



Financial Statements
June 30, 2020 and 2019

Magnolia Science Academy Santa Ana Charter No. 1686



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Independent Auditor's Report

Governing Board
Magnolia Science Academy Santa Ana
Santa Ana, California

Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Science Academy Santa Ana (the Organization) (a California Nonprofit Public Benefit Corporation), 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 financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the 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 financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The 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 other accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Organization's financial statements, and we expressed an unmodified audit opinion on those audited 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 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.



Rancho Cucamonga, California
March 22, 2021

Magnolia Science Academy Santa Ana
Statement of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 2,509,874	\$ 882,408
Accounts receivable	575,383	217,899
Intercompany receivable	-	618,358
Prepaid expenses	3,106	635
Total current assets	3,088,363	1,719,300
Non-current assets		
Capital contribution	75,554	75,554
Property and equipment, net	20,467,997	20,970,579
Total non-current assets	20,543,551	21,046,133
Total assets	\$ 23,631,914	\$ 22,765,433
Liabilities		
Current liabilities		
Accounts payable	\$ 1,730,927	\$ 413,791
Refundable advance	-	664
Refundable advance - Paycheck Protection Program (PPP)	751,656	-
Intracompany payable	1,405,810	2,375,621
Current portion of notes payable	99,583	94,583
Current portion of revolving loan	232,597	228,013
Total current liabilities	4,220,573	3,112,672
Long-term liabilities		
Notes payable, less current portion	3,986,805	4,086,805
Revolving loan, less current portion	7,805,977	8,037,440
Total long-term liabilities	11,792,782	12,124,245
Total liabilities	16,013,355	15,236,917
Net Assets		
Without donor restrictions	7,618,559	7,528,516
Total liabilities and net assets	\$ 23,631,914	\$ 22,765,433

Magnolia Science Academy Santa Ana
Statement of Activities
Year Ended June 30, 2020 and 2019

	2020	2019
Support and revenues		
Local Control Funding Formula	\$ 6,056,968	\$ 6,767,105
Federal revenue	571,325	415,188
Other state revenue	758,855	981,462
Local revenues	107,674	74,339
Total support and revenues	7,494,822	8,238,094
Expenses		
Program services	4,940,362	5,241,445
Management and general	2,464,417	2,970,426
Total expenses	7,404,779	8,211,871
Change in Net Assets	90,043	26,223
Net Assets, Beginning of Year	7,528,516	7,502,293
Net Assets, End of Year	\$ 7,618,559	\$ 7,528,516

Magnolia Science Academy Santa Ana

Statement of Functional Expenses

Year Ended June 30, 2020

	Program Services	Management and General	Total Expenses
Salaries	\$ 2,761,595	\$ 794,350	\$ 3,555,945
Employee benefits	502,895	2,679	505,574
Payroll taxes	610,063	190,842	800,905
Fees for services	-	10,087	10,087
Advertising and promotions	-	2,899	2,899
Office expenses	39,511	8,504	48,015
Information technology	19,000	-	19,000
Occupancy	-	155,610	155,610
Travel	-	467	467
Interest	-	582,787	582,787
Depreciation	583,197	-	583,197
Insurance	-	33,717	33,717
Other expenses	78,659	96,949	175,608
Capital outlay	38,605	-	38,605
Special education	198,821	-	198,821
Instructional materials	45,764	-	45,764
Nutrition	2,789	-	2,789
District oversight fees	59,463	-	59,463
Management fees	-	585,526	585,526
Total functional expenses	<u>\$ 4,940,362</u>	<u>\$ 2,464,417</u>	<u>\$ 7,404,779</u>

Magnolia Science Academy Santa Ana

Statement of Cash Flows

Year Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 90,043	\$ 26,223
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation expense	583,197	560,847
Changes in operating assets and liabilities		
Accounts receivable	(357,484)	799,588
Intercompany receivable	618,358	(583,928)
Prepaid expenses	(2,471)	231
Security deposits	-	19,890
Accounts payable	1,317,137	(537,678)
Deferred revenue	(664)	664
Refundable advance - PPP	751,656	-
Intercompany payable	(969,811)	193,734
Net Cash from Operating Activities	<u>2,029,961</u>	<u>479,571</u>
Cash Flows used for Investing Activities		
Purchases of property and equipment	<u>(80,616)</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	1,627,466	173,550
Cash and Cash Equivalents, Beginning of Year	<u>882,408</u>	<u>708,858</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,509,874</u>	<u>\$ 882,408</u>
Supplemental Cash Flow Disclosure		
Cash paid during the period in interest	<u>\$ 582,787</u>	<u>\$ 582,787</u>

Note 1 - Principal Activity and Significant Accounting Policies**Organization****Magnolia Science Academy Santa Ana**

Charter school number authorized by the State: 1686

Magnolia Science Academy Santa Ana (the Organization), 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. The Organization was created under the approval of the California State Board of Education, and receives public per-pupil funding to help support their operation. MSA Santa Ana is economically dependent on Federal and State funding.

