



**MAGNOLIA EDUCATIONAL &
RESEARCH FOUNDATION**

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Magnolia Educational & Research Foundation and affiliates
(A California Nonprofit Public Benefit Corporation)
Westminster, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Magnolia Educational & Research Foundation (MERF) (A California Nonprofit Public Benefit Corporation) and affiliates, which are comprised of the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the basic financial statements.

Management's Responsibility for the Consolidated 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 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 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 MERF and affiliate'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 MERF and affiliate'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of MERF and affiliates as of June 30, 2015, 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 that collectively comprise MERF and affiliate's basic financial statements. The supplementary information such as the Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information as referenced in the previous paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards and other accompanying supplementary information as listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015, on our consideration of MERF and affiliate'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 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 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 MERF and affiliate's internal control over financial reporting and compliance.

Varrink, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2015

FINANCIAL STATEMENTS

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$ 10,173,244
Restricted cash and cash equivalents	998,292
Accounts receivable	4,170,911
Prepaid expenses and other current assets	29,854
Total Current Assets	<u>15,372,301</u>

Non-Current Assets:

Debt issue costs, net	126,849
Security deposits	110,561
Fixed assets	10,716,608
Less: accumulated depreciation	<u>1,795,398</u>
Total Non-Current Assets	<u>9,158,620</u>
Total Assets	<u>\$ 24,530,921</u>

LIABILITIES

Current Liabilities:

Accounts payable and accruals	\$ 2,569,245
Deferred revenue	445,725
Current portion of long-term obligations	244,392
Total Current Liabilities	<u>3,259,362</u>

Long-Term Obligations:

Non-current portion of long-term obligations	<u>8,263,038</u>
Total Liabilities	<u>11,522,400</u>

NET ASSETS

Unrestricted	12,010,239
Designated	998,282
Total Net Assets	<u>13,008,521</u>
Total Liabilities and Net Assets	<u>\$ 24,530,921</u>

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

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015

REVENUES

State apportionments	\$ 26,635,709
Federal revenue	2,425,080
Other State revenue	4,313,775
Rent revenue	447,519
Local revenue	535,375
Total Revenues	<u>34,357,458</u>

EXPENSES

Program services:	
Salaries and benefits	19,967,246
Student services	2,190,954
Materials and supplies	985,129
Student nutrition	1,182,504
Other expenses	300,509
Subtotal	<u>24,626,342</u>

Management and general:

Depreciation	286,341
Occupancy	2,669,178
Operating expenses	3,704,719
Interest	8,485
Subtotal	<u>6,668,723</u>
Total Expenses	<u>31,295,065</u>

CHANGE IN NET ASSETS

NET ASSETS, BEGINNING OF YEAR	3,062,393
NET ASSETS, END OF YEAR	<u>9,946,128</u>
	<u>\$ 13,008,521</u>

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

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 3,062,393
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	286,341
Changes in operating assets and liabilities:	
(Increase) Decrease in assets	
Accounts receivable	539,884
Pledge receivable	150,000
Prepaid expenses and other current assets	(29,854)
Security deposits	162,823
Increase in liabilities	
Accounts payable and accruals	335,939
Deferred revenue	116,704
Net Cash Provided by Operating Activities	<u>4,624,230</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Capital expenditures	(627,399)
Change to capital assets, net	(21,298)
Net Cash Used by Investing Activities	<u>(648,697)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Loan principal payments	(46,890)
Proceeds from long-term debt obligation	86,589
Cash restricted to meet debt obligation	(998,292)
Net Cash Used by Financing Activities	<u>(958,593)</u>

NET INCREASE IN CASH	<u>3,016,940</u>
CASH AND CASH EQUIVALENTS,	
BEGINNING OF YEAR	<u>7,156,304</u>
CASH AND CASH EQUIVALENTS,	
END OF YEAR	<u>\$ 10,173,244</u>

Supplemental cash flow disclosure:

Cash paid during the period for interest	<u>\$ 8,485</u>
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The accompanying notes are an integral part of these financial statements.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - ORGANIZATION AND MISSION

Magnolia Educational & Research Foundation

Magnolia Educational & Research Foundation (MERF) is a California not-for-profit organization. During the fiscal year ended June 30, 2015, MERF operated eleven Magnolia Science Academy (MSA) kindergarten through grade twelve charter schools serving 3,790 students throughout California 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 charter schools offer the following programs, which are mostly free of charge:

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

The charter schools operate under the approval of the California State Board of Education, Santa Clara County Office 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.

Other Related Entities

MPM Sherman Way, LLC

Magnolia Educational & Research Foundation, (MERF), formed the MPM Sherman Way, LLC (the LLC) exclusively for the acquisition of property and assets of Magnolia Science Academy Charter Schools, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. The Charter Schools makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA 1 Reseda Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of MERF. MERF is the sole member of the LLC.

Joint Powers Agency and Risk Management Pools

Magnolia Science Academy Charter Schools are associated with the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE. CharterSAFE does not meet the criteria for inclusion as a component unit of MERF. Additional information is presented in Note 14 to the financial statements.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by MERF are described below to enhance the use of the consolidated financial statements to the reader.

Financial Statement Presentation

MERF is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. MERF had no temporarily or permanently restricted net assets, as of June 30, 2015. In addition, MERF is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, Not-for-Profit Organizations accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized in the accounting period in which the liability is incurred.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or when the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions". MERF and the LLC had no temporarily or permanently restricted net assets at June 30, 2015.

In-kind contributions are recorded at their estimated fair values at the date of donation. Donated services are recorded if they create or enhance non-financial assets or require a specialized skill that MERF would otherwise need to purchase. As of June 30, 2015, no in-kind contributions of services were received.

Government grants are recognized as revenue in accordance with the terms of the applicable grant agreement, which generally require revenue recognition upon incurrence of expenses related to the specified services. Deferred revenue is recorded to the extent cash received on specific grants exceeds qualified expenses.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Income Taxes

MERF is a nonprofit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as a public charity described in Section 509(a)(1) Type 1 supporting organizations and is exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. The statute of limitations for Federal and California State purposes is generally three and four years, respectively.

