Consolidated Financial Statements
June 30, 2020 and 2019

Magnolia Educational & Research Foundation

Independent Auditor's Report

Governing Board
Magnolia Educational & Research Foundation
Los Angeles, California

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Magnolia Educational & Research Foundation and Subsidiaries (the Organization), which are comprised of the statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the Organization, as of June 30, 2020, 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 consolidated financial statements as a whole. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The consolidating schedule of expenditures of federal awards, consolidating statement of financial position, consolidating statement of activities, and the other supplementary information as listed in the table of contents 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 consolidating schedule of expenditures of federal awards, consolidating statement of financial position, and the consolidating statement of activities are fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Organization's consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated December 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2021 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Eide Bailly LLP

Rancho Cucamonga, California
March 22, 2021

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 24,880,403	$ 21,113,077
Accounts receivable	6,470,352	4,871,200
Prepaid expenses	119,785	53,464
Total current assets	31,470,540	26,037,741
Non-current assets		
Restricted cash	2,282,168	2,299,814
Property and equipment, net	52,645,675	50,490,691
Total non-current assets	54,927,843	52,790,505
Total assets	$ 86,398,383	$ 78,828,246
Liabilities		
Current liabilities		
Accounts payable	$ 8,188,964	$ 6,051,459
Refundable advance	446,653	2,367,850
Refundable advance - Paycheck Protection Program (PPP)	5,461,600	-
Current portion of notes payable	99,583	94,583
Current portion of bonds payable	655,000	620,000
Current portion of revolving loan	232,597	228,013
Total current liabilities	15,084,397	9,361,905
Long-term liabilities		
Notes payable, less current portion	3,986,805	4,086,805
Bonds payable, less current portion and net of unamortized bond issuance costs	28,447,667	29,076,587
Revolving loan, less current portion	7,957,783	8,189,246
Total long-term liabilities	40,392,255	41,352,638
Total liabilities	55,476,652	50,714,543
Net Assets		
Without donor restrictions	30,921,731	28,113,703
Total liabilities and net assets	$ 86,398,383	$ 78,828,246

	2020	2019
Support and revenues		
Local Control Funding Formula	$ 40,431,155	$ 39,134,304
Federal revenue	2,847,974	2,728,824
Other state revenue	6,801,756	7,421,950
Local revenues	1,290,510	722,973
Total support and revenues	51,371,395	50,008,051
Expenses		
Program services	32,229,176	32,968,880
Management and general	16,334,191	15,836,430
Total expenses	48,563,367	48,805,310
Change in Net Assets	2,808,028	1,202,741
Net Assets, Beginning of Year	28,113,703	26,910,962
Net Assets, End of Year	$ 30,921,731	$ 28,113,703

	Program Services	Management and General	Total Expenses
Salaries	$ 18,933,842	$ 6,866,240	$ 25,800,082
Employee benefits	3,131,992	50,219	3,182,211
Payroll taxes	5,351,851	1,394,918	6,746,769
Fees for services	11,726	2,041,012	2,052,738
Advertising and promotions	-	92,063	92,063
Office expenses	270,467	214,724	485,191
Information technology	236,381	-	236,381
Occupancy	-	2,532,632	2,532,632
Travel	-	57,652	57,652
Conferences and meeting	-	3,764	3,764
Interest	-	2,223,875	2,223,875
Depreciation and amortization	1,097,993	-	1,097,993
Insurance	-	267,527	267,527
Other expenses	722,250	589,565	1,311,815
Capital outlay	302,768	-	302,768
Special education	963,073	-	963,073
Instructional materials	586,586	-	586,586
Nutrition	221,572	-	221,572
District oversight fees	398,675	-	398,675
Total functional expenses	$ 32,229,176	$ 16,334,191	$ 48,563,367

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 2,808,028	$ 1,202,741
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	1,071,913	1,099,216
Interest expense attributable to the amortization of bond issuance costs	26,080	26,080
Changes in operating assets and liabilities		
Accounts receivable	(1,599,152)	(89,580)
Prepaid expenses	(66,321)	973,944
Security deposits	-	43,117
Accounts payable	2,137,507	2,819,074
Refundable advance	(1,921,197)	77,191
Refundable advance - PPP	5,461,600	-
Net Cash from Operating Activities	7,918,458	6,151,783
Cash Flows used for Investing Activities		
Purchases of property and equipment	(3,236,959)	(9,681,137)
Cash Flows used for Financing Activities		
Principal payments on notes	(93,866)	(83,612)
Principal payments on bonds	(620,000)	(12,214)
Principal payments on revolving loan	(228,013)	(222,409)
Net Cash used for Financing Activities	(941,879)	(318,235)
Net Change in Cash, Cash Equivalents, and Restricted Cash	3,749,681	(3,847,589)
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	23,412,890	27,260,480
Cash, Cash Equivalents, and Restricted Cash, End of Year	$ 27,162,571	$ 23,412,891
Cash and cash equivalents	24,880,403	21,113,077
Cash restricted to 2014 and 2017 Bond Reserve Fund	2,282,168	2,299,814
Total Cash, Cash Equivalents, and Restricted Cash	$ 27,162,571	$ 23,412,891
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ 2,223,875	$ 2,223,875

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Magnolia Educational & Research Foundation (the Organization) is a California not-for-profit organization. During the fiscal year ended June 30, 2020, The organization operated ten charter schools currently serves approximately 3,890 students in grades kindergarten through twelve throughout California. The Organization dedicated to inspiring students to choose career paths in science, technology, engineering, and math (STEM), while providing a robust, standards-based education program within a supportive culture of excellence.

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

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

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

Magnolia Science Academy
Charter school number authorized by the State: 0438
Magnolia Science Academy (MSA) is a charter school located in Reseda, California that provides education for grades six through twelve. MSA was created under the approval of the Los Angeles Unified School District and the California State Board of Education and receives public per-pupil funding to help support their operation. Los Angeles County Office of Education approved a new charter agreement in 2016 for a period of five years ending in 2022. MSA is economically dependent on Federal and State funding.

