



Annual Financial Report
June 30, 2019

Magnolia Science Academy Santa Ana
(No. 1686)



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

**TABLE OF CONTENTS
JUNE 30, 2019**

<i>INDEPENDENT AUDITOR'S REPORT</i>	1
<i>FINANCIAL STATEMENTS</i>	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows	6
Statement of Functional Expenses	7
Notes to Financial Statements	8
<i>SUPPLEMENTARY INFORMATION</i>	
Local Education Agency Organization Structure	27
Schedule of Average Daily Attendance	28
Schedule of Instructional Time	29
Reconciliation of Annual Financial Report With Audited Financial Statements	30
Note to Supplementary Information	31
<i>INDEPENDENT AUDITOR'S REPORTS</i>	
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>	33
Report on State Compliance	35
<i>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</i>	
Summary of Auditor's Results	39
Financial Statement Findings	40
State Awards Findings and Questioned Costs	42
Summary Schedule of Prior Audit Findings	43



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, 2019 and 2018, and the related statements of activities, cash flows and functional expenses 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 *2018-2019 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, 2019 and 2018, and the changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information 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 15, 2019, 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.

Handwritten signature in cursive script that reads "Eide Sully LLP".

Rancho Cucamonga, California
December 15, 2019



FINANCIAL STATEMENTS

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

STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 882,408	\$ 708,858
Accounts receivable	217,899	1,017,487
Intercompany receivable	618,358	34,430
Prepaid expenses and other current assets	635	866
Total Current Assets	1,719,300	1,761,641
Non-Current Assets		
Investments in LLC	75,554	75,554
Security deposit	-	19,890
Property and equipment	22,622,538	22,622,538
Less: accumulated depreciation	(1,651,959)	(1,091,112)
Total Non-Current Assets	21,046,133	21,626,870
Total Assets	\$ 22,765,433	\$ 23,388,511
Liabilities		
Current Liabilities		
Accounts payable	\$ 413,797	\$ 951,469
Deferred revenue	664	-
Intercompany payable	2,375,621	2,181,887
Current portion of note payable	94,583	82,500
Current portion of long-term obligation	228,013	223,520
Total Current Liabilities	3,112,678	3,439,376
Long-Term Obligations		
Non-current portion of note payable	4,086,805	4,182,500
Non-current portion of long-term obligation	8,037,440	8,264,342
Total Liabilities	15,236,923	15,886,218
Net Assets		
Without donor restrictions		
Designated	272,871	14,716
Unrestricted	7,255,639	7,487,577
Total Net Assets	7,528,510	7,502,293
Total Liabilities and Net Assets	\$ 22,765,433	\$ 23,388,511

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, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 6,767,105	\$ 6,682,934
Federal revenue	415,188	629,550
State revenue	981,462	841,029
Local revenue	74,339	173,872
Total Revenues	<u>8,238,094</u>	<u>8,327,385</u>
Expenses		
Program services	5,241,451	4,984,004
Management and general	2,970,426	3,718,100
Total Expenses	<u>8,211,877</u>	<u>8,702,104</u>
Change in Net Assets	26,217	(374,719)
Net Assets, Beginning of Year	<u>7,502,293</u>	<u>7,877,012</u>
Net Assets, End of Year	<u>\$ 7,528,510</u>	<u>\$ 7,502,293</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 CASH FLOWS
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 26,217	\$ (374,719)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	560,847	527,830
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	799,588	(869,683)
(Increase) in intercompany receivable	(583,928)	(19,014)
Decrease in prepaid expenses	231	28,083
(Decrease) in security deposits	-	(200)
Increase in accounts payable	(537,672)	263,063
(Decrease) in intercompany payable	193,734	(78,803)
Increase in deferred revenue	664	-
Net Cash Provided (Used) by Operating Activities	<u>459,681</u>	<u>(523,443)</u>
Cash Flows From Investing Activities		
Capital contribution in LLC's	-	(75,554)
Restricted cash used for construction	-	95,590
Capital expenditures	-	(4,289,527)
Net Cash Used by Investing Activities	<u>-</u>	<u>(4,269,491)</u>
Cash Flows From Financing Activities		
Loan proceeds	-	4,264,988
Loan payment	(286,131)	(244,116)
Net Cash Provided (Used) by Financing Activities	<u>(286,131)</u>	<u>4,020,872</u>
Net Increase (Decrease) in Cash	173,550	(772,062)
Cash, Beginning of Year	708,858	1,480,920
Cash, End of Year	<u>\$ 882,408</u>	<u>\$ 708,858</u>
Supplemental cash flow disclosure		
Cash paid during the period for interest	<u>\$ 593,520</u>	<u>\$ 446,990</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 FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 2,843,530	\$ 791,138	\$ 3,634,668
Employee benefits	539,291	-	539,291
Payroll taxes	589,916	206,894	796,810
Total Personnel	<u>3,972,737</u>	<u>998,032</u>	<u>4,970,769</u>
Operating			
Fees for services	-	152,402	152,402
Advertising and promotions	-	20,111	20,111
Office expenses	42,272	7,429	49,701
Information technology	11,452	-	11,452
Occupancy	-	160,658	160,658
Travel	-	1,079	1,079
Conferences and meeting	-	315	315
Interest	-	593,520	593,520
Depreciation	560,847	-	560,847
Insurance	-	29,826	29,826
Other expenses	79,803	9,150	88,953
Capital outlay	123,168	-	123,168
Special Education Local Plan Area fees	225,199	-	225,199
Instructional materials	87,941	-	87,941
Nutrition	601	-	601
District oversight fees	137,431	-	137,431
Management fees	-	997,904	997,904
Total Operating	<u>1,268,714</u>	<u>1,972,394</u>	<u>3,241,108</u>
Total Functional Expenses	<u>\$ 5,241,451</u>	<u>\$ 2,970,426</u>	<u>\$ 8,211,877</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, 2019**

