

***MAGNOLIA EDUCATIONAL AND RESEARCH
FOUNDATION
CONSOLIDATED AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2014***

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION

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Jeffrey Hill, CPA
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To the Board of Directors of the
Magnolia Educational and Research Foundation
Westminster, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of **Magnolia Educational and Research Foundation**, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flow for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the organization's 2013 financial statements and in our report dated October 21, 2013 an unqualified opinion was expressed on those 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. 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 due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Magnolia Educational and Research Foundation** as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Hill, Morgan and Associates, LLP

Carson, California

January 20, 2015

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

At June 30, 2014

(With comparative totals at June 30, 2013)

	2014 Total	2013 Total
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 2)	\$ 5,818,016	\$ 2,933,886
Accounts receivable	4,710,795	5,010,875
Pledge receivable	150,000	
Total current assets	10,678,811	7,944,761
PROPERTY AND EQUIPMENT:		
Construction in progress (Note 3 and 5)	3,513,733	3,151,626
Furniture and equipment (Note 3)	1,641,875	1,438,094
Leasehold improvements (Note 3)	412,783	401,712
Less: accumulated depreciation (Note 3)	(1,530,355)	(1,296,954)
Net property and equipment	4,038,036	3,694,478
OTHER ASSETS:		
Security deposits	273,384	127,733
Total other assets	273,384	127,733
Total assets	\$ 14,990,231	\$ 11,766,972
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,759,938	\$ 2,305,800
Accrued payroll and related liabilities	473,368	302,753
Deferred revenue	329,021	
Advances on program revenue		505,300
Loans payable-current portion (Note 4 and 5)	130,229	1,475,714
Total current liabilities	2,692,556	4,589,567
LONG-TERM LIABILITIES:		
Loans payable-net of current portion (Note 4 and 5)	2,317,502	2,385,698
Total long-term liabilities	2,317,502	2,385,698
Total liabilities	5,010,058	6,975,265
NET ASSETS:		
Unrestricted	7,939,475	2,751,009
Temporarily restricted (Note 5)	2,040,698	2,040,698
Total net assets	9,980,173	4,791,707
Total liabilities and net assets	\$ 14,990,231	\$ 11,766,972

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

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
For the year ended June 30, 2014
(With comparative totals for the year June 30, 2013)

	2014	2013
REVENUES:		
Federal support	\$ 2,330,913	\$ 2,047,144
State support	28,067,250	24,224,272
Local support	1,698,426	3,351,437
Contributions	109,953	1,024,633
Other revenue	92,137	
Total revenues	32,298,679	30,647,486
EXPENSES:		
Certificated salaries	11,482,825	11,348,116
Classified salaries	2,145,788	2,029,752
Benefits	3,358,116	3,679,493
Books and supplies	2,473,016	1,758,884
Services and other operating expenses	7,237,337	7,520,778
Interest	2,400	276,579
Depreciation	267,446	233,034
Capital outlay	60,029	27,496
Total expenses	27,026,957	26,874,132
Increase in net assets	5,271,722	3,773,354
Net assets, beginning of the year	4,791,707	1,018,353
Prior period adjustment (Note 6)	(117,301)	
Net assets, end of the year	\$ 9,980,173	\$ 4,791,707

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

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION
CONSOLIDATING STATEMENT OF CASH FLOWS
For the year ended June 30, 2014
(With comparative totals for the year ended June 30, 2013)

	2014	2013
Cash flows from operating activities:		
Increase in net assets	\$ 5,271,722	\$ 3,773,354
Prior period adjustment	(117,301)	
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	267,446	233,034
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	300,080	422,529
Security deposit	(145,651)	(78,698)
Pledge receivable	(150,000)	
Increase (decrease) in liabilities:		
Accounts payable	(545,862)	(273,498)
Accrued payroll and related liabilities	170,615	129,600
Deferred revenue	329,021	
Net cash provided by operating activities	5,380,070	4,206,321
Cash flows from investing activities:		
Cash paid for the construction of building and purchase of fixed assets	(576,959)	(3,221,012)
Net cash used in investing activities	(576,959)	(3,221,012)
Cash flows from financing activities:		
Advances on program revenue	(505,300)	505,300
Principal payments of notes payable	(1,413,681)	(3,501,071)
Net cash (used in) financing activities	(1,918,981)	(2,995,771)
Net increase (decrease) in cash	2,884,130	(2,010,462)
Cash and cash equivalents, beginning of the year	2,933,886	4,944,348
Cash and cash equivalents, end of the year	\$ 5,818,016	\$ 2,933,886
SUPPLEMENTAL INFORMATION:		
Cash paid for interest expense	\$ 2,400	\$ 276,579