Magnolia Science Academy 2
Charter school number authorized by the State: 0906
Magnolia Science Academy 2 (MSA 2) is a charter school located in Van Nuys, California that provides sixth through twelfth grade education to approximately 435 students. MSA 2 was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. Los Angeles County Office of Education approved a new charter agreement in 2018 for a period of five years ending June 30, 2022. MSA 2 is economically dependent on Federal and State funding. Magnolia Public Schools provides a college preparatory educational program emphasizing science, technology, engineering, and math (STEM) in a safe environment that cultivates respect for self and others. Graduates of Magnolia Public Schools are scientific thinkers who contribute to the global community as socially responsible and educated members of society.

Magnolia Science Academy 3
Charter school number authorized by the State: 0917
Magnolia Science Academy 3 (MSA 3) is a charter school located in Carson, California that provides sixth through twelfth grade education to approximately 497students. MSA 3 was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. Los Angeles County Office of Education approved a new charter agreement in 2016 for a period of five years ending June 30, 2022. MSA 3 is economically dependent on Federal and State funding.

Magnolia Science Academy 4
Charter school number authorized by the State: 0986
Magnolia Science Academy 4 (MSA 4) is a charter school located in Los Angeles, California that provides sixth through twelfth grade education to approximately 131 students. MSA 4 was created under the approval of the Los Angeles Unified School District (LAUSD) and the California State Board of Education, and receives public per-pupil funding to help support their operation. MSA 4 was granted a five year extension through June 30, 2023. MSA 4 is economically dependent on Federal and State funding.

Magnolia Science Academy 5
Charter school number authorized by the State: 0987
Magnolia Science Academy 5 (MSA 5), formerly located in Hollywood, now located in Reseda, California provides sixth through ninth grade education to approximately 281 students. MSA 5 was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. During 2018, MSA 5 was approved for a five year period ending June 30, 2023 under Los Angeles County Office of Education. MSA 5 is economically dependent on Federal and State funding.

Magnolia Science Academy 6
Charter school number authorized by the State: 0988
Magnolia Science Academy-6 (MSA 6) is a charter school located in Los Angeles, California that provides sixth through eighth grade education to approximately 134 students. The School was created under the approval of the Los Angeles Unified School District (ending June 30, 2024) and the California State Board of Education, and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

Magnolia Science Academy 7
Charter school number authorized by the State: 0989
Magnolia Science Academy 7 (MSA 7) is a charter school located in Northridge, California that provides kindergarten through sixth grade education to approximately 291 students. MSA 7 was created under the approval of the Los Angeles Unified School District and the California State Board of Education, and receives public per-pupil funding to help support their operation. Los Angeles Unified School District approved the charter on February 26, 2008, and renewed the charter agreement in 2019 for a period of five years ending in 2024. MSA 7 is economically dependent on Federal and State funding.

Magnolia Science Academy Bell
Charter school number authorized by the State: 1236
Magnolia Science Academy-8 (MSA Bell) is a charter school located in Bell, California that provides sixth through eighth grade education to approximately 482 students. MSA Bell was created under the approval of the Los Angeles Unified School District (ending June 30, 2025) and the California State Board of Education, and receives public per-pupil funding to help support their operation. MSA Bell is economically dependent on Federal and State funding.

Magnolia Science Academy Santa Ana
Charter school number authorized by the State: 1686
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 546 students. MSA Santa Ana was created under the approval the California State Board of Education (ending June 30, 2024), and receives public per-pupil funding to help support their operation. MSA Santa Ana is economically dependent on Federal and State funding.

Magnolia Science Academy San Diego
Charter school number authorized by the State: 0698
Magnolia Science Academy San Diego (MSA San Diego), formerly Momentum Middle Charter School, is a charter school located in San Diego, California that provides educational activities for students in grades sixth through ninth serving approximately 404 students. The School offers a rich academic program with elective classes, tutoring, and after school clubs. It was the most improved middle school according to all API scores in the year 2007. The School was created under the approval of the San Diego Unified School District (SDUSD) and the California State Board of Education (ending June 30, 2024), and receives public per-pupil funding to help support their operation. The School is economically dependent on Federal and State funding.

Other Related Entity

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

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

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

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and the Subsidiaries, of which include MSA, MSA 2, MSA 3, MSA 4, MSA 5, MSA 6, MSA 7, MSA Bell, MSA Santa Ana, MSA San Diego, MPM, Inc., MPM Sherman Way, LLC, MPM Santa Ana, LLC, and MPM San Diego, LLC. All significant intracompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as the Organization.

Comparative Financial Information

The accompanying consolidated 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 Organization’s audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying consolidated financial statements were prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations. Revenues are recognized as discussed below, and expenditures are recognized in the accounting period in which the liability is incurred.

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. The Governing Board has designated, from net assets without donor restrictions, net assets for federal and state programs.

Net Assets with Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary 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 Organization 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 statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Organization considers all cash including cash in County Investment Pool 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. Cash and highly liquid financial instruments restricted to bond reserve funds or other long-term purposes are excluded from this definition.

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. No allowance for doubtful accounts has been established, as the Organization deems all amounts to be fully collectible. Substantially all outstanding accounts receivable as of June 30, 2020 are due from state and/or federal sources related to grant contributions and are expected to be collected within a period of less than one year.

Intracompany Receivable/Payable

Intracompany receivable/payable results from a net cumulative difference between resources provided by the home office account to each charter school and reimbursement for those resources from each charter school to the home office account. Operating transfers include certain costs of shared liabilities and shared assets between the Organization.

Capital Contribution

MSA invested $161,923 in a capital contribution to the MPM Sherman Way, LLC as an investment for the building improvement located at 18238 Sherman Way in the city of Reseda, CA 91335 for its campus location.

MSA Santa Ana invested $75,554 in a capital contribution to the MPM Santa Ana, LLC as an investment for the building improvement located at 2840 West 1st Street in the city of Santa Ana, CA 92703 for its campus location.

MSA San Diego invested $198,191 in a capital contribution to the MPM San Diego. LLC as an investment for the building improvement located at 6525 Estrella Avenue in the city of San Diego, CA 92120 for its campus location.

Property and Equipment

Property and equipment 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 Organization reviews the carrying values of property and equipment 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, 2020.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Organization are derived principally from state and federal sources. The Organization receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Contributions are recognized when cash or notification of an entitlement is received. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The majority of the Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Organization would otherwise purchase the services. No amounts have been reflected in the accompanying consolidated financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Contributions with donor restrictions received are recorded as increases in net assets with donor restrictions. Net assets with donor restrictions received are recognized as revenue without donor restrictions when the terms of the restrictions are met, which may be in the same period if the revenue is received and the restriction satisfied during the same period. All contributions are considered to be available for use without donor restrictions unless specifically restricted by the donor.