MERF has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the consolidated financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. MERF management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

Cash and Cash Equivalents

For purposes of the Consolidated Statement of Cash Flows, MERF considers all highly liquid investments available for current use with an initial maturity of three months or less to be considered as cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2015, management had determined all accounts receivable are fully collectible and no allowance for bad debts has been established.

Intra-company Receivable/Payable

Intra-company receivable/payable results from a net cumulative difference between resources provided by MERF Headquarters to each individual charter school and reimbursement for those resources from each individual charter school to MERF Headquarters.

Fixed Assets

It is MERF's policy to capitalize individual property and equipment purchases over \$5,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Building and leasehold improvements, furniture, and equipment are depreciated using the straight-line method, from two to 30 years. Depreciation expense for the year ended June 30, 2015, was \$286,341.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Property and Equipment

Property and equipment is capitalized at cost or fair market value on the date of receipt in the case of donated property. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are depreciated over the lease term (including options) or the useful life. Major additions are capitalized, and repairs and maintenance that do not improve or extend the life of the assets are expensed. When assets are sold or retired, their cost and the related accumulated depreciation are removed from the accounts with the resulting gain or loss reflected in the Statement of Activities.

Net Asset Classes

Magnolia Science Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net assets of the Magnolia Science Academy consist of the following:

Unrestricted - All resources over which the governing board has discretionary control to use in carrying on the general operations of MERF and the LLC.

Temporarily restricted - These net assets are restricted by donors to be used for specific purposes. MERF and the LLC do not have temporarily restricted net assets.

Permanently restricted - These net assets are permanently restricted by donors and cannot be used. MERF and the LLC do not have permanently restricted net assets.

Consolidation

The consolidated financial statements include the accounts of MERF, the LLC, and all MSA charter schools. All significant intra-company accounts and transactions have been eliminated in consolidation.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2015, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 10,002,410</u>	<u>\$ 11,540,537</u>

The majority of MERF's cash is held in bank accounts, which are subject to federally insured limits of \$250,000. MERF has not experienced any losses in such accounts. At June 30, 2015, MERF had \$9,470,685 in excess of FDIC insured limits in bank accounts.

NOTE 4 - RESTRICTED CASH AND CASH EQUIVALENTS

At June 30, 2015, cash held for restricted purposes consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Facility reserve	<u>\$ 998,292</u>	<u>\$ 998,292</u>

NOTE 5 - INVESTMENTS

Summary of Investments

Two MSA charter schools have investments held in county investment pools. Investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Magnolia Science Academy San Diego

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Fair Market Value</u>
San Diego County Treasury Investment Pool	<u>\$ 102,156</u>	<u>\$ 102,103</u>

Magnolia Science Academy Santa Ana

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Fair Market Value</u>
Orange County Treasury Investment Pool	<u>\$ 68,678</u>	<u>\$ 68,550</u>

Deposits with county treasurer are an external investment pool sponsored by the County of San Diego and Orange, respectively. County deposits are not required to be categorized. The pools provided the fair value for these deposits.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The charter schools do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The charter schools manage exposure to interest rate risk by investing in the County Pool.

NOTE 6- MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES

MERF determines the fair market values of certain financial instruments based on the fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 asset and liabilities may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and other instruments whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, derivative contracts, residential mortgage, and loans held-for-sale.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, residential MSRs, asset-backed securities (ABS), highly structured or long-term derivative contracts and certain collateralized debt obligations (CDO) where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2015. MERF did not have any liabilities measured at fair value on a recurring basis as of June 30, 2015.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Magnolia Science Academy San Diego

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
San Diego County Investment Pool	2	\$ 102,103	253

Magnolia Science Academy Santa Ana

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Investment Pool	2	\$ 68,550	278

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of the following:

Local Control Funding Formula	\$ 2,501,465
Federal receivable	556,876
State receivable	174,872
Due From LACOE	360,947
Local receivable	415,598
Lottery	161,153
Total Accounts Receivable	\$ 4,170,911

Revenue

MERF received 94 percent of its revenue in the form of fees and grants from government programs for the year ended June 30, 2015. The balance due from those programs accounted for 96 percent of accounts receivable at June 30, 2015. Without these sources of revenue, MERF would have difficulty maintaining its operations.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 8 - FIXED ASSETS

Fixed assets at June 30, 2015, consisted of the following:

Land	\$ 1,386,754
Building improvements	3,134,064
Leasehold improvements	402,722
Computer and equipment	1,962,040
Work in progress	<u>3,831,028</u>
Subtotal	10,716,608
Less: accumulated depreciation	<u>(1,795,398)</u>
Total Fixed Assets	<u>\$ 8,921,210</u>

During the year ended June 30, 2015, \$286,341 was charged to depreciation expense.

NOTE 9 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2015, consisted of the following:

Salaries and benefits	\$ 301,318
Vendor payables	729,537
Other payable	<u>1,538,390</u>
Total Accounts Payable and Accruals	<u>\$ 2,569,245</u>

NOTE 10 - LONG-TERM OBLIGATIONS

At June 30, 2015, MERF's long-term obligations summary is as follows:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due in One Year
Bonds payable	\$ 6,020,000	\$ -	\$ -	\$ 6,020,000	\$ 70,000
Revolving and CCSF loans	2,447,731	-	46,890	2,400,841	116,666
Notes payable	-	86,589	-	86,589	57,726
Total	<u>\$ 8,467,731</u>	<u>\$ 86,589</u>	<u>\$ 46,890</u>	<u>\$ 8,507,430</u>	<u>\$ 244,392</u>

California School Finance Authority (CSFA) School Facility Revenue Bonds

In June 2004, the CSFA issued \$6,020,000 in School Facilities Revenues, Series 2014A and Series 2014B for the purpose of a loan to MPM Sherman Way, LLC. The proceeds from the bonds will be used for the purpose of purchase, renovations, and improvement of charter school facilities. The bonds mature August 2044, with monthly interest payments due commencing July 1, 2044. At June 30, 2015, the principal balance outstanding was \$6,020,000.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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The bonds mature through 2044 as follows:

<u>Repayment Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2016	\$ 70,000	\$ 372,896	\$ 442,896
2017	80,000	362,887	442,887
2018	85,000	357,287	442,287
2019	90,000	351,337	441,337
2020	100,000	345,037	445,037
2021-2025	580,000	1,639,436	2,219,436
2026-2030	760,000	1,458,835	2,218,835
2031-2035	1,260,000	1,202,035	2,462,035
2036-2040	1,460,000	967,197	2,427,197
2041-2044	1,535,000	247,186	1,782,186
Total	<u>\$ 6,020,000</u>	<u>\$ 7,304,133</u>	<u>\$ 13,324,133</u>

Revolving Loans

At June 30, 2015, MERF's revolving loans are as follows:

Magnolia Science Academy 2

Magnolia Science Academy 2 applied for, and was accepted into, the California School Finance Authority Charter School Revolving Loan Program. The Charter School received a loan in the amount of \$100,000. The loan bears an interest rate of 0.24 percent. The terms of the loan require four annual payments of \$25,000 over the next four years and are to be withheld from the apportionment payments. The maturity date is June 30, 2017.

Future payments are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Payments</u>
2016	\$ 25,000
2017	25,000
Total	<u>\$ 50,000</u>

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Magnolia Science Academy Santa Ana

Magnolia Science Academy Santa Ana received unsecured revolving loan payable to the California Department of Education totaling \$150,000 on November 30, 2012. The loan balance as of June 30, 2015, was \$75,000. The loan has an interest rate of 0.53 percent and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on October 30, 2013. The State Controller's Office deducts the loan payments from the Charter School's State School Fund Apportionments.

Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2016	\$ 25,000
2017	25,000
2018	25,000
Total	<u>\$ 75,000</u>

Magnolia Science Academy Santa Ana has been approved by the State of California's Charter School Facilities Program (CCSF) for \$17,413,956 for constructing a new facility, which will cost the same amount. The State will fund 50 percent of the total amount of \$17,413,956; the State will fund 50 percent of the total project cost through a loan in the amount of \$8,706,978 and the other 50 percent through a grant in the amount of \$8,706,978. The loan has an annual interest rate of 3.00 percent and it matures 30 years after the completion of the project. The outstanding loan balance as of June 30, 2015, was \$2,040,702.

Magnolia Science Academy San Diego

MSA SD Charter School has been approved by the State of California's Charter School Facilities Program (CCSF) 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 2016. The repayment schedule will be determined after completion of the project. The State Controller's Office will deduct the loan payments from the Charter School's State School Fund Apportionments. The outstanding loan balance as of June 30, 2015, was \$151,806.

Magnolia Educational & Research Foundation

In March 2010, Pacific Technology School - Orangevale received an unsecured revolving loan payable to the California Department of Education totaling \$250,000 on March 23, 2010. The loan balance as of March 1, 2015, was \$100,665. Due to the closure of the school, MERF has assumed the repayment of the loan, and has worked out a payment plan with the California School Finance Authority.

In March 2010, the California Department of Education (CDE) awarded a \$250,000 loan to Pacific Technology School - Orangevale (CDS Code: 09-76596-0119529) for a five-year tenet through the Charter School Revolving Loan Fund Program (CSRLF). Effective July 1, 2013, Assembly Bill 86 (Chapter 48, Statutes of 2013) authorized the transfer of the administration of the Charter School Revolving Loan Fund from the CDE to the California School Finance Authority (Authority). The outstanding loan balance was \$83,333. The current portion of long-term obligation as of June 30, 2015, is \$66,666.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Pacific Technology School Orangevale Closure

Pacific Technology School - Orangevale (PTS- Orangevale) closed in June 2013. Due to the closure, the school was unable to pay their fourth year through the intercept based on the original agreement. To repay the PTS-Orangevale revolving loan, MERF has been in communication with the California School Finance Authority to arrange a payment schedule of the remaining loan totaling \$100,000. The repayment schedule will be accordance to the document provided by the California School Finance Authority, and will include 18 monthly payments of \$5,593 that includes principal and interest.

Notes Payable

Chrome Books

The Charter School entered into a capital lease to purchase 450 chrome books for \$128,744. The terms of the loan require 36 monthly payments of \$4,276 with an interest rate of 8.00 percent and a maturity date of June 30, 2017. The balance outstanding as of June 30, 2015, is \$86,589. The current portion of the long-term obligation is \$57,726.

NOTE 11 - OPERATING LEASES

Total rental and facility expenses were \$2,716,986 for year ended June 30, 2015. Future rental and facility expenses are as follows:

Fiscal Year <u>Ending</u>	Future Lease <u>Commitments</u>
2016	\$ 1,933,592
2017	292,300
2018	298,300
2019	304,300
2020	310,300
Total	<u>\$ 3,138,792</u>

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 12 - FAIR VALUE FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of MERF financial instruments as of June 30, 2015 are as follows:

	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 10,173,244	\$ 10,173,244
Restricted cash and cash equivalents	998,292	998,292
Revolving loans	2,400,841	2,400,841
Notes payable	86,589	86,589
Bonds payable	6,020,000	6,020,000

NOTE 13 - 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 Magnolia Science Academy charter schools chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. Magnolia Science Academy charter schools 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

Magnolia Science Academy charter schools contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total actuarial value of assets are \$158 billion, the actuarial obligation is \$231 billion, contributions from all employers totaled \$2.3 billion, and the plan is 68.5 percent funded. Magnolia Science Academy charter schools did not contribute more than five percent of the total contributions to the plan.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

Magnolia Science Academy charter schools 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, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	December 31, 2012	January 1, 2013
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	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required State contribution rate	5.95%	5.95%

Contributions

Required member, Charter School and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above and Magnolia Science Academy charter schools's total contributions were \$1,001,421.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2013, the Schools Pool total plan assets are \$49 billion, the total accrued liability is \$61 billion, contributions from all employers totaled \$1.8 billion, and the plan is 80.5 percent funded. Magnolia Science Academy charter schools did not contribute more than five percent of the total contributions to the plan.