Other Related Entity**Magnolia Educational and Research Foundation**

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

Administrative support provided to the individual schools and accounted for separately within the financial statements. School support uses a tier expense allocation structure based on student enrollment to calculate expenses to be charged out on each charter school.

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 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.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Basis of Accounting

The accompanying 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 funds.

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 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.

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.

Intercompany Receivable/Payable

Intercompany 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 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.

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 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 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 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 \$751,656 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 \$751,656 in loan.

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, 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 and is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies and 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	\$ 2,509,874	\$ 882,408
Accounts receivable	575,383	217,899
Intercompany receivable	-	618,358
	<u> </u>	<u> </u>
Total	<u>\$ 3,085,257</u>	<u>\$ 1,718,665</u>

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
Building	\$ 22,352,893	\$ 22,157,822
Computer and equipment	350,261	269,645
Work in progress	-	195,071
	<u> </u>	<u> </u>
Total property and equipment	22,703,154	22,622,538
Less accumulated depreciation	<u>(2,235,157)</u>	<u>(1,651,959)</u>
Total	<u>\$ 20,467,997</u>	<u>\$ 20,970,579</u>

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:

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

Note 5 - 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:

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

Note 6 - 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	\$ 206,008	\$ -
Designated for state programs	157,707	272,871
Undesignated	7,254,844	7,255,639
	<u>\$ 7,618,559</u>	<u>\$ 7,528,510</u>
Total net assets without donor restrictions		

Note 7 - 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 December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	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 \$546,719.

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)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
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 \$133,686.

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 \$86,229 (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 \$28,924 in these financial statements.

Note 8 - 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 9 - 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 Science Academy Santa Ana

ORGANIZATION

Magnolia Science Academy Santa Ana (the Organization) (Charter No. 1686) was granted on August 1, 2014, by State Board of Education for the five year period ending June 30, 2024. The Organization operates one school, grades kindergarten through twelve.

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)
Steven Keskinturk	Principal

Magnolia Science Academy Santa Ana
 Schedule of Average Daily Attendance
 Year Ended June 30, 2020

	Second Period Report 5861EFEB	Annual Report 8A5BB2AA
	<u> </u>	<u> </u>
Regular ADA		
Transitional kindergarten through third	161.64	161.64
Fourth through sixth	140.97	140.97
Seventh and eighth	94.55	94.55
Ninth through twelfth	<u>129.35</u>	<u>129.35</u>
Total Regular ADA	<u><u>526.51</u></u>	<u><u>526.51</u></u>
 Classroom Based ADA		
Transitional kindergarten through third	161.64	161.64
Fourth through sixth	140.97	140.97
Seventh and eighth	94.55	94.55
Ninth through twelfth	<u>129.35</u>	<u>129.35</u>
Total Classroom Based ADA	<u><u>526.51</u></u>	<u><u>526.51</u></u>

Magnolia Science Academy Santa Ana

Schedule of Instructional Time

Year Ended June 30, 2020

Grade Level	1986-1987 Minutes Requirement	MSA Santa Ana (K-12)		Status	
		2019-2020 Actual Minutes	Number of Days		
			Traditional Calendar		Multitrack Calendar
Kindergarten	36,000	40,685	181	N/A	Complied
Grades 1 - 3	50,400				
Grade 1		54,860	181	N/A	Complied
Grade 2		54,860	181	N/A	Complied
Grade 3		54,940	181	N/A	Complied
Grades 4 - 8	54,000				
Grade 4		54,940	181	N/A	Complied
Grade 5		54,940	181	N/A	Complied
Grade 6		54,940	181	N/A	Complied
Grade 7		65,212	181	N/A	Complied
Grade 8		65,212	181	N/A	Complied
Grades 9 - 12	64,800				
Grade 9		65,212	181	N/A	Complied
Grade 10		65,212	181	N/A	Complied
Grade 11		65,212	181	N/A	Complied
Grade 12		65,212	181	N/A	Complied