The Organization was granted a $5,461,600 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Organization has recorded the loan and any accrued interest as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance or other barrier and a right to return of the PPP loan or when such conditions are explicitly waived. Proceeds from the loan are eligible for forgiveness if the Organization maintains employment levels during its covered period and uses the funds for certain payroll, rent, and utility expenses. No contribution revenue has been recorded for the year ended June 30, 2020. The Organization will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing upon notification of forgiveness or partial forgiveness. At June 30, 2020, the refundable advance related to PPP consists of $5,461,600 in loan.

Debt Issuance Costs

Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which is a reasonable approximation of the effective interest method. Debt issuance costs are included within bonds payable in the statement of financial position. Amortization of debt issuance costs is included in interest expense in the accompanying consolidated financial statements.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates. The expenses that are allocated include salaries and wages, benefits, payroll taxes, fees for services, office expenses, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is organized as a California nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), and qualifies for the charitable contribution deduction under 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. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The Organization determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Management believes that the Organization has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management 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. Accordingly, actual results could differ from those estimates.

Financial Instruments and Credit Risk

Deposit concentration risk is managed by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, no losses have been experienced in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies supportive of the Organization's mission.

Recent Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases*. 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. 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.

The ASU is effective for the Organization for the year ended June 30, 2022. Management is evaluating the impact of the adoption of this standard.

FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, as amended, supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue.

Topic 606 is effective for the Organization for the year ended June 30, 2021. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Principle

The Organization has adopted the provisions of ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) applicable to contributions received and has early adopted the provisions of contributions made. ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. Management has adopted this standard because it assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and in determining whether a contribution is conditional. As of July 1, 2019, the Organization has implemented the provisions of ASU 2018-08 on a modified prospective basis to agreements that were not completed as of the date of adoption or were entered after the date of adoption. Management has determined that the adoption of this standard did not have a significant impact on the Organization's financial statements.

On June 3, 2020, the FASB issued Accounting Standards Update (ASU) 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842) Effective Dates for Certain Entities, as part of its efforts to support and assist stakeholders as they cope with the many challenges and hardships related to the COVID-19 pandemic.

ASU 2020-05 defers the effective date of FASB ASC 606, *Revenue from Contract with Customers*, for certain entities that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 606. Those entities may elect to adopt FASB ASC 606 for annual reporting periods beginning after December 15, 2019, and for interim reporting periods within annual reporting periods beginning after December 15, 2020. Those entities may elect to follow the original effective date of annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.

The effective date for a public business entity, a nonprofit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, and an employee benefit plan that files or furnishes financial statements with or to the Securities and Exchange Commission (SEC) is not affected by the amendments in this ASU.

The effective date of FASB ASC 842, *Leases*, is deferred by one year, as follows:

For private companies and private nonprofits, to fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

For public nonprofits that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of FASB ASC 842, to fiscal years beginning after December 15, 2019, including interim periods within those fiscal years.

The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2020-05.

Note 2 - Liquidity and Availability

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

	2020	2019
Cash and cash equivalents	$ 24,880,403	$ 21,113,077
Accounts receivable	6,470,352	4,871,200
Total	$ 31,350,755	$ 25,984,277

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

Note 3 - Property and Equipment

Property and equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Land	$ 2,566,854	$ 2,566,854
Leasehold improvements	2,360,135	-
Building	47,628,894	28,398,928
Computer and equipment	3,606,511	2,808,123
Work in progress	2,426,372	21,587,963
Total property and equipment	58,588,766	55,361,868
Less accumulated depreciation	(5,943,091)	(4,871,177)
Total	$ 52,645,675	$ 50,490,691

Note 4 - Notes Payable

Notes payable consist of the following at June 30, 2020:

Note payable, due in monthly installments of $42,708, principal and interest at 10%, collateralized by the Magnolia Science Academy Santa Ana school facility with a carrying value of $11,389,575; maturing July 1, 2044.	$ 4,086,388

Future maturities of notes payable are as follows:

Year Ending June 30,	Principal
2021	$ 99,583
2022	104,583
2023	109,583
2024	114,583
2025	119,583
Thereafter	3,538,473
Total	$ 4,086,388

Note 5 - Bonds Payable

Charter School Facilities Revenue Bonds, Series 2014A and 2014B On June 26, 2014, the Organization issued $6,020,000 in uncollateralized Charter School Facilities Revenue Bonds. The bonds mature on July 1, 2044, with interest rate ranging from 5.25 to 7.00 percent. Unamortized bonds issuance costs are amortized an effective interest rate of 5.25 percent. Proceeds of the bonds will be used for based on acquisition, construction renovation, improving, and equipping certain educational facilities. The bonds require the Organization to comply with certain financial and non-financial covenants.	5,595,000
Charter School Facilities Revenue Bonds, Series 2017A On September 6, 2017, the Organization issued $25,000,000 in uncollateralized Charter School Facilities Revenue Bonds. The bonds mature on July 1, 2044, with interest rate of 5.25 percent. Unamortized bonds issuance costs are amortized based on an effective interest rate of 5.25 percent. Proceeds of the bonds will be used for based on acquisition, construction renovation, improving, and equipping certain educational facilities. The bonds require the Organization to comply with certain financial and non-financial covenants.	24,480,000
Subtotal outstanding bonds	30,075,000
Bond issuance costs on Charter School Facilities Revenue Bonds, Series 2014A and 2014B	(320,341)
Bond issuance costs on Charter School Facilities Revenue Bonds, Series 2017A	(651,992)
Subtotal debt issuance costs on bonds	(972,333)
Total	$ 29,102,667

Future maturities of bonds payable are as follows:

Year Ending June 30,	Principal
2021	$ 655,000
2022	685,000
2023	720,000
2024	760,000
2025	800,000
Thereafter	26,455,000
Less unamortized debt issuance costs	(972,333)
Total	$ 29,102,667

Note 6 - Revolving Loan

MSA Santa Ana has been approved by the State of California's Charter School Facilities Program (CCSFP) for $17,413,956 for constructing a new facility, which will cost the same amount. The State will fund 50 percent of the total amount of $17,413,956; the State will fund 50 percent of the total project cost through a loan in the amount of $8,706,990 and the other 50 percent through a grant in the amount of $8,706,978. The loan has an annual interest rate of 3.00 percent and it matures 30 years after the completion of the project.