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, 2013, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2013. This report and CalPERS audited financial information are publically 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, 2015, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	December 31, 2012	January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.771%	11.771%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

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. Magnolia Science Academy charter schools 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, 2015, are presented above and the total Charter School contributions were \$94,508.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Magnolia Science Academy charter schools. These payments consist of State General Fund contributions to CalSTRS in the amount of \$461,694 (5.679 percent of Magnolia Science Academy charter schools' 2012-2013 creditable compensation subject to CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements.

NOTE 14 - PARTICIPATION IN JOINT POWERS AUTHORITY

Magnolia Science Academy Charter Schools are participants in the California Charter Schools Joint Powers Authority (CCS-JPA) *dba* CharterSAFE for risk management services for workers' compensation and charter school liability insurance. The relationship between MERF and CharterSAFE is such that CharterSAFE is not considered a component unit of MERF for financial reporting purposes.

CharterSAFE has budgeting and financial reporting requirements independent of member units and CharterSAFE's financial statements are not presented in these financial statements; however, transactions between CharterSAFE and Magnolia Science Academy Charter Schools are included in these statements. Audited financial statements for CharterSAFE were not available for fiscal year 2014-2015 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2015, Magnolia Science Academy Charter Schools made payments of \$344,113 to CharterSAFE for services received. At June 30, 2015, MERF had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 15 - CONTINGENCIES

MERF 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.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2015

Litigation

The Charter School is not currently a party to any legal proceedings.

NOTE 16 - SUBSEQUENT EVENTS

MERF's management has evaluated events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements from the balance sheet date through December 15, 2015, which is the date the consolidated financial statements were available to be issued. Management has determined that there were no subsequent events or transactions, other than those noted below, that would have a material impact on the current year consolidated financial statements.

Purchase of Property

In October 2015, MERF purchased the school site located at 18228 Sherman Way, Los Angeles, California for \$3.8 million.

Facilities Agreements

Magnolia Science Academy Santa Clara has renewed its facilities use lease agreement in Santa Clara, California. The terms of the new lease began August 1, 2015, and expire on July 31, 2018. The Charter School will make monthly rent and maintenance expense payments.

Magnolia Science Academy San Diego has renewed its Facilities Use Permit Agreement with SDUSD. The terms of the new lease began July 1, 2015, and expire on June 30, 2020, and are calculated at two percent of revenues of the Charter School in accordance with substantially rent-free facilities under Proposition 39. The Charter School will make ten equal monthly rent and maintenance expense payments.

SUPPLEMENTARY INFORMATION

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Individuals with Disabilities Act (IDEA)			
Special Education (IDEA):			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 577,268
No Child Left Behind Act (NCLB)			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14981	1,000,056
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	3,367
Title II, Part A, Improving Teacher Quality Local Grants	84.367	14341	13,882
Title III Cluster:			
Title III, Immigrant Education Program	84.365	15146	7,690
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	16,726
Total Title III Cluster			<u>24,416</u>
Title V, Part B - Public Charter Schools Grant Program	84.282	14531	21,000
Total U.S. Department of Education			<u>1,639,989</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Especially Needy Breakfast	10.553	13526	243,866
National School Lunch Program	10.555	13524	541,225
Total U.S. Department of Agriculture			<u>785,091</u>
Total Federal Programs			<u>\$ 2,425,080</u>

See accompanying note to supplementary information.

**MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)**

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
FOR THE YEAR ENDED JUNE 30, 2015**

ORGANIZATION

MERF operates eleven schools in California under eleven charters. Each school is operated on the same tax identification number as MERF. 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, 2015, the charter schools operated by MERF were as follows:

Charter School Name	Charter Number	Sponsoring District	Charter Expiration	Grades Served	Number of Students Served
Magnolia Science Academy	0438	Los Angeles USD	June 30, 2017	4-12	535
Magnolia Science Academy 2	0906	Los Angeles USD	June 30, 2020	6-12	429
Magnolia Science Academy 3	0917	Los Angeles USD	June 30, 2017	6-12	450
Magnolia Science Academy 4	0986	Los Angeles USD	June 30, 2020	6-12	196
Magnolia Science Academy 5	0987	Los Angeles USD	June 30, 2020	6-12	112
Magnolia Science Academy 6	0988	Los Angeles USD	June 30, 2016	4-8	145
Magnolia Science Academy 7	0989	Los Angeles USD	June 30, 2020	k-6	300
Magnolia Science Academy Bell	1236	13379	June 30, 2020	6-12	495
Magnolia Science Academy San Diego	0698	San Diego USD	June 30, 2020	6-9	365
Magnolia Science Academy Santa Ana	0943	CDE	June 30, 2019	6-12	165
Magnolia Science Academy Santa Clara	1116	Santa Clara COE	June 30, 2018	4-9	492

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Dr. Umit Yapanel, Ph.D.	President	October 10, 2017
Mrs. Noel Russell-Unterburger	Treasurer	October 10, 2017
Saken Sherkhanov	Secretary	December 11, 2018
Mr. Nguyen Huynh	Director	October 10, 2017
Dr. Mustafa Kaynak, Ph.D.	Director	December 10, 2019
Dr. Remzi Oten, Ph.D.	Director	March 11, 2020

ADMINISTRATION

Caprice Young, Ed.D.	Chief Executive Officer, Superintendent
Oswaldo Diaz	Chief Financial Officer

See accompanying note to supplementary information.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

