



**MAGNOLIA SCIENCE ACADEMY
SANTA ANA**

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

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

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

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Magnolia Science Academy 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 December 13, 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.

Vannink, Tui, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2018

FINANCIAL STATEMENTS

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	<u>1,761,641</u>	<u>1,768,679</u>
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	<u>21,626,870</u>	<u>17,789,419</u>
Total Assets	<u>\$ 23,388,511</u>	<u>\$ 19,558,098</u>
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	901,166	244,116
Total Current Liabilities	<u>4,034,522</u>	<u>3,193,212</u>
Long-Term Obligations:		
Non-current portion of long-term obligations	<u>11,851,696</u>	<u>8,487,874</u>
Total Liabilities	<u>15,886,218</u>	<u>11,681,086</u>
NET ASSETS		
Unrestricted	7,487,577	7,743,647
Designated	14,716	133,365
Total Net Assets	<u>7,502,293</u>	<u>7,877,012</u>
Total Liabilities and Net Assets	<u>\$ 23,388,511</u>	<u>\$ 19,558,098</u>

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

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
Debt service	446,968	-
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.

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

	<u>2018</u>	<u>2017</u>
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	434,567
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(869,683)	65,707
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	<u>(523,442)</u>	<u>1,959,227</u>
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	<u>(4,269,492)</u>	<u>(623,958)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan Proceeds	<u>4,020,872</u>	<u>(24,996)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	(772,062)	1,310,273
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>1,480,920</u>	<u>170,647</u>
	<u>\$ 708,858</u>	<u>\$ 1,480,920</u>
Supplemental cash flow disclosure:		
Cash paid during the period for interest	<u>\$ 446,968</u>	<u>\$ -</u>

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

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

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

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 18 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.

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

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

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.

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

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

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.

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

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

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.

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

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

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	<u>\$ 708,858</u>	<u>\$ 455,326</u>	<u>\$ 1,480,920</u>	<u>\$ 749,046</u>

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.

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

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

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:

Investment Type	June 30, 2018		June 30, 2017	
	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.

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

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

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

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

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

MSA Santa Ana's fair value measurements are as follows at June 30, 2017:

<u>Investment Type</u>	<u>Level</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Days</u>
Orange County Pooled Investment Funds	Uncategorized	<u>\$ 775,242</u>	325

NOTE 7 - ACCOUNTS RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
State principal apportionment	\$ 755,157	\$ -
Federal receivable	141,485	32,415
State receivable	57,467	15,051
Lottery	<u>63,378</u>	<u>100,338</u>
Total Accounts Receivable	<u>\$ 1,017,487</u>	<u>\$ 147,804</u>

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:

	<u>2018</u>	<u>2017</u>
Prepaid rent, security deposits, insurance, and miscellaneous vendors	<u>\$ 866</u>	<u>\$ 28,949</u>

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

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

NOTE 10 - FIXED ASSETS

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

	<u>2018</u>	<u>2017</u>
Construction in progress	\$ -	\$ 170,543
Building and improvements	22,157,822	17,892,822
Computer and equipment	269,645	269,645
Work in progress	<u>195,071</u>	<u>-</u>
Subtotal	22,622,538	18,333,010
Less: accumulated depreciation	<u>(1,091,112)</u>	<u>(563,281)</u>
Total Fixed Assets	<u>\$ 21,531,426</u>	<u>\$ 17,769,729</u>

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:

	<u>2018</u>	<u>2017</u>
Salaries and benefits	\$ 138,917	\$ 100,307
Vendor payables	812,552	473,859
Due to other agencies	<u>114,240</u>	<u>114,240</u>
Total Accounts Payable	<u>\$ 951,469</u>	<u>\$ 688,406</u>

NOTE 12 - INTRA-COMPANY PAYABLE

The intra-company payable results from a net cumulative difference between resources provided by Magnolia Educational and Research Foundation (Foundation) to 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.

MAGNOLIA SCIENCE ACADEMY SANTA ANA
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

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 \$8,487,862.

Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2019	\$ 392,166
2020	392,165
2021	392,166
2022	392,166
2023	392,165
2024-2028	1,960,829
2029-2033	1,960,828
2034-2038	1,960,827
2039-2043	1,960,829
2044-2047	1,372,581
Less: Amount Representing Interest	(2,688,860)
Total	<u>\$ 8,487,862</u>

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

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

NOTE 14 - NOTE PAYABLE

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.

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	<u>\$ 4,265,000</u>

NOTE 15 - 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 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 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.

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

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

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 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 Santa Ana contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

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

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

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

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

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 Santa Ana's total contributions were \$404,295 and \$300,282, 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>.

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

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

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)	
	On or before	On or after
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 and 2017, are presented above and the total Charter School contributions were \$73,135 and \$36,483, 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 \$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.

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

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

NOTE 17 - 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 18 - 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 19 - 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 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.

SUPPLEMENTARY INFORMATION

**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

<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 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 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	<u>698.66</u>	<u>714.00</u>
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	<u>696.49</u>	<u>712.22</u>

MSA Santa Ana operated a short-term independent study program.

See accompanying note to supplementary information.

**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		Status
			Traditional Calendar	Multitrack Calendar	
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	<u>(2,793,980)</u>
Net Assets, June 30, 2018, Audited Financial Statement	<u>\$ 7,502,296</u>

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



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 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 December 13, 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*.

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.

Vannink, Tai, 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 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.

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:

	<u>Procedures Performed</u>
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.

Vannink, Tai, Day & Co., LLP

Rancho Cucamonga, California
December 13, 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:	<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 SANTA ANA
(A California Nonprofit Public Benefit Corporation)**

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

None reported.

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

**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.



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

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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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 13, 2018