The future minimum payments are as follows:

Year Ending June 30,	Principal
2021	$ 232,597
2022	237,272
2023	242,040
2024	246,906
2025	251,869
Thereafter	6,827,890
Total	$ 8,038,574

MSA San Diego has been approved by the State of California's Charter School Facilities Program (CCSFP) for $3,036,122 for constructing a new facility, which will cost the same amount. The State will fund 50 percent of the total amount of $3,036,122; the State will fund 50 percent of the total project cost through a loan in the amount of $1,518,061 and the other 50 percent through a grant in the amount of $1,518,061. The loan has an annual interest rate of 2.00 percent and it matures 30 years after the completion of the project, which is estimated to be in the middle of calendar year 2021. The repayment schedule will be determined after completion of the project. The State Controller's Office will deduct the loan payments from MSA SD's State School Fund Apportionments. The outstanding loan balance as of June 30, 2020, was $151,806.

Note 7 - Operating Leases

The Organization entered into a lease agreement with Kajima Development Corporation in which the Organization will occupy for its home office location. The term of this agreement expires on April 30, 2023. Lease expense for the fiscal year ending June 30, 2020 was $171,600, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 177,600
2022	184,600
2023	158,000
Total	$ 520,200

MSA entered into a lease agreement with MPM Sherman Way, LLC in which the MSA will occupy for its campus location. The term of this agreement expires on July 1, 2044. Lease expense for the fiscal year ending June 30, 2020 was $1,295,589, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 1,295,476
2022	1,297,781
2023	1,302,336
2024	1,307,572
2025	1,312,995
Thereafter	25,942,689
Total	$ 32,458,849

MSA 6 entered into a lease agreement with First Lutheran Church of Culver City and Palms, California in which the MSA 6 will occupy for its campus location. The term of this agreement expires on July 31, 2021. Lease expense for the fiscal year ending June 30, 2020 was $104,500, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 127,750
2022	10,750
Total	$ 138,500

MSA 7 entered into a lease agreement with First Lutheran Church of Northridge in which the MSA 7 will occupy for its campus location. The term of this agreement expires on June 30, 2022. Lease expense for the fiscal year ending June 30, 2020 was $265,656, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 273,624
2022	281,832
Total	$ 555,456

MSA San Diego entered into a lease agreement with MPM San Diego, LLC in which the MSA San Diego will occupy for its campus location. The term of this agreement expires on July 1, 2044. Lease expense for the fiscal year ending June 30, 2020 was $476,172, which is included in occupancy in the statement of functional expenses.

Future minimum lease payments are as follows:

Year Ending June 30,	Lease Payment
2021	$ 476,397
2022	478,130
2023	481,275
2024	482,139
2025	486,216
Thereafter	9,794,929
Total	$ 12,199,086

MSA San Diego renewed a Facilities Use Agreement with SDUSD for the sole purpose of operating the Charter School education programs and related Charter Schools activities. The terms of this agreement expires on June 30, 2020 and include rental fees that shall be paid on the first of every month. Lease expense for the fiscal year ending June 30, 2020 was $240,000, which is included in occupancy in the statement of functional expenses.

Note 8 - Net Assets

Net assets consist of the following at June 30, 2020 and 2019:

	2020	2019
Net assets without donor restrictions		
Designated for federal programs	$ 457,937	$ -
Designated for state programs	479,276	2,391,084
Undesignated	29,984,518	25,722,619
Total net assets without donor restrictions	$ 30,921,731	$ 28,113,703

Note 9 - Employee Retirement Systems

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

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and State contribution rates are set by the California Legislature, and (c) if the Organization chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. The Organization has no plans to withdraw from this multi-employer plan.

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The Organization 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, 2018, 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% of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the State is the sponsor of the STRP and obligor of the trust. In addition, the State is both an employer and nonemployer contributing entity to the STRP.

The Organization 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, 2020, are summarized as follows:

	STRP Defined Benefit Program	
	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	17.10%	17.10%
Required state contribution rate	10.328%	10.328%

Contributions

Required member, Organization, 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% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2020, are presented above and the Organization's total contributions were $3,348,294.

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, 2018, 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.

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, 2020, are summarized as follows:

	School Employer Pool (CalPERS)	
Hire date	On or before December 31, 2012	On or after 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	19.721%	19.721%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Organization 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, 2020, are presented above and the total Organization's contributions were $880,768.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Organization. These payments consist of State General Fund contributions to CalSTRS in the amount of $1,513,747 (10.328% of annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2019–2020 contribution on-behalf of school employers of $1.1 billion for CalSTRS. A proportionate share of this contribution has been recorded in the amount of $507,762 in these financial statements.

Note 10 - Contingencies

The Organization has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Note 11 - Subsequent Events

The Organization's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements through March 22, 2021, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

Subsequent to year-end, the Organization has been negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the issuance date of these financial statements, the full impact to the Organization's financial position is not known beyond increased cash flow monitoring due to state apportionment deferrals.