	MERF	MSA-1	MSA-2	MSA-3	MSA-4	MSA-5
ASSETS						
Current Assets:						
Cash and cash equivalents	\$ 184,383	\$ 1,737,714	\$ 571,069	\$ 183,685	\$ 352,618	\$ 925,625
Restricted cash and cash equivalents	-	-	-	-	-	-
Accounts receivable	-	440,019	362,421	360,992	142,430	66,084
Intra-company receivable	1,093,266	-	103,066	307,336	24,822	180,692
Prepaid expenses and other current assets	-	-	-	-	-	-
Total Current Assets	1,277,649	2,177,733	1,036,556	852,013	519,870	1,172,401
Non-Current Assets:						
Debt issue cost, net	-	-	-	-	-	-
Security deposits	1,525	39,035	-	-	-	-
Fixed assets	134,513	658,685	198,585	136,648	117,493	111,918
Less: accumulated depreciation	107,684	583,322	139,376	128,230	91,160	91,406
Total Non-Current Assets	28,354	114,398	59,209	8,418	26,333	20,512
Total Assets	\$ 1,306,003	\$ 2,292,131	\$ 1,095,765	\$ 860,431	\$ 546,203	\$ 1,192,913
LIABILITIES						
Current Liabilities:						
Accounts payable and accruals	\$ 200,348	\$ 64,913	\$ 51,506	\$ 63,602	\$ 79,383	\$ 337,641
Intra-company payable	897,894	-	-	-	-	-
Deferred revenue	88,785	-	-	-	-	-
Current portion of long-term obligations	66,666	-	25,000	-	-	-
Total Current Liabilities	1,253,693	64,913	76,506	63,602	79,383	337,641
Long-Term Obligations:						
Non-current portion of long-term obligations	16,667	-	25,000	-	-	-
Total Liabilities	1,270,360	64,913	101,506	63,602	79,383	337,641
NET ASSETS						
Unrestricted	35,643	2,227,218	994,259	796,829	466,820	855,272
Designated	-	-	-	-	-	-
Total Net Assets	35,643	2,227,218	994,259	796,829	466,820	855,272
Total Liabilities and Net Assets	\$ 1,306,003	\$ 2,292,131	\$ 1,095,765	\$ 860,431	\$ 546,203	\$ 1,192,913

See accompanying note to supplementary information.

MSA-6	MSA-7	MSA-Bell	MSA-SD	MSA-SA	MSA-SC	LLC	Elimination	Total
\$ 806,785	\$ 924,010	\$ 2,421,557	\$ 382,157	\$ 140,106	\$ 170,245	\$ 1,373,290	\$ -	\$ 10,173,244
-	-	-	118,998	432,732	-	446,562	-	998,292
229,670	502,994	422,414	248,652	578,641	816,594	-	-	4,170,911
-	133,118	148,920	-	-	-	-	(1,991,220)	-
8,000	-	-	-	19,000	2,854	-	-	29,854
<u>1,044,455</u>	<u>1,560,122</u>	<u>2,992,891</u>	<u>749,807</u>	<u>1,170,479</u>	<u>989,693</u>	<u>1,819,852</u>	<u>(1,991,220)</u>	<u>15,372,301</u>
-	-	-	-	-	-	126,849	-	126,849
-	4,000	-	-	27,000	39,001	-	-	110,561
62,699	110,112	39,399	586,778	3,788,424	250,536	4,520,818	-	10,716,608
62,699	59,072	17,417	258,217	94,867	81,587	80,361	-	1,795,398
-	55,040	21,982	328,561	3,720,557	207,950	4,567,306	-	9,158,620
<u>\$ 1,044,455</u>	<u>\$ 1,615,162</u>	<u>\$ 3,014,873</u>	<u>\$ 1,078,368</u>	<u>\$ 4,891,036</u>	<u>\$ 1,197,643</u>	<u>\$ 6,387,158</u>	<u>\$ (1,991,220)</u>	<u>\$ 24,530,921</u>
\$ 388,721	\$ 777,660	\$ 138,208	\$ 85,518	\$ 149,228	\$ 232,517	\$ -	\$ -	\$ 2,569,245
181,177	-	-	202,149	330,000	380,000	-	(1,991,220)	-
-	-	-	2,940	354,000	-	-	-	445,725
-	-	-	-	25,000	57,726	70,000	-	244,392
<u>569,898</u>	<u>777,660</u>	<u>138,208</u>	<u>290,607</u>	<u>858,228</u>	<u>670,243</u>	<u>70,000</u>	<u>(1,991,220)</u>	<u>3,259,362</u>
-	-	-	151,806	2,090,702	28,863	5,950,000	-	8,263,038
<u>569,898</u>	<u>777,660</u>	<u>138,208</u>	<u>442,413</u>	<u>2,948,930</u>	<u>699,106</u>	<u>6,020,000</u>	<u>(1,991,220)</u>	<u>11,522,400</u>
474,557	837,502	2,876,665	516,957	1,509,374	498,537	(79,404)	-	12,010,229
-	-	-	118,998	432,732	-	446,562	-	998,292
<u>474,557</u>	<u>837,502</u>	<u>2,876,665</u>	<u>635,955</u>	<u>1,942,106</u>	<u>498,537</u>	<u>367,158</u>	<u>-</u>	<u>13,008,521</u>
<u>\$ 1,044,455</u>	<u>\$ 1,615,162</u>	<u>\$ 3,014,873</u>	<u>\$ 1,078,368</u>	<u>\$ 4,891,036</u>	<u>\$ 1,197,643</u>	<u>\$ 6,387,158</u>	<u>\$ (1,991,220)</u>	<u>\$ 24,530,921</u>

MAGNOLIA PUBLIC SCHOOLS
(A California Nonprofit Public Benefit Corporation)

