30,567 and $39,157, respectively.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to MSA San Diego'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 San Diego is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

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

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

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. MSA San Diego 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 San Diego does not have permanently restricted net assets.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. The grant portion of MSA San Diego Facilities Program is classified as designated assets until the fund is used for the purchase of the land and the construction of the facility. As of June 30, 2018 and 2017, MSA San Diego had a designated balance of $349,323 and $185,098, respectively, for California Clean Energy Jobs Act and Proposition 1D Funds for the 2018 and 2017 fiscal years.

Intra-company Receivable/Payable

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

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	$ 595,726	$ 664,976	$ 605,585	$ 642,439
San Diego County Pooled Investment Funds	62,058	N/A	14,476	N/A
Total	$ 657,784	$ 664,976	$ 620,061	$ 642,439

Cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA San Diego maintains its cash in bank deposit accounts that at times may exceed insured limits. MSA San Diego has not experienced any losses in such accounts. At June 30, 2018 and 2017, MSA San Diego had $654,179 and $625,889 in excess of insured limits.

NOTE 4 - RESTRICTED CASH

Restricted cash arises from conditions required by the various financing arrangements. Financial statement classification is based on whether the restricted cash is held to satisfy current or long-term obligations. Restricted cash at June 30, 2018 and 2017, was comprised of the following:

	2018	2017
Current restricted cash for the Charter School Facilities Program	$ 106,607	$ 106,607

Restricted cash balances held in banks are insured up to $250,000 by the Federal Deposit Insurance Corporation (FDIC). MSA San Diego maintains its restricted cash in bank deposit accounts that at times may exceed insured limits. MSA San Diego has not experienced any losses in such accounts. At June 30, 2018 and 2017, MSA San Diego had $0 and $0, respectively, in excess of insured limits.

NOTE 5 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2018 and 2017, are classified in the accompanying financial statements as follows:

	June 30, 2018		June 30, 2017	
Investment Type	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
San Diego County Pooled Investment Funds	$ 62,058	$ 61,400	$ 14,476	$ 14,427

All assets have been valued using a market approach, with quoted market prices.

Interest Rate Risk

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

Weighted Average Maturity

MSA San Diego monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

NOTE 6 - MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

Uncategorized - Investments in the San Diego County Treasury Investment Pools are not measured using the input levels above because MSA San Diego's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

MSA San Diego's fair value measurements are as follows at June 30, 2018:

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
San Diego County Treasury Investment Pool	Uncategorized	$ 61,400	370

MSA San Diego's fair value measurements are as follows at June 30, 2017:

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
San Diego County Treasury Investment Pool	Uncategorized	$ 14,427	417

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
State principal apportionment	$ 158,421	$ 200,163
Federal receivable	64,072	5,925
State receivable	39,073	8,115
Lottery	10,379	36,459
Total Accounts Receivable	$ 271,945	$ 250,662

NOTE 8 - INTRA–COMPANY RECEIVABLE

The intra-company receivable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA San Diego and reimbursement for those resources from MSA San Diego to the Foundation, and cash transfers for cash flow purposes. MSA San Diego 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, 2018 and 2017, MSA San Diego had an intra-company receivable balance of $0 and $11,025, respectively, from the Foundation.

NOTE 9 - PREPAID EXPENSES AND SECURITY DEPOSITS

Prepaid expenses at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Prepaid rent, security deposits, insurance, and miscellaneous vendors	$ 128,519	$ 246,037

NOTE 10 - FIXED ASSETS

Fixed assets at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Computer and equipment	$ 410,868	$ 402,163
Work in progress	256,582	247,121
Subtotal	667,450	649,284
Less: accumulated depreciation	(372,561)	(341,993)
Total Fixed Assets	$ 294,889	$ 307,291

During the year ended June 30, 2018 and 2017, $30,567 and $39,157, respectively, was charged to depreciation expense.

NOTE 11 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	2018	2017
Salaries and benefits	$ 45,626	$ 7,836
Vendor payables	87,373	115,625
Due to other agencies	4,406	12,968
Total Accounts Payable	$ 137,405	$ 136,429

NOTE 12 - INTRA–COMPANY PAYABLE

The intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to MSA San Diego and reimbursement for those resources from MSA San Diego to the Foundation, and cash transfers for cash flow purposes. MSA San Diego 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, 2018 and 2017, MSA San Diego had an intra-company payable balance of $215,638 and $29,762, respectively, from the Foundation.

NOTE 13 - LOANS PAYABLE

Charter School Facilities Program

MSA San Diego has been approved by the State of California's Charter School Facilities Program for $3,036,122 for constructing a new facility which will cost the same amount. The State will fund 50 percent of the total amount of $3,036,122; the State will fund 50 percent of the total project cost through a loan in the amount of $1,518,061 and the other 50 percent through a grant in the amount of $1,518,061. The loan has an annual interest rate of 2.00 percent and it matures 30 years after the completion of the project, which is estimated to be in the middle of calendar year 2016. The repayment schedule will be determined after completion of the project. The State Controller's Office will deduct the loan payments from MSA San Diego's State School Fund Apportionments. The outstanding loan balance as of June 30, 2018, was $151,806.

NOTE 14 - FACILITIES USE AGREEMENT

Magnolia Science Academy San Diego renewed a Facilities Use Agreement with SDUSD for the sole purpose of operating MSA San Diego education programs and related Charter School activities. The terms of this agreement are renewed annually and include rental fees shall that shall be paid on the first of every month. The Pro-Rata Share of Facilities Cost for the year ended June 30, 2018, was $698,460.