Supplementary Information
June 30, 2020

Magnolia Educational & Research Foundation

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed through California Department of Education (CDE)			
Special Education Cluster			
Basic Local Assistance Entitlement	84.027	13379	$ 568,937
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	1,344,688
Title II, Part A, Supporting Effective Instruction	84.367	14341	196,368
Title III, English Learner Student Program	84.365	14346	83,484
Title IV, Part A, Student Support and Academic Enrichment	84.424	15396	160,983
State Charter School Facilities Incentive Grant Program	84.282D	[1]	314,878
Total Federal Programs			$ 2,669,338

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

ORGANIZATION

The Organization operates ten schools in California. Each school is operated on the same tax identification number as the Organization. Charters were granted for each school for up to five years, with an opportunity for renewal. Charters may be revoked by the charter authorizer for material violations of the charter, failure to meet or make progress toward student outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law. As of June 30, 2020, the schools operated by the Organization were as follows:

Charter School Name	Charter Number	Sponsoring District	Charter Expiration	Grades Served	Students Served
Magnolia Science Academy	0438	Los Angeles County Office of Education	June 30, 2022	6 - 12	650
Magnolia Science Academy 2	0906	Los Angeles County Office of Education	June 30, 2022	6 - 12	435
Magnolia Science Academy 3	0917	Los Angeles County Office of Education	June 30, 2022	6 - 12	497
Magnolia Science Academy 4	0986	Los Angeles Unified School District	June 30, 2023	6 - 12	131
Magnolia Science Academy 5	0987	Los Angeles County Office of Education	June 30, 2023	6 - 12	281
Magnolia Science Academy 6	0988	Los Angeles Unified School District	June 30, 2024	6 - 8	134
Magnolia Science Academy 7	0989	Los Angeles Unified School District	June 30, 2024	K - 5	291
Magnolia Science Academy Bell	1236	Los Angeles Unified School District	June 30, 2025	6 - 8	482
Magnolia Science Academy Santa Ana	1686	California Department of Education	June 30, 2024	K - 12	546
Magnolia Science Academy San Diego	0698	San Diego Unified School District	June 30, 2024	6 - 8	443

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Rabbi Haim Beliak	Chair	No Term Limit
Umit Yapanel, Ph.D.	Vice Chair	No Term Limit
Salih Dikbas, Ph.D.	Member	No Term Limit
Sandra Covarrubias	Member	No Term Limit
Diane Gonzalez	Member	No Term Limit
Mekan Muhammedov	Member	No Term Limit

ADMINISTRATION

NAME	TITLE
Alfredo Rubalcava	Chief Executive Officer and Superintendent
Nanie Montijo	Chief Financial Officer (resigned as of July 2020)
Serdar Orazov	Chief Financial Officer (started as of August 2020)

	MERF	MSA	MSA 2
Assets			
Current assets			
Cash and cash equivalents	$ 3,193,616	$ 2,636,263	$ 2,288,348
Accounts receivable	453,452	1,343,289	803,707
Intracompany receivable	77,584	-	-
Prepaid expenses	-	107,966	2,197
Total current assets	3,724,652	4,087,518	3,094,252
Non-current assets			
Capital contribution	-	161,923	-
Restricted cash	-	-	-
Property and equipment, net	15,759	3,539,439	149,268
Total non-current assets	15,759	3,701,362	149,268
Total assets	$ 3,740,411	$ 7,788,880	$ 3,243,520
Liabilities			
Current liabilities			
Accounts payable	$ 678,278	$ 1,247,311	$ 1,034,276
Refundable advance	-	-	-
Refundable advance - Paycheck Protection Program (PPP)	534,572	789,701	632,270
Intracompany payable	572,859	449,753	-
Current portion of notes payable	-	-	-
Current portion of bonds payable	-	-	-
Current portion of revolving loan	-	-	-
Total current liabilities	1,785,709	2,486,765	1,666,546
Long-term liabilities			
Notes payable, less current portion	-	-	-
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	-
Revolving loan, less current portion	-	-	-
Total long-term liabilities	-	-	-
Total liabilities	1,785,709	2,486,765	1,666,546
Net Assets			
Without donor restrictions	1,954,702	5,302,115	1,576,974
Total liabilities and net assets	$ 3,740,411	$ 7,788,880	$ 3,243,520

	MSA 3	MSA 4	MSA 5
Assets			
Current assets			
Cash and cash equivalents	$ 1,393,344	$ 1,317,106	$ 1,478,382
Accounts receivable	766,829	180,928	500,853
Intracompany receivable	-	-	988,341
Prepaid expenses	833	758	1,667
Total current assets	2,161,006	1,498,792	2,969,243
Non-current assets			
Capital contribution	-	-	-
Restricted cash	-	-	-
Property and equipment, net	32,056	42,347	59,649
Total non-current assets	32,056	42,347	59,649
Total assets	$ 2,193,062	$ 1,541,139	$ 3,028,892
Liabilities			
Current liabilities			
Accounts payable	$ 764,750	$ 402,920	$ 571,523
Refundable advance	-	-	-
Refundable advance - Paycheck Protection Program (PPP)	627,597	229,930	349,985
Intracompany payable	-	-	-
Current portion of notes payable	-	-	-
Current portion of bonds payable	-	-	-
Current portion of revolving loan	-	-	-
Total current liabilities	1,392,347	632,850	921,508
Long-term liabilities			
Notes payable, less current portion	-	-	-
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	-
Revolving loan, less current portion	-	-	-
Total long-term liabilities	-	-	-
Total liabilities	1,392,347	632,850	921,508
Net Assets			
Without donor restrictions	800,715	908,289	2,107,384
Total liabilities and net assets	$ 2,193,062	$ 1,541,139	$ 3,028,892

	MSA 6	MSA 7	MSA Bell
Assets			
Current assets			
Cash and cash equivalents	$ 2,024,300	$ 1,632,981	$ 3,014,092
Accounts receivable	199,173	496,732	679,993
Intracompany receivable	-	-	2,248,498
Prepaid expenses	455	1,742	1,061
Total current assets	2,223,928	2,131,455	5,943,644
Non-current assets			
Capital contribution	-	-	-
Restricted cash	-	-	-
Property and equipment, net	43,937	504,930	77,038
Total non-current assets	43,937	504,930	77,038
Total assets	$ 2,267,865	$ 2,636,385	$ 6,020,682
Liabilities			
Current liabilities			
Accounts payable	$ 223,027	$ 399,239	$ 656,545
Refundable advance	-	-	-
Refundable advance - Paycheck Protection Program (PPP)	193,294	358,254	576,190
Intracompany payable	-	-	-
Current portion of notes payable	-	-	-
Current portion of bonds payable	-	-	-
Current portion of revolving loan	-	-	-
Total current liabilities	416,321	757,493	1,232,735
Long-term liabilities			
Notes payable, less current portion	-	-	-
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	-
Revolving loan, less current portion	-	-	-
Total long-term liabilities	-	-	-
Total liabilities	416,321	757,493	1,232,735
Net Assets			
Without donor restrictions	1,851,544	1,878,892	4,787,947
Total liabilities and net assets	$ 2,267,865	$ 2,636,385	$ 6,020,682