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

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 674 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.

MPM Santa Ana, LLC

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized 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 (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The Charter School considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

Intercompany Receivable/Payable

Intercompany receivable/payable results from a net cumulative difference between resources provided by the Central Office account to each charter school and reimbursement for those resources from each charter school to the Central Office account. Operating transfers include certain costs of shared liabilities and shared assets between the Charter School.

Prepaid Expenses/Security Deposit

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period. Security deposits represent amounts paid per the rental agreement of facilities that will not be returned within one year and are recorded as non-current assets.

Fixed Assets

Fixed assets additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Charter School reviews the carrying values of fixed assets for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Charter School reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the Charter School has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Charter School are derived principally from state and federal sources. The Charter School receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. The Charter School receives federal grants, which are paid through the California Department of Education or other state agencies. Revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

Income Taxes

The Charter School is a California nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. 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 2015 and forward may be audited by regulatory agencies; however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of 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, and those differences could be material.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the Charter School for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2019, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The Charter School has adopted this standard as management believes the standard improves the usefulness and understandability of the Charter School's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, the Charter School adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

The effect on the Charter School's statement of activities as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 7,877,012	\$ (7,877,012)	\$ -
Net assets without donor restrictions		7,877,012	7,877,012
Net assets, end of the year			
Unrestricted	\$ 7,502,293	\$ (7,502,293)	\$ -
Net assets without donor restrictions	-	7,502,293	7,502,293

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2019 and 2018, consisted of the following:

	2019		2018	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 290,929	\$ 324,201	\$ 266,617	\$ 1,262,083
Cash with Orange County				
Investment Pool	591,479	N/A	442,241	N/A
	<u>\$ 882,408</u>	<u>\$ 324,201</u>	<u>\$ 708,858</u>	<u>\$ 1,262,083</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, 2019 and 2018, MSA Santa Ana had a balance of \$319,678 and \$419,062, 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, 2019

NOTE 3 – LIQUIDITY AND AVAILABILITY

Financial assets for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprises the following:

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 882,408	\$ 708,858
Accounts receivable	217,899	1,017,487
Prepaid expenses and other assets	635	866
Intercompany receivables	618,358	34,430
Financial Assets, at year end	<u>1,719,300</u>	<u>1,761,641</u>
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	<u>(272,871)</u>	<u>(14,716)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 1,446,429</u></u>	<u><u>\$ 1,746,925</u></u>

NOTE 4 - INVESTMENTS

Summary of Investments

Investments as of June 30, 2019 and 2018, are classified in the accompanying financial statements as follows:

	<u>2019</u>	<u>2018</u>
<u>Investment Type</u>	<u>Reported</u>	<u>Reported</u>
	<u>Amount</u>	<u>Amount</u>
<u>Orange County Pooled Investment Funds</u>	<u>\$ 591,479</u>	<u>\$ 266,617</u>

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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Weighted Average Maturity