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
JUNE 30, 2015

	MERF	MSA-1	MSA-2	MSA-3	MSA-4	MSA-5
CHANGES IN UNRESTRICTED NET ASSETS						
REVENUES						
State apportionments	\$ -	\$ 4,108,987	\$ 3,336,116	\$ 3,406,316	\$ 1,703,922	\$ 780,024
Federal revenue	-	600,269	222,128	490,995	138,952	78,761
Other State revenue	-	749,565	393,474	580,951	239,123	169,416
Rent revenue	-	-	-	-	-	-
Local revenue	4,812,297	71,342	53,812	16,668	30,265	6,657
Total Revenues	4,812,297	5,530,163	4,005,530	4,494,930	2,112,262	1,034,858
EXPENSES						
Program services:						
Salaries and benefits	1,490,317	2,756,741	2,190,290	2,345,482	1,036,532	619,946
Student services	29,922	368,240	320,550	352,586	153,122	84,723
Materials and supplies	29,191	190,130	127,386	142,912	30,916	37,620
Student nutrition	6,251	264,309	75,779	315,244	52,263	16,246
Other expenses	44,863	29,459	16,738	28,199	4,885	3,878
Subtotal	1,600,544	3,608,879	2,730,743	3,184,423	1,277,718	762,413
Management and general:						
Depreciation	36,278	5,820	7,720	22,673	4,264	14,927
Management fee	-	1,013,451	757,224	762,632	237,895	103,749
Occupancy	154,681	676,885	140,120	420,651	146,543	99,063
Operating expenses	1,432,967	221,826	214,576	541	217,380	85,552
Interest	3,685	-	296	72	234	3,396
Subtotal	1,627,611	1,917,982	1,119,936	1,206,569	606,316	306,687
Total Expenses	3,228,155	5,526,861	3,850,679	4,390,992	1,884,034	1,069,100
CHANGE IN UNRESTRICTED NET ASSETS	1,584,142	3,302	154,851	103,938	228,228	(34,242)
NET ASSETS (DEFICIT),						
BEGINNING OF YEAR	(1,548,499)	2,223,916	839,408	692,891	238,592	889,514
NET ASSETS, END OF YEAR	\$ 35,643	\$ 2,227,218	\$ 994,259	\$ 796,829	\$ 466,820	\$ 855,272

See accompanying note to supplementary information.

MSA-6	MSA-7	MSA-Bell	MSA-SD	MSA-SA	MSA-SC	LLC	Elimination	Total
\$ 1,155,329	\$ 2,049,711	\$ 3,611,558	\$ 2,243,691	\$ 1,155,757	\$ 3,084,298	\$ -	\$ -	\$ 26,635,709
105,101	249,512	298,515	93,377	89,864	57,606	-	-	2,425,080
221,875	618,969	637,876	361,721	210,696	130,109	-	-	4,313,775
-	-	-	-	-	-	447,519	-	447,519
29,582	60,292	60,207	99,896	29,745	76,909	-	(4,812,297)	535,375
1,511,887	2,978,484	4,608,156	2,798,685	1,486,062	3,348,922	447,519	(4,812,297)	34,357,458
686,248	1,344,404	2,591,882	1,834,111	993,530	2,077,763	-	-	19,967,246
52,787	166,133	243,914	132,745	231,343	54,889	-	-	2,190,954
37,676	149,099	139,340	27,733	27,013	46,113	-	-	985,129
30,234	139,482	183,583	38,481	37,922	22,710	-	-	1,182,504
9,755	58,525	52,716	10,249	9,483	31,759	-	-	300,509
816,700	1,857,643	3,211,435	2,043,319	1,299,291	2,233,234	-	-	24,626,342
8,461	25,417	6,659	37,442	24,823	11,496	80,361	-	286,341
-	450,015	872,216	416,373	-	198,742	-	(4,812,297)	-
96,000	228,598	-	-	206,499	500,138	-	-	2,669,178
180,631	177,687	528,639	110,824	260,521	273,575	-	-	3,704,719
-	135	-	82	460	125	-	-	8,485
285,092	881,852	1,407,514	564,721	492,303	984,076	80,361	(4,812,297)	6,668,723
1,101,792	2,739,495	4,618,949	2,608,040	1,791,594	3,217,310	80,361	(4,812,297)	31,295,065
410,095	238,989	(10,793)	190,645	(305,532)	131,612	367,158	-	3,062,393
64,462	598,513	2,887,458	445,310	2,247,638	366,925	-	-	9,946,128
\$ 474,557	\$ 837,502	\$ 2,876,665	\$ 635,955	\$ 1,942,106	\$ 498,537	\$ 367,158	\$ -	\$ 13,008,521

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Local Education Agency Organization Structure

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

Consolidating Statements

The accompanying consolidating financial statements report the individual programs of MERF and are presented on the accrual basis of accounting. Eliminating entries in the consolidated financial statements are due to rent payments between the LLC and MSA 1 and CMO fees paid to MERF from the MSA charter schools in accordance with the structured fee schedule.

INDEPENDENT AUDITOR'S REPORTS



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

Board of Directors
Magnolia Educational & Research Foundation and affiliates
(A California Nonprofit Public Benefit Corporation)
Westminster, 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 consolidated financial statements of Magnolia Educational & Research Foundation (MERF) (A California Nonprofit Public Benefit Corporation) and affiliates as of and for the year ended June 30, 2015, and the related notes to the consolidated financial statements, which collectively comprise MERF and affiliate's consolidated financial statements, and have issued our report thereon dated December 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered MERF and affiliate's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of MERF and affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of MERF and affiliate'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 MERF and affiliate's consolidated 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 MERF and affiliate's consolidated financial statements are free from material misstatement, we performed tests of MERF and affiliate's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of MERF and affiliates in a separate letter dated December 15, 2015.

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 MERF and affiliate's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MERF and affiliate's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Varrink, Tein, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Governing Board
Magnolia Educational & Research Foundation and affiliates
(A California Nonprofit Public Benefit Corporation)
Westminster, California

Report on Compliance for Each Major Federal Program

We have audited Magnolia Educational & Research Foundation' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Magnolia Educational & Research Foundation (MERF) (A California Nonprofit Public Benefit Corporation) and affiliates, major Federal programs for the year ended June 30, 2015. MERF and affiliate's major Federal programs are 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 requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MERF and affiliate's major Federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 MERF and affiliate'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 each major Federal program. However, our audit does not provide a legal determination of MERF and affiliate's compliance.