	MSA Santa Ana	MSA San Diego	MPM Inc. / LLC
Assets			
Current assets			
Cash and cash equivalents	$ 2,509,874	$ 1,269,671	$ 2,122,426
Accounts receivable	575,383	523,286	-
Intracompany receivable	-	10	-
Prepaid expenses	3,106	-	-
Total current assets	3,088,363	1,792,967	2,122,426
Non-current assets			
Capital contribution	75,554	198,191	-
Restricted cash	-	-	2,282,168
Property and equipment, net	20,467,997	289,648	27,423,607
Total non-current assets	20,543,551	487,839	29,705,775
Total assets	$ 23,631,914	$ 2,280,806	$ 31,828,201
Liabilities			
Current liabilities			
Accounts payable	$ 1,730,927	$ 533,441	$ -
Refundable advance	-	-	446,653
Refundable advance - Paycheck Protection Program (PPP)	751,656	418,151	-
Intracompany payable	1,405,810	886,011	-
Current portion of notes payable	99,583	-	-
Current portion of bonds payable	-	-	655,000
Current portion of revolving loan	232,597	-	-
Total current liabilities	4,220,573	1,837,603	1,101,653
Long-term liabilities			
Notes payable, less current portion	3,986,805	-	-
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	-	28,447,667
Revolving loan, less current portion	7,805,977	151,806	-
Total long-term liabilities	11,792,782	151,806	28,447,667
Total liabilities	16,013,355	1,989,409	29,549,320
Net Assets			
Without donor restrictions	7,618,559	291,397	2,278,881
Total liabilities and net assets	$ 23,631,914	$ 2,280,806	$ 31,828,201

	Eliminations	2020 Consolidated	2019 Consolidated
Assets			
Current assets			
Cash and cash equivalents	$ -	$ 24,880,403	$ 21,113,077
Accounts receivable	(53,273)	6,470,352	4,871,200
Intracompany receivable	(3,314,433)	-	-
Prepaid expenses	-	119,785	53,464
Total current assets	(3,367,706)	31,470,540	26,037,741
Non-current assets			
Capital contribution	(435,668)	-	-
Restricted cash	-	2,282,168	2,299,814
Property and equipment, net	-	52,645,675	50,490,691
Total non-current assets	(435,668)	54,927,843	52,790,505
Total assets	$ (3,803,374)	$ 86,398,383	$ 78,828,246
Liabilities			
Current liabilities			
Accounts payable	$ (53,273)	$ 8,188,964	$ 6,051,459
Refundable advance	-	446,653	2,367,850
Refundable advance - Paycheck Protection Program (PPP)	-	5,461,600	-
Intracompany payable	(3,314,433)	-	-
Current portion of notes payable	-	99,583	94,583
Current portion of bonds payable	-	655,000	620,000
Current portion of revolving loan	-	232,597	228,013
Total current liabilities	(3,367,706)	15,084,397	9,361,905
Long-term liabilities			
Notes payable, less current portion	-	3,986,805	4,086,805
Bonds payable, less current portion and net of unamortized bond issuance costs and bond premium	-	28,447,667	29,076,587
Revolving loan, less current portion	-	7,957,783	8,189,246
Total long-term liabilities	-	40,392,255	41,352,638
Total liabilities	(3,367,706)	55,476,652	50,714,543
Net Assets			
Without donor restrictions	(435,668)	30,921,731	28,113,703
Total liabilities and net assets	$ (3,803,374)	$ 86,398,383	$ 78,828,246

	Magnolia Educational & Research Foundation	Magnolia Science Academy	Magnolia Science Academy 2
Support and revenues			
Local Control Funding Formula	$ -	$ 7,240,548	$ 4,795,130
Federal revenue	-	765,438	252,373
Other state revenue	57,314	1,608,028	621,972
Local revenues	5,359,493	80,955	279,455
Rental income	-	-	-
Total support and revenues	5,416,807	9,694,969	5,948,930
Expenses			
Program services	1,260,005	5,269,036	3,644,323
Management and general	3,599,507	3,985,976	1,744,185
Total expenses	4,859,512	9,255,012	5,388,508
Change in Net Assets	557,295	439,957	560,422
Intracompany transfers			
Transfer in	63,700	-	-
Transfer out	(289,954)	-	-
Change in Net Assets after intracompany transfers	331,041	439,957	560,422
Net Assets, Beginning of Year	1,623,661	4,862,158	1,016,552
Net Assets, End of Year	$ 1,954,702	$ 5,302,115	$ 1,576,974

	Magnolia Science Academy 3	Magnolia Science Academy 4	Magnolia Science Academy 5
Support and revenues			
Local Control Funding Formula	$ 5,140,719	$ 1,419,604	$ 3,043,774
Federal revenue	264,608	103,688	148,113
Other state revenue	807,212	235,912	430,857
Local revenues	45,934	82,139	70,980
Rental income	-	-	-
Total support and revenues	6,258,473	1,841,343	3,693,724
Expenses			
Program services	3,759,580	1,537,125	2,205,021
Management and general	2,745,186	718,657	1,163,326
Total expenses	6,504,766	2,255,782	3,368,347
Change in Net Assets	(246,293)	(414,439)	325,377
Intracompany transfers			
Transfer in	-	-	-
Transfer out	-	-	-
Change in Net Assets after intracompany transfers	(246,293)	(414,439)	325,377
Net Assets, Beginning of Year	1,047,008	1,322,728	1,782,007
Net Assets, End of Year	$ 800,715	$ 908,289	$ 2,107,384

	Magnolia Science Academy 6	Magnolia Science Academy 7	Magnolia Science Academy Bell
Support and revenues			
Local Control Funding Formula	$ 1,338,848	$ 2,953,282	$ 4,878,258
Federal revenue	107,108	171,913	345,797
Other state revenue	274,441	639,729	790,683
Local revenues	51,055	119,708	4,958
Rental income	-	-	-
Total support and revenues	1,771,452	3,884,632	6,019,696
Expenses			
Program services	1,192,690	2,124,147	3,280,088
Management and general	541,508	1,424,233	2,187,220
Total expenses	1,734,198	3,548,380	5,467,308
Change in Net Assets	37,254	336,252	552,388
Intracompany transfers			
Transfer in	-	-	-
Transfer out	-	-	-
Change in Net Assets after intracompany transfers	37,254	336,252	552,388
Net Assets, Beginning of Year	1,814,290	1,542,640	4,235,559
Net Assets, End of Year	$ 1,851,544	$ 1,878,892	$ 4,787,947