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

Investment Type	2019		2018	
	Reported Amount	Weighted Average Days to Maturity	Reported Amount	Weighted Average Days to Maturity
Orange County Pooled Investment Funds	\$ 591,479	310	\$ 266,617	302

NOTE 5 - 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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019 and 2018:

Investment Type	2019		2018	
	Reported Amount	Uncatergorized	Reported Amount	Uncatergorized
Orange County Pooled Investment Funds	\$ 591,479	\$ 591,479	\$ 266,617	\$ 266,617

NOTE 6 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	\$ -	\$ 755,157
Federal receivables	105,025	141,485
State receivables	64,093	57,467
Lottery	-	63,378
Local receivables	48,781	-
	<u>\$ 217,899</u>	<u>\$ 1,017,487</u>

NOTE 7 - INTERCOMPANY RECEIVABLE

The June 30, 2019, intercompany 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, 2019 and 2018, MSA Santa Ana had an intercompany receivable balance of \$618,358 and \$34,430, respectively, from the Foundation.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	\$ 635	\$ 866

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Building improvements	\$ 22,157,822	\$ 22,157,822
Computers and equipment	269,645	269,645
Work in progress	195,071	195,071
Subtotal	22,622,538	22,622,538
Less: accumulated depreciation	(1,651,959)	(1,091,112)
Total property and equipment	\$ 20,970,579	\$ 21,531,426

NOTE 10 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 237,954	\$ 138,917
Vendor payable	175,843	812,552
	\$ 413,797	\$ 951,469

NOTE 11 - INTERCOMPANY PAYABLE

The intercompany 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, 2019 and 2018, MSA Santa Ana had an intercompany payable balance of \$2,375,621 and \$2,181,887 from the Foundation.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 12 – LONG TERM OBLIGATIONS

Debt Service Coverage and Cash Days on Hand

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

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from MSA Santa Ana by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2019, MSA had a 3.10 Debt Service Coverage Ratio and was in compliance with the 1.10 to 1.00 required ratio.

Debt Service Coverage

Net Income	\$	26,217
Depreciation		560,847
Rent		516,500
Management fees (50%)		498,952
Income Available for Coverage		1,602,516
Debt Service		516,500

Debt Service Coverage		3.10
Limit		1.10
Compliance		Yes

The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2019, MSA Santa Ana had 120 days cash on hand and was in compliance with the 45 days required.

Days Cash on Hand

Total Expenses	\$	3,241,108
Depreciation		560,847
Cash Expenses		2,680,261
Expense/Day		7,343
Cash		882,408

Days Cash on Hand		120
Limit		45
Compliance		Yes

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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. The outstanding loan balance as of June 30, 2019, was \$8,265,453.

Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2020	\$ 392,165
2021	392,166
2022	392,166
2023	392,165
2024	392,166
2025-2029	1,960,829
2030-2034	1,960,826
2035-2039	1,960,829
2040-2044	1,960,829
2045-2047	980,415
Less: Amount Representing Interest	(2,519,103)
Total	<u>\$ 8,265,453</u>

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 13 – 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
2020	\$ 512,833
2021	508,375
2022	503,417
2023	497,958
2024	492,000
2025-2029	2,324,207
2030-2034	2,113,501
2035-2039	1,945,626
2040-2044	1,729,083
2045	27,042
Less: Amount Representing Interest	<u>(6,472,654)</u>
Total	<u>\$ 4,181,388</u>

NOTE 14 – NET ASSETS

Net assets consist of the following at June 30, 2019:

	2019	2018
Net Assets without Donor Restrictions		
Designated for State programs	\$ 272,871	\$ 14,716
Unrestricted	7,255,639	7,487,577
Total Net Assets without Donor Restrictions	<u>\$ 7,528,510</u>	<u>\$ 7,502,293</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, 2019 and 2018, were \$1,095,870 and \$1,079,401, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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.

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.

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.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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

The STRP provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2019 and 2018, are presented above and MSA Santa Ana's total contributions were \$421,966 and \$404,295, 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.

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, Schools Pool Actuarial Valuation. 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, 2019**

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, 2019, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before	On or after
	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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, 2019 and 2018, are presented above and the total Charter School contributions were \$130,507 and \$73,135, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$124,753 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$16,100 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

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 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2019 and 2018, MSA Santa Ana made payments of \$74,024 and \$76,477, respectively, to CharterSAFE for services received. At June 30, 2019, MSA Santa Ana had no recorded accounts receivable or accounts payable to CharterSAFE.

