



**MAGNOLIA SCIENCE ACADEMY 4**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2018**

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

**TABLE OF CONTENTS**  
**JUNE 30, 2018**

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<b><i>INDEPENDENT AUDITOR'S REPORT</i></b>	1
<b><i>FINANCIAL STATEMENTS</i></b>	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7
<b><i>SUPPLEMENTARY INFORMATION</i></b>	
Local Education Agency Organization Structure	20
Schedule of Average Daily Attendance	21
Schedule of Instructional Time	22
Reconciliation of Annual Financial Report With Audited Financial Statements	23
Note to Supplementary Information	24
<b><i>INDEPENDENT AUDITOR'S REPORTS</i></b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	26
Report on State Compliance	28
<b><i>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</i></b>	
Summary of Auditor's Results	32
Financial Statement Findings	33
State Awards Findings and Questioned Costs	34
Summary Schedule of Prior Audit Findings	35
Management Letter	36



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

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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 December 13, 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.

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

Rancho Cucamonga, California  
December 13, 2018

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***FINANCIAL STATEMENTS***

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**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**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
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	<u>377</u>	<u>8,944</u>
Total Current Assets	<u>1,494,742</u>	<u>1,215,177</u>
Non-Current Assets:		
Fixed assets	178,296	169,911
Less: accumulated depreciation	<u>(131,837)</u>	<u>(116,181)</u>
Total Non-Current Assets	<u>46,459</u>	<u>53,730</u>
Total Assets	<u>\$ 1,541,201</u>	<u>\$ 1,268,907</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accruals	\$ 70,621	\$ 210,556
Intra-company payable	<u>66</u>	<u>28,192</u>
Total Current Liabilities	<u>70,687</u>	<u>238,748</u>
<b>NET ASSETS</b>		
Unrestricted	1,205,407	906,855
Designated	<u>265,107</u>	<u>123,304</u>
Total Net Assets	<u>1,470,514</u>	<u>1,030,159</u>
Total Liabilities and Net Assets	<u>\$ 1,541,201</u>	<u>\$ 1,268,907</u>

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
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>Unrestricted revenues:</b>		
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
<b>EXPENSES</b>		
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
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	440,355	367,669
<b>NET ASSETS, BEGINNING OF YEAR</b>	1,030,159	662,490
<b>NET ASSETS, END OF YEAR</b>	\$ 1,470,514	\$ 1,030,159

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

**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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Change in unrestricted net assets</b>	\$ 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
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(8,385)	(5,241)
<b>NET CHANGE IN CASH</b>	560,420	281,847
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	776,350	494,503
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 1,336,770	\$ 776,350
<b>Supplemental cash flow disclosure:</b>		
Cash paid during the period for interest	\$ -	\$ -

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



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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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***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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**Accounting Method - Basis of Accounting**

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to the situation when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. MSA 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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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***NOTE 4 - ACCOUNTS RECEIVABLE***

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

	<u>2018</u>	<u>2017</u>
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	<u>\$ 156,659</u>	<u>\$ 175,940</u>

***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:

	<u>2018</u>	<u>2017</u>
Prepaid rent, security deposit, insurance, and miscellaneous vendors	\$ 377	\$ 8,944

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**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	<u>\$ 46,459</u>	<u>\$ 53,730</u>

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	<u>\$ 70,621</u>	<u>\$ 210,556</u>

**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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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***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 \$131,925 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.



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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

**Benefits Provided**

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

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**Contributions**

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018 and 2017, are presented above and MSA 4's total contributions were \$90,278 and \$106,566, respectively.

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

**Plan Description**

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 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 publicly available reports that can be found on the CalPERS website under Forms and Publications at:  
<https://www.calpers.ca.gov/page/forms-publications>.

**Benefits Provided**

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

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

	<u>School Employer Pool (CalPERS)</u>	
	On or before	On or after
Hire date	2% at 55	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	55	62
Retirement age	1.1% - 2.5%	1.0% - 2.5%
Monthly benefits as a percentage of eligible compensation	7.00%	6.50%
Required employee contribution rate	15.531%	15.531%
Required employer contribution rate		

**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 and 2017, are presented above and the total Charter School contributions were \$11,951 and \$6,308, respectively.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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**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 December 13, 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.

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***SUPPLEMENTARY INFORMATION***

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

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE**  
**JUNE 30, 2018**

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**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**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
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 <sup>1</sup>	Chief Executive Officer, Superintendent
Caprice Young, Ed.D. <sup>2</sup>	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

<sup>1</sup> Effective July 1, 2018

<sup>2</sup> 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**

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	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	<u>167.87</u>	<u>169.65</u>
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	<u>167.87</u>	<u>169.65</u>

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

See accompanying note to supplementary information.

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

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

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Grade Level	1986-87	2017-18	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
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**

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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	<u>(24,292)</u>
Net Assets, June 30, 2018,	
Audited Financial Statement	<u><u>\$ 1,470,514</u></u>

See accompanying note to supplementary information.

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

**NOTE TO SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2018**

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

**Local Education Agency Organization Structure**

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

**Schedule of Average Daily Attendance**

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

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***INDEPENDENT AUDITOR'S REPORTS***

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

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

Governing Board  
Magnolia Science Academy 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 December 13, 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*.

## **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.

Varrinck, Tui, Day & Co., LLP

Rancho Cucamonga, California  
December 13, 2018



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

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## **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:

	<u>Procedures Performed</u>
<b>LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS</b>	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratios of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
<b>SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS</b>	
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
<b>CHARTER SCHOOLS</b>	
Attendance	Yes
Mode of Instruction	Yes
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	Yes
Charter School Facility Grant Program	No, see below

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

MSA 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.

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

Rancho Cucamonga, California  
December 13, 2018



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

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

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

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**FINANCIAL STATEMENTS**

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

**STATE AWARDS**

Type of auditor's report issued on compliance for programs:	<u>Unmodified</u>
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**MAGNOLIA SCIENCE ACADEMY 4**  
**(A California Nonprofit Public Benefit Corporation)**

**FINANCIAL STATEMENT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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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**

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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**

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There were no audit findings reported in the prior year.



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

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Governing Board  
Magnolia Science Academy 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.

*Vavrinek, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
December 13, 2018