	Magnolia Science Academy Santa Ana	Magnolia Science Academy Santa Diego	MPM Inc. / LLC
Support and revenues			
Local Control Funding Formula	$ 6,056,968	$ 3,564,024	$ -
Federal revenue	571,325	117,611	-
Other state revenue	758,855	576,753	-
Local revenues	107,674	128,973	36,961
Rental income	-	-	2,493,333
Total support and revenues	7,494,822	4,387,361	2,530,294
Expenses			
Program services	4,940,362	2,763,459	253,340
Management and general	2,464,417	1,675,167	1,655,917
Total expenses	7,404,779	4,438,626	1,909,257
Change in Net Assets	90,043	(51,265)	621,037
Intracompany transfers			
Transfer in	-	-	289,954
Transfer out	-	-	(63,700)
Change in Net Assets after intracompany transfers	90,043	(51,265)	847,291
Net Assets, Beginning of Year	7,528,516	342,662	1,431,590
Net Assets, End of Year	$ 7,618,559	$ 291,397	$ 2,278,881

	Eliminations	2020 Consolidated	2019 Consolidated
Support and revenues			
Local Control Funding Formula	$ -	$ 40,431,155	$ 39,134,304
Federal revenue	-	2,847,974	2,728,824
Other state revenue	-	6,801,756	7,421,950
Local revenues	(5,077,775)	1,290,510	722,973
Rental income	(2,493,333)	-	-
Total support and revenues	(7,571,108)	51,371,395	50,008,051
Expenses			
Program services	-	32,229,176	32,968,880
Management and general	(7,571,108)	16,334,191	15,836,430
Total expenses	(7,571,108)	48,563,367	48,805,310
Change in Net Assets	-	2,808,028	1,202,741
Intracompany transfers			
Transfer in	(353,654)	-	-
Transfer out	353,654	-	-
Change in Net Assets after intracompany transfers	-	2,808,028	1,202,741
Net Assets, Beginning of Year	(435,668)	28,113,703	26,910,962
Net Assets, End of Year	$ (435,668)	$ 30,921,731	$ 28,113,703

	2020	2019
Assets		
Current assets		
Cash	$ 3,193,616	$ 2,681,572
Accounts receivable	453,452	63,475
Intracompany receivable	77,584	1,412,686
Prepaid expenses	-	14,665
Total current assets	3,724,652	4,172,398
Non-current assets		
Property and equipment, net	15,759	16,618
Total assets	$ 3,740,411	$ 4,189,016
Liabilities		
Current liabilities		
Accounts payable	$ 678,278	$ 417,280
Refundable advance - Paycheck Protection Program (PPP)	534,572	-
Intracompany payable	572,859	2,148,075
Total liabilities	1,785,709	2,565,355
Net Assets		
Without donor restrictions	$ 1,954,702	$ 1,623,661
Total liabilities and net assets	$ 3,740,411	$ 4,189,016

	2020	2019
Support and revenues		
Other state revenue	$ 57,314	$ -
Local revenues	5,359,493	5,864,094
Total support and revenues	5,416,807	5,864,094
Expenses		
Program services	1,260,005	1,635,659
Management and general	3,599,507	3,398,735
Total expenses	4,859,512	5,034,394
Change in Net Assets	557,295	829,700
Intracompany transfers		
Transfer in	63,700	-
Transfer out	(289,954)	-
Change in Net Assets after intracompany transfers	331,041	829,700
Net Assets, Beginning of Year	1,623,661	793,961
Net Assets, End of Year	$ 1,954,702	$ 1,623,661

	Program Services	Management and General	Total Expenses
Salaries	$ 655,777	$ 2,030,557	$ 2,686,334
Employee benefits	263,590	-	263,590
Payroll taxes	204,512	224,063	428,575
Fees for services	-	922,811	922,811
Advertising and promotions	-	12,929	12,929
Office expenses	1,130	16,193	17,323
Information technology	85,569	-	85,569
Occupancy	-	207,295	207,295
Travel	-	44,352	44,352
Conferences and meeting	-	2,364	2,364
Depreciation	859	-	859
Insurance	-	30,308	30,308
Other expenses	-	108,635	108,635
Capital outlay	19,276	-	19,276
Instructional materials	116	-	116
Nutrition	29,176	-	29,176
Total functional expenses	$ 1,260,005	$ 3,599,507	$ 4,859,512

	2020	2019
Cash Flows from Operating Activities		
Change in net assets	$ 331,038	$ 50,314
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	859	71,472
Changes in operating assets and liabilities		
Accounts receivable	(389,977)	76,036
Intercompany receivable	1,335,102	(261,033)
Prepaid expenses	14,665	258,620
Accounts payable	261,001	735,307
Refundable advance	-	13,462
Refundable advance - PPP	534,572	-
Intercompany payable	(1,575,216)	(48,327)
Net Cash from Operating Activities	7,918,458	2,206,518
Net Change in Cash	512,044	895,851
Cash, Beginning of Year	2,681,572	2,044,087
Cash, End of Year	$ 3,193,616	$ 2,939,938
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	$ -	$ -

Magnolia Science Academy

Debt Service Coverage		
Net income	$	439,957
Depreciation and amortization		68,205
Management fees (50%)		430,263
Rent		1,391,320
Income Available for Coverage		2,329,745
Debt Service		1,391,320
Debt Service Coverage		1.67
Limit		1.10
Compliance		Yes

Consolidated Days Cash on Hand		
Total Expenses	$	9,255,012
Depreciation and amortization		68,205
Cash Expenses		9,186,807
Expense/Day		25,169
Cash		2,636,263
Days Cash on Hand		105
Limit		45
Compliance		Yes

Magnolia Science Academy Santa Ana

Debt Service Coverage		
Net income	$	90,043
Depreciation and amortization		583,197
Management fees (50%)		292,763
Rent		582,787
Income Available for Coverage		1,548,790
Debt Service		582,787
Debt Service Coverage		2.66
Limit		1.10
Compliance		Yes