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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 15, 2019, 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, 2019**

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>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	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

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

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, 2019**

	Final Report	
	Second Period Report	Annual Report
CHARTER SCHOOL		
Regular ADA		
Transitional kindergarten through third	211.80	212.02
Fourth through sixth	171.89	172.38
Seventh and eighth	121.62	120.29
Ninth through twelfth	134.69	133.82
Total Regular ADA	<u>640.00</u>	<u>638.51</u>
Classroom based ADA		
Fourth through sixth	171.89	172.38
Seventh and eighth	121.62	120.29
Ninth through twelfth	134.69	133.82
Total Classroom based ADA	<u>640.00</u>	<u>638.51</u>

MSA Santa Ana did not 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, 2019**

Grade Level	1986-87	2018-19	Number of Days		Status
	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	50,015	181	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,585	181	N/A	Complied
Grade 2		54,585	181	N/A	Complied
Grade 3		54,585	181	N/A	Complied
Grades 4 - 6	54,000				
Grade 4		54,585	181	N/A	Complied
Grade 5		54,585	181	N/A	Complied
Grade 6		66,382	181	N/A	Complied
Grades 7 - 8	54,000				
Grade 7		66,382	181	N/A	Complied
Grade 8		66,382	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		66,382	181	N/A	Complied
Grade 10		66,382	181	N/A	Complied
Grade 11		66,382	181	N/A	Complied
Grade 12		66,382	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, 2019**

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

NET ASSETS

Net Assets, June 30, 2019, Unaudited Actuals	\$ 8,025,658
Increase (Decrease) in:	
Accounts receivable	(488,291)
Intercompany receivable	618,358
Prepaid expenses and other current assets	(25,046)
Accumulated depreciation	(361,825)
(Increase) Decrease in:	
Accounts payable	354,054
Deferred revenue	(664)
Intercompany payable	(2,375,621)
Note payable	(4,181,388)
long-term obligation	6,191,288
Net Assets, June 30, 2019, Audited Financial Statement	<u>\$ 7,528,510</u>

See accompanying note to supplementary information.

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

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019**

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of MSA Santa Ana. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.



INDEPENDENT AUDITOR'S REPORTS



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy Santa Ana (MSA Santa Ana) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2019.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses or schedule of findings and questioned costs as items 2019-001 that we consider to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses or schedule of findings and questioned costs as items 2019-001.

MSA Santa Ana's Response to Findings

MSA Santa Ana's response to the findings identified in our audit are described in the accompanying schedule of findings and responses or schedule of findings and questioned costs. MSA Santa Ana's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Rancho Cucamonga, California
December 15, 2019



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 *2018-2019 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, 2019.

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 *2018-2019 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, 2019.

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
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
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.

A handwritten signature in black ink that reads "Esde Sully LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
December 15, 2019



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, 2019**

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>Yes</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, 2019**

The following findings represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2019-001 30000 – Financial Statement Preparation and Audit Adjustments

Criteria or Specific Requirements

Management should have an internal control system in place designed to provide for the preparation of the financial statements being audited. This includes proper reporting of accrual basis accounting under the requirements of the Financial Accounting Standards Board (FASB). It also includes the ability to prepare the required footnote disclosures by FASB.

Condition

Communicating Internal Control Related Matters Identified in an Audit defines a material weakness and significant deficiency. According to these definitions, an internal control system design must include elements to accurately prepare financial statements without adjustments by the auditor. As auditors, we were requested to assist management in the preparation of the financial statements from the trial balances. This preparation included certain accrual closing entries and footnotes.

Questioned costs

There are no questioned costs identified with the condition note.

Context

An accrual related to depreciation expense was not recorded and accounted for due to not having a control system in place.

Effect

The auditor proposed certain accrual closing entries and prepared the footnotes and reported financial data in accordance with generally accepted accounting principles to address the year end adjustment.

Cause

The timing of the accrual was during a transition period for new management company making it difficult to implement this level of internal control to monitor year end accruals.

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

Recommendation

Management and those charged with governance should implement a control system which allows for the monitoring of accruals and the related disclosure and consider whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan

The MSA Santa Ana agrees that having an internal control system over monitoring the year end accruals is an important part of the MSA Santa Ana's overall internal control process. The MSA Santa Ana has created processes to monitor and implement these controls.

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

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019**

There were no audit findings reported in the prior year's Schedule of Findings and Questioned Costs.