NOTE 15 - RELATED PARTY TRANSACTIONS

MSA San Diego is part of the Foundation. MSA San Diego 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, 2018 and 2017, is $324,470 and $377,766, respectively.

NOTE 16 - EMPLOYEE RETIREMENT SYSTEMS

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if MSA San Diego chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. MSA San Diego 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 San Diego 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, 2017, total actuarial value of assets are $180 billion, the actuarial obligation is $287 billion, contributions from all employers totaled $4.0 billion, and the plan is 62.6 percent funded.

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, 2017, 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.

MSA San Diego 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, 2018, are summarized as follows:

	STRP Defined Benefit Program	
Hire date	On or before	On or after
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	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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, 2018, are presented above and MSA San Diego's total contributions were $201,763.

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, 2016, the Schools Pool total plan assets are $55.8 billion, the total accrued liability is $77.5 billion, contributions from all employers totaled $1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. 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.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before	On or after
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%	6.50%
Required employer contribution rate	15.531%	15.531%

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 San Diego 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, 2018, are presented above and the total Charter School contributions were $28,775.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of $102,769 (9.328 percent of 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 17 - CONTINGENCIES

Grants

MSA San Diego 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 San Diego is not currently a party to any legal proceedings.

NOTE 18 - PARTICIPATION IN JOINT POWERS AUTHORITY

MSA San Diego are a participant in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between MSA San Diego and CharterSAFE is such that CharterSAFE is not considered a component unit of MSA San Diego 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 MSA San Diego are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2018 and 2017, MSA San Diego made payments of $43,695 and $18,575, respectively, to CharterSAFE for services received. At June 30, 2018 and 2017, respectively, MSA San Diego had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 19 - SUBSEQUENT EVENTS

MSA San Diego's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through __________, 2018, 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.

SUPPLEMENTARY INFORMATION

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MAGNOLIA SCIENCE ACADEMY San Diego
(A California Nonprofit Public Benefit Corporation)

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2018

ORGANIZATION

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

BOARD OF DIRECTORS

MEMBER	OFFICE	TERM EXPIRES
Mr. Saken Sherkhanov	President	December 11, 2018
Rabbi Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shahrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Director	October 11, 2022

ADMINISTRATION

Alfredo Rubalcava[1]	Chief Executive Officer, Superintendent
Caprice Young, Ed.D.[2]	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

[1] Effective July 1, 2018
[2] Reassigned June 30, 2018

See accompanying note to supplementary information.

MAGNOLIA SCIENCE ACADEMY San Diego
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Revised Second Period Report	Annual Report
Regular ADA		
Sixth	121.13	120.08
Seventh and eighth	266.85	264.98
Total Regular ADA	387.98	385.06
Classroom based ADA		
Sixth	121.13	120.08
Seventh and eighth	265.83	262.18
Total Classroom based ADA	386.96	382.26

MSA San Diego did operate an independent study non-classroom based instruction program.

See accompanying note to supplementary information.

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MAGNOLIA SCIENCE ACADEMY San Diego
(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Grades 6 - 8	54,000				
Grade 6		61,392	176	N/A	Complied
Grade 7		61,392	176	N/A	Complied
Grade 8		61,392	176	N/A	Complied

See accompanying note to supplementary information.

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MAGNOLIA SCIENCE ACADEMY San Diego
(A California Nonprofit Public Benefit Corporation)

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

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

NET ASSETS	
Balance, June 30, 2018, Unaudited Actuals	$ 1,165,312
Increase (decrease) in:	
Prepaid expenses and other current assets	(105,636)
Intra-company payable	215,638
(Decrease) in:	
Accounts payable and accruals	(12,228)
Current loan	(110,000)
Balance, June 30, 2018,	
Audited Financial Statement	$ 1,153,086

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018

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 San Diego. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

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

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

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.

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy San Diego (MSA San Diego) which comprise the statement of financial position as of June 30, 2018, 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 ____________________, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of MSA San Diego'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 San Diego's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of MSA San Diego in a separate letter dated ____________________, 2018.

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 San Diego'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 San Diego's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rancho Cucamonga, California
____________________, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited Magnolia Science Academy's (MSA San Diego) compliance with the types of compliance requirements as identified in the *2017-2018 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 San Diego's State government programs as noted below for the year ended June 30, 2018.

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 San Diego'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 *2017-2018 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 San Diego'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 San Diego's compliance with those requirements.

Unmodified Opinion

In our opinion, MSA San Diego 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, 2018.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
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
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before 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
CHARTER SCHOOLS	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

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

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

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

ADA was below the threshold required for testing; therefore, we did not perform any procedures related to Non Classroom-Based Instruction/Independent Study for Charter Schools or Determination of Funding for Non Classroom-Based Instruction.

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

Rancho Cucamonga, California
______________________, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA SCIENCE ACADEMY San Diego
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

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

STATE AWARDS

Type of auditor's report issued on compliance for programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

None reported.

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MAGNOLIA SCIENCE ACADEMY San Diego
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings reported in the prior year.

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

In planning and performing our audit of the financial statements of Magnolia Science Academy San Diego (MSA San Diego), for the year ended June 30, 2018, 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 San Diego for the year ended June 30, 2018.

Rancho Cucamonga, California
__________, 2018