Consolidated Days Cash on Hand		
Total Expenses	$	7,404,779
Depreciation and amortization		583,197
Cash Expenses		6,821,582
Expense/Day		18,689
Cash		2,509,874
Days Cash on Hand		134
Limit		45
Compliance		Yes

Magnolia Science Academy San Diego

Debt Service Coverage		
Net income	$	(51,265)
Depreciation and amortization		14,699
Management fees (50%)		97,501
Rent		476,172
Income Available for Coverage		537,107
Debt Service		476,172
Debt Service Coverage		1.13
Limit		1.10
Compliance		Yes

Consolidated Days Cash on Hand		
Total Expenses	$	4,438,626
Depreciation and amortization		14,699
Cash Expenses		4,423,927
Expense/Day		12,120
Cash		1,269,671
Days Cash on Hand		105
Limit		45
Compliance		Yes

	MERF	MSA	MSA 2	MSA 3	MSA 4	MSA 5	MSA 6
Land	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Leasehold improvements	-	2,360,135	-	-	-	-	-
Building	-	226,898	10,062	-	-	-	-
Computer and equipment	134,513	422,141	562,449	283,698	206,678	225,539	196,157
Work in progress	-	960,171	-	-	-	-	-
Total property and equipment	134,513	3,969,345	572,511	283,698	206,678	225,539	196,157
Less accumulated depreciation	(118,754)	(429,906)	(423,243)	(251,642)	(164,331)	(165,890)	(152,220)
Total	$ 15,759	$ 3,539,439	$ 149,268	$ 32,056	$ 42,347	$ 59,649	$ 43,937

	MSA 7	MSA Bell	MSA Santa Ana	MSA San Diego	MPM Inc. / LLC	2020 Consolidated	2019 Consolidated
Land	$ -	$ -	$ -	$ -	$ 2,566,854	$ 2,566,854	$ 2,566,854
Building improvements	-	-	-	-	-	2,360,135	-
Building	492,294	-	22,352,893	-	24,546,747	47,628,894	28,398,928
Computer and equipment	139,454	393,497	350,261	692,124	-	3,606,511	2,808,123
Work in progress	-	-	-	-	1,466,201	2,426,372	21,587,963
Total property and equipment	631,748	393,497	22,703,154	692,124	28,579,802	58,588,766	55,361,868
Less accumulated depreciation	(126,818)	(316,459)	(2,235,157)	(402,476)	(1,156,195)	(5,943,091)	(4,871,177)
Total	$ 504,930	$ 77,038	$ 20,467,997	$ 289,648	$ 27,423,607	$ 52,645,675	$ 50,490,691

Note 1 - Purpose of Supplementary Schedules

Schedule of Expenditures of Federal Awards

Basis of Presentation
The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2020. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Summary of Significant Accounting Policies
Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Indirect Cost Rate
The Organization has not elected to use the ten percent de minimis cost rate.

The Schedule Reconciliation
The following schedule provides reconciliation between revenues reported on the consolidated Statement of Activities, and the related expenses reported on the schedule. The reconciling amounts consist primarily of State Charter School Facilities Incentive Grant Program funds that have been recorded in the current period as revenues that have not been expended as of June 30, 2020. These unspent balances are reported as legally restricted ending balances within the Organization.

Description	CFDA Number	Amount
Total Federal Revenues reported on the consolidated financial statements		$ 2,847,974
State Charter School Facilities Incentive Grant Program	84.282D	(178,636)
Total Schedule of Expenditures of Federal Awards		$ 2,669,338

Local Education Agency Organization Structure

This schedule provides information about the Organization's operations, members of the governing board, and members of the administration.

Consolidating Statement of Financial Position and Consolidating Statement of Activities

The Consolidating Statement of Financial Position and Consolidating Statement of Activities report the activities of the Organization and related entities and are presented on the accrual basis of accounting. Eliminating entries in the Consolidating Statement of Financial Position and Consolidating Statement of Activities are for activities between Organization and the related entities.

Foundation Only Comparative Statements

The accompanying foundation only comparative financial statements report the individual program of Magnolia Education & Research Foundation and are presented on the accrual basis of accounting.

Debt Covenants

Some of the Organization's loan agreements are subject to covenant clauses, whereby the Organization is required to meet certain key financial ratios. This schedule provides information related to the debt covenant ratios and related information.

Consolidating Schedule of Property and Equipment

The accompanying consolidating schedule of property and equipment present the comparative balances for Organization and the Subsidiaries property and equipment.

Independent Auditor's Reports
June 30, 2020

Magnolia Educational & Research Foundation

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governing Board
Magnolia Educational & Research Foundation
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Educational & Research Foundation and Subsidiaries (the Organization) which comprise the consolidated statement of financial position as of June 30, 2020, and the related statement of activities, functional expenses, and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 22, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be significant deficiencies.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Organization'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 financial statements. 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*.

The Organization's Response to Findings
The Organization's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization'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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Rancho Cucamonga, California
March 22, 2021

Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Governing Board
Magnolia Educational & Research Foundation
Los Angeles, California

Report on Compliance for the Major Federal Program
We have audited Magnolia Educational & Research Foundation's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2020. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for the Organization's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program
In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

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

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

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

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

Eide Bailly LLP

Rancho Cucamonga, California
March 22, 2021

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

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

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

The following finding represents significant deficiencies related to the consolidated financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control

2020-001 Code 30000

Criteria or Specific Requirements

Management is responsible for the design, implementation, and maintenance of internal controls to ensure that the financial statements are free from material misstatements, whether due to error or fraud. This includes the posting of all material adjustments necessary to close the year and accurately reflect the activity of the Organization.

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.

Questioned costs

There are no questioned costs identified with the condition note.

Context

An accrual related to accounts receivable, prepaid expenses, accounts payable, and refundable advance were not recorded and accounted for.

Effect

During the course of our engagement, management identified material audit adjustments to the recorded account balances in the financial statements which, if not recorded, would have resulted in a material misstatement of the financial statements.

Cause

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

Recommendation

We recommend management and those charged with governance evaluate the internal control structure and consider changes as necessary that will ensure that the financial statements are free from potential material misstatements and allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

Repeat Finding (Yes or No)

No

Corrective Action Plan and Views of Responsible Officials

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

None reported.

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