Opinion on Each Major Federal Program

In our opinion, MERF and affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of MERF and affiliates 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 MERF and affiliate's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 MERF and affiliate'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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Varrinck, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027</u>	<u>Special Education Basic Assistance Entitlement, Part B, Section 611</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>
<u>84.010</u>	<u>Title I, Part A, Basic Grants Low Income and Neglected</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

None reported.

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
(A California Nonprofit Public Benefit Corporation)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no audit findings reported in the prior year's schedule of financial statement findings.



Governing Board
Magnolia Educational & Research Foundation
(A California Nonprofit Public Benefit Corporation)
Westminster, California

In planning and performing our audit of the financial statements of Magnolia Educational & Research Foundation (MERF) for the year ended June 30, 2015, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2015 on the financial statements of MERF.

Cash Disbursements - MERF

Observation

It was noted that there was no receipt for one of 16 items tested. The item in question was \$49.

Recommendation

All disbursements should be accompanied by invoices or receipts and signed receiving documentation. This reduces the risk of unauthorized spending, and items being paid for and not received.

Corrective Action Plan

The new third-party vendor handling the payments has procedures to collect all supporting documents and has a form for any lost invoices.

Cash Collections - MERF

Observations

1. Backup provided by sites tested was the "Bank Deposit Slip" and a "Cash and Checks Deposit Form", which sorts deposits by check and cash columns. The "Cash and Checks Deposit Form" is signed by the School Office Manager and the School Principal. Additionally, copies of some of the checks collected were provided and with backup for cash collections.
2. Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.
3. Stale-dated checks were noted during the interim audit. As of June 30, 2015, there were ten stale-dated checks totaling \$6,085.41. Five of the items are from calendar year 2011 and the other five are from calendar year 2014.
4. Three outstanding "credits" from 2009 through 2011 totaling \$98,615 were noted. As of June 30, 2015, the same amount was outstanding.

Recommendation

1. The site front office should maintain the master receipt log or a receipt book and backup from individuals collecting funds on behalf of the charter school that would provide an audit trail to enable MERF in the verification that all monies received, and subsequently, deposited are intact and in a timely manner.
2. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.
3. Stale-dated checks should be written-off six months after issuance. It was noted on the date of checks issued that checks are "void 180 days from check date".
4. It is recommended that a review of the bank reconciliation be performed monthly and outstanding items be investigated and cleared. Outstanding credits from 2009 through 2011 overstate cash by \$98,615. This amount should be credited to cash and debited to fund balance in order to reduce overstated cash.

Corrective Action Plan.

1. The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.
2. A new process has been implemented with the third-party back office provider to prepare all reconciliation for management's review and signatures.
3. The stale-dated checks will be written off and a procedure has been implemented to review in future checks outstanding.
4. The items are being reviewed and will be cleared appropriately to the correct charter school after supporting documents are validated.

General ledger system MERF

Observations - MERF

1. The Revolving Loan transferred and assumed by MERF was not recorded in the June 30, 2015, financial records. The general ledger for Pacific Technology School had an outstanding balance remaining in the amount of \$100,665. An audit adjustment has been made to record the activity for 2014-15.
2. Magnolia Properties Management Inc.'s activities, which include the California School Finance Authority (CSFA) Facility Revenue Bonds, have not been recorded monthly in the general ledger system.

Recommendation

1. MERF should adjust the 2015-16 beginning balance to reflect the audit adjustment posted for recording the revolving loan balance.
2. Magnolia Properties Management Inc.'s financial activity should be monitored monthly and recorded on the general ledger system for internal reporting to the Board.

Corrective Action Plans

1. MERF currently has the payments being made in the ledgers and will be posting the audit adjustment to record the remaining outstanding revolving debt.
2. MERF will be providing a monthly reconciliation of the activity from the Bank of New York accounts to be recorded by the back office provider in 2015-16. Prior year activity has been summarized on an excel system and reconciled monthly. All activity has been consolidated in the financial statements as of June 30, 2015.

Fixed Assets - MERF

Observation

It was noted within the recording and monitoring of the fixed assets of MSA charter schools that a tracking system was not properly maintained and up to date during the school year. In testing the validating of the fixed assets schedule, the charter school's general ledger amounts did not agree to the amounts recorded on the unaudited actuals prepared in August 2015. The tracking system has been subsequently implemented to monitor the purchases and deletions of capital assets.

Recommendation

The charter schools need to continue to keep a current system to monitor and verify that all reported assets are included in the fixed assets schedule and should assign an individual to maintain and monitor the fixed assets schedule. A reconciliation of construction in progress accounts should be completed at least quarterly during the year to capture all completed projects as of the date of completion. Additionally, a review of existing fixed assets should be conducted for all MSA charter school locations.

Corrective Action Plan

MERF is now using a fixed asset system provided by the back office provider for the 2015-16 year. Monthly reports are being reviewed to double check the posting of additions and deletions.

Cash Collections - MSA

Observation

Bank reconciliations are not consistently being reviewed by the Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliation for management's review and signatures.

Cash Disbursements - MSA

Observation

It was noted that an "employee" (Teacher) of the charter school was paid outside of the payroll process as an "independent contractor" for a "home visit".

Recommendation

The charter school should take the necessary steps to implement procedures to prevent this type of situation from occurring in the future. The determination of an "independent contractor" versus an "employee" should be reviewed with all staff involved in consultant contracts to ensure the staff is aware of the IRS regulations.

Corrective Action Plan

Accounting staff are aware that employees need to be paid through the payroll process and not through the disbursements process.

Payroll - MSA

Observation

It was noted that one of the employees tested received lower pay than what is on the May 2, 2014, Board approved pay scale for the employee's position.