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

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS

Magnolia Educational and Research Foundation, a California not-for-profit organization, **hereinafter referred to as “MERF”**, during fiscal year ended June 30, 2014, operated eleven K through 12 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
- Afterschool 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.

BASIS OF ACCOUNTING

The financial statements of MERF have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) and follow the recommendations of the Accounting Standards Codification (ASC) 958-205, Financial Statements of Not for Profit Organizations.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions that could affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For the purpose of the 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 cash equivalents.

These notes are an integral part of the preceding financial statements.

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due from government agencies for per-pupil funding and other grants, less an allowance for doubtful accounts.

INCOME TAXES

MERF is a not-for-profit organization that is exempt from Federal and State income taxes under the Internal Revenue Code Section 501(c) (3) and the California State Revenue and Taxation Code 23701 (d) except on net income derived from unrelated business activities. The Organization's management believes that it has support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

MERF's Form 990 returns for years ending June 30, 2011, 2012, 2013, and 2014, are subject to examination by federal and state taxing authorities, generally for three and four years after they are filed, respectively.

PROPERTY AND EQUIPMENT

Property and equipment purchased with a value of \$5,000 or more and a life expectancy greater than two years are capitalized in the year of purchase. Property and equipment are included on the financial statements at cost less the related accumulated depreciation. The depreciation method used by MERF is straight-line over the estimated useful life of the fixed assets.

DONATED GOODS, FACILITIES, AND SERVICES

MERF receives periodic donations of noncash assets, such as use of facilities, materials, and goods, from local vendors and from the community. The donations are recorded at estimated fair market value at the date of donations, if significant.

Contributions of donated services that create or enhance non-financial assets, or that require specialized skills and are provided by individuals possessing those skills, typically needing to be purchased if not provided by donation, are recorded at their fair values in the period received. In addition, a substantial number of volunteers have donated significant amounts of their time to MERF and its programs. The donated volunteers services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

These notes are an integral part of the preceding financial statements.

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NET ASSET CLASSES

The net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions as follows:

Unrestricted – Net assets that are not subject to donor or grantor-imposed stipulations.

Temporarily restricted - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of MERF pursuant to those stipulations or that expire by the passage of time.

Permanently restricted – Net assets subject to donor or grantor-imposed stipulations that they be maintained permanently by MERF. Generally, the donors or grantors of such assets permit MERF to use all or part of the income earned on assets.

COMPARATIVE FINANCIAL INFORMATION

The 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. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2013 from which the summarized information was derived.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of MERF and its wholly-owned entities. All significant intercompany accounts and transactions have been eliminated in consolidation. Listed below are the affiliated organizations included in these financial statements:

Magnolia Public Schools

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, 2014, the charter schools operated by MERF were as follows:

These notes are an integral part of the preceding financial statements.

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Charter School Name	Charter School Number	Charter Authorizer	Charter Granted/Renewed	Charter Expiration
Magnolia Science Academy	0438	LAUSD	3/13/2012	6/30/2017
Magnolia Science Academy 2	0906	LAUSD	3/13/2012	6/30/2017
Magnolia Science Academy 3	0917	LAUSD	3/13/2012	6/30/2017
Magnolia Science Academy 4	0986	LAUSD	4/16/2013	6/30/2018
Magnolia Science Academy 5	0987	LAUSD	4/16/2013	6/30/2018
Magnolia Science Academy 6	0988	LAUSD	7/1/2009	6/30/2014
Magnolia Science Academy 7	0989	LAUSD	7/1/2009	6/30/2014
Magnolia Science Academy 8	1236	LAUSD	6/15/2010	6/30/2015
Magnolia Science Academy Santa Clara	1116	Santa Clara County Office of Education	1/23/2013	6/30/2018
Magnolia Science Academy San Diego	0698	San Diego USD	7/6/2010	6/30/2015
Magnolia Science Academy Santa Ana (Formerly Pacific Technology School Santa Ana)	1686	California State Board of Education	5/7/2014	6/30/2019

These notes are an integral part of the preceding financial statements.