Magnolia Science Academy Santa Ana
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
Year Ended June 30, 2020

Net Assets	
Balance, June 30, 2020, Unaudited Actuals	\$ 7,542,333
Decrease in	
Accounts payable	<u>76,226</u>
Balance, June 30, 2020, Audited Financial Statements	<u><u>\$ 7,618,559</u></u>

Note 1 - Purpose of Supplementary Schedules

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the Organization. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to local education agencies. This schedule provides information regarding the attendance of students at the Organization.

Schedule of Instructional Time

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

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

Due to school closures caused by COVID-19, the Organization filed the COVID-19 School Closure Certification certifying that schools were closed for 58 days due to the pandemic. As a result, the Organization received credit for these 58 days in meeting the annual instructional days requirement. In addition, planned minutes covered by the COVID-19 School Certification were included in the Actual Minutes column but were not actually offered due to the COVID-19 school closure.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the unaudited actual financial report to the audited financial statements.



Independent Auditor's Reports
June 30, 2020

Magnolia Science Academy Santa Ana



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

Governing Board
Magnolia Science Academy Santa Ana
Santa Ana, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Science Academy Santa Ana (the Organization) which comprise the 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 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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.

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

Rancho Cucamonga, California

March 22, 2021



Independent Auditor's Report on State Compliance

Governing Board
Magnolia Science Academy Santa Ana
Santa Ana, California

Report on State Compliance

We have audited Magnolia Science Academy Santa Ana's (the Organization) compliance with the types of compliance requirements described in the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* applicable to the state laws and regulations listed in the table below for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the state laws and regulations as identified in the table below.

Auditor's Responsibility

Our responsibility is to express an opinion on the Organization's compliance with state laws and regulations based on our audit of the types of compliance requirements referred to below. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements listed below has 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 state compliance. However, our audit does not provide a legal determination of the Organization's compliance.

Compliance Requirements Tested

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

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	No, see below
Teacher Certification and Misassignments	No, see below
Kindergarten Continuance	No, see below
Independent Study	No, see below
Continuation Education	No, see below
Instructional Time	No, see below
Instructional Materials	No, see below
Ratio of Administrative Employees to Teachers	No, see below
Classroom Teacher Salaries	No, see below
Early Retirement Incentive	No, see below
Gann Limit Calculation	No, see below
School Accountability Report Card	No, see below
Juvenile Court Schools	No, see below
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	No, see below
Transportation Maintenance of Effort	No, see below
Apprenticeship: Related and Supplemental Instruction	No, see below
Comprehensive School Safety Plan	No, see below
District of Choice	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
California Clean Energy Jobs Act	No, see below
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below

CHARTER SCHOOLS

Procedures
Performed

Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Nonclassroom-Based Instruction	No, see below
Annual Instructional Minutes – Classroom Based	Yes
Charter School Facility Grant Program	No, see below

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

We did not perform California Clean Energy Jobs Act procedures because the Organization did not receive funding for this program.

We did not perform procedures for the After/Before School Education and Safety Program because the Organization does not offer the program.

The Organization does not offer an Independent Study - Course Based program; therefore, we did not perform any procedures related to the Independent Study - Course Based Program.

We did not perform procedures for the Nonclassroom-Based Instruction/Independent Study nor for Determination of Funding for Nonclassroom-Based Instruction because the Organization is classroom-based.

We did not perform procedures for the Charter School Facility Grant Program because the Organization did not receive funding for this program.

Unmodified Opinion

In our opinion, the Organization complied with the laws and regulations of the state programs referred to above for the year ended June 30, 2020.

The purpose of this report on state compliance is solely to describe the results of our testing based on the requirements of the *2019-2020 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.



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	None reported
Noncompliance material to financial statements noted?	No

STATE COMPLIANCE

Type of auditor's report issued on compliance for programs:	Unmodified
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None reported.

None reported.

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

2019-001 Code 30000

Criteria or Specific Requirements

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

Condition

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

Questioned costs

There are no questioned costs identified with the condition note.

Context

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

Effect

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

Cause

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

Recommendation

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

Repeat Finding (Yes or No)

No

Current status

Implemented.