Recommendation

A procedure should be in place to make sure that employee wages are being processed accurately through the personnel and payroll systems. Differences in pay should be investigated and resolved by paying employees the amount owed based on the May 2, 2014, Board approved pay scale. The charter schools should be aware that in case of retroactive payment, there may need to be a revision to the employee's W-2 (Form W-2C) and W-3 transmittal (Form W-3C); as well as Form 941X for quarter(s) affected among other necessary adjustments/corrections.

Corrective Action Plan

The charter school has reviewed the calculations and made corrections as required. The new process implemented for payroll has eliminated the manual system to an automated system starting 2016.

Cash Collections - MSA 2

Observations

1. Bank reconciliations are not consistently being reviewed by the Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.
2. Stale-dated checks were noted during the interim audit. As of June 30, 2015, there were four stale-dated checks totaling \$32,307.

Recommendation

1. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.
2. Stale-dated checks should be written-off six months after issuance. It was noted on the date of checks issued that checks are "void 180 days from check date".

Corrective Action Plans

1. A new process has been implemented with the third-party back office provider to prepare all reconciliation for management's review and signatures.
2. The stale-dated checks will be written off and a procedure has been implemented to review in future checks outstanding.

Cash Collections - MSA 3

Observations

1. Teachers collecting funds at the charter schools do not use triplicate, pre-numbered receipts, logs, tally sheets or any sort of adequate cash collection backup.
2. Bank reconciliations are not consistently being reviewed by Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendations

1. It is recommended that the charter school use triplicate, pre-numbered, receipt books. Tally sheets may also be used as the cash receipt control procedure. Two people should be involved: one person to make a mark on the tally sheet when an item is sold and issue the goods and another person to collect the cash. When it is not practical to use pre-numbered receipts due to high volume of collections for small amounts of cash collected, it is recommended that the individual collecting funds use a class roster or a log in lieu of triplicate, pre-numbered receipts. Documents mentioned are to be provided to the front office along with funds received.
2. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis

Corrective Action Plans

1. The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.
2. A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

Cash Disbursements - MSA 3

Observation

It was noted that an "employee" of the charter school was paid outside of the payroll process as an "independent contractor" for "referee services".

Recommendation

The charter school should take the necessary steps to implement procedures to prevent this type of situation from occurring in the future. The determination of an "independent contractor" versus an "employee" should be reviewed with all staff involved in consultation contracts to ensure the staff is aware of the IRS regulations. In addition, the charter school should perform a review of the procedures for determining who receives a Form 1099 to ensure all 1099's are properly issued.

Corrective Action Plan

Accounting staff is aware that employees are to be paid through the payroll process and not through the disbursements process.

Cash Collections - MSA 4

Observation

Bank reconciliations are not consistently being reviewed by the Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliation for managements review and signatures.

Cash Collections - MSA 5

Observation

Bank reconciliations are not consistently being reviewed by the Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

Cash Collections - MSA 6

Observation

Bank reconciliations are not consistently being reviewed by the Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

Cash Collections - MSA 7

Observation

Bank reconciliations are not consistently being reviewed by the Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis.

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

Cash Collections - MSA 8

Observations

1. Bank reconciliations are not consistently being reviewed by the Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.
2. Stale-dated checks were noted during the interim audit. As of June 30, 2015, there were three stale-dated checks totaling \$2,503.
3. Teachers collecting funds at the charter school do not use triplicate, pre-numbered receipts, logs, tally sheets or any sort of adequate cash collection backup. Additionally, cash count sheets are not consistently being signed by a reviewer.

Recommendations

1. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis
2. Stale-dated checks should be written-off six months after issuance. It was noted on the date of checks issued that checks are "void 180 days from check date".
3. It is recommended that the charter school use triplicate, pre-numbered, receipt books. Tally sheets may also be used as the cash receipt control procedure, two people should be involved: one person to make a mark on the tally sheet when an item is sold and issue the goods and another person to collect the cash. When it is not practical to use pre-numbered receipts due to high volume of collections for small amounts of cash collected, it is recommended that the individual collecting funds use a class roster or a log in lieu of triplicate, pre-numbered receipts. Documents mentioned are provided to the front office along with funds receipted.

Corrective Action Plans

1. MERF confirmed that the months tested related to a transition period in which review of bank reconciliations was not being performed.
2. The stale-dated checks will be written off and a procedure has been implemented to review in future checks outstanding.
3. The school sites are responsible for keeping proper supporting documentation for the collection of money. MERF will be reviewing procedures with all principals to enhance the verification of deposits and will be tested periodically to double-check the collections.

Cash Collections - MSA SA

Observations

1. Bank reconciliations are not consistently being reviewed by the Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.
2. Stale-dated checks were noted during the interim audit. As of June 30, 2015, there were two stale-dated checks totaling \$361.

Recommendations

1. It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis
2. Stale-dated checks should be written-off six months after issuance. It was noted on the date of checks issued that checks are "void 180 days from check date".

Corrective Action Plans

1. A new process has been implemented with the third-party back office provider to prepare all reconciliation for managements review and signatures.
2. The stale-dated checks will be written off and a procedure has been implemented to review future checks outstanding.

Cash Collections - MSA SC

Observation

Bank reconciliations are not consistently being reviewed by the Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliation for management's review and signatures.

Payroll - MSA SC

Observation

The principal/management signed "At-Will Employment agreements" was not available for one of six employees tested

Recommendation

A procedure should be in place to make sure that the "At-Will Employment agreements" are being reviewed and approved by the site principal or other authorized management prior to employment.

Corrective Action Plan

The charter school has been able to locate a number of "At-Will Employment agreements"; however, this one was misplaced due to transition of records. The Principal has requested to upload all future agreements into CoolSIS for review by Human Resources.

Cash Collections - MSA SD

Observation

Bank reconciliations are not consistently being reviewed by the Supervisor on a timely basis, and for the months tested, did not have a signature confirming review.

Recommendation

It is recommended that the bank reconciliation be signed and dated by both the preparer and reviewer on a monthly basis

Corrective Action Plan

A new process has been implemented with the third-party back office provider to prepare all reconciliations for management's review and signatures.

We will review the status of the current year comments during our next audit engagement.

Varrink, Tim, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2015