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - CONCENTRATIONS

Cash

The School's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. The School maintains its cash account primarily with local banks. The total cash balance is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2014, the School had cash on deposit that exceeded the balance insured by the FDIC in the amount of \$3,245,704. Management believes that the School is not exposed to any significant credit risk related to cash because of the solvency of the bank in which these funds are held.

Accounts Receivable and Revenue

MERF received 94% of its revenues in the form of fees and grants from government programs for the year ended June 30, 2014. The balance due from those programs accounted for 96% of accounts receivable at June 30, 2014. Without these sources of revenue, MERF would have difficulty maintaining its operations.

NOTE 3 - PROPERTY AND EQUIPMENT

Below is a summary of the fixed assets owned by MERF and the schools that they operate:

Description	Est. Life	Cost	Accumulated Depreciation	Net Book Value
Construction in progress		\$ 3,513,733	\$	\$ 3,513,733
Equipment	5	1,641,875	(1,145,898)	495,977
Leasehold improvements	10	412,783	(384,457)	28,326
Total		\$ 5,568,391	\$ (1,530,355)	\$ 4,038,036

These notes are an integral part of the preceding financial statements.

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - LOANS AND LINES OF CREDIT PAYABLE

MERF and the schools that it operates have the following loans outstanding as of June 30, 2014:

Description	Amount
Magnolia Science Academy 2 has an unsecured revolving loan payable to the California School Finance Authority totaling \$100,000. The loan has an annual interest rate of 0.24%. The loan repayment terms require four annual payments of \$25,000 over the next four years. The outstanding balance was \$74,998 on June 30, 2014. The maturity date is June 30, 2017.	\$ 74,998
Magnolia Science Academy 4 received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 on May 25, 2010. The loan balance as of June 30, 2014 was \$20,103. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.	\$ 20,103
Magnolia Science Academy 5 received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 on May 25, 2010. The loan balance as of June 30, 2014 was \$16,668. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.	\$ 16,688
Magnolia Science Academy 6 received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 on May 25, 2010. The loan balance as of June 30, 2014 was \$23,438. The loan has an interest rate of 0.53% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.	\$ 23,438

These notes are an integral part of the preceding financial statements.

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - LOANS AND LINES OF CREDIT PAYABLE (continued)

Description	Amount
Magnolia Science Academy San Diego received an unsecured revolving loan payable to the California Department of Education totaling \$100,000 on June 23, 2010. The loan balance as of June 30, 2014 was \$20,000. The loan has an interest rate of 0.54% and it matures in five years. The repayment terms require six monthly payments each year in five fiscal years beginning on August 20, 2010. The State Controller's Office deducts the loan payments from the School's State School Fund Apportionments.	\$ 20,000
Magnolia Science Academy San Diego was approved for a loan of \$1,518,061 from California School Finance Authority for construction of a new school facility. The School received \$151,806 in the year ended June 30, 2014. The outstanding loan balance as of June 30, 2014 was \$151,806. The loan has an annual interest rate of 2% and it matures in 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 School's State School Fund Apportionments.	\$ 151,806
Pacific Technology School 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, 2014 was \$100,000. The loan has an interest rate of 0.53% 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 School's State School Fund Apportionments.	\$ 100,000
Pacific Technology School Santa Ana was approved for a loan of \$8,706,978 from California School Finance Authority for the land acquisition and construction of a new school facility. The School received \$2,040,698 in the year ended June 30, 2012. The outstanding loan balance as of June 30, 2014 was \$2,040,698. The loan has an annual interest rate of 3% and it matures in 30 years after the completion of the project, which is estimated to be in the middle of calendar year 2014. The repayment schedule will be determined after completion of the project. The State Controller's Office will deduct the loan payments from the School's State School Fund Apportionments.	\$ <u>2,040,698</u>

These notes are an integral part of the preceding financial statements.

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - LOANS AND LINES OF CREDIT PAYABLE (continued)

Total	2,447,731
Less current portion	<u>130,229</u>
Long-term portion	<u>\$ 2,317,502</u>

Principal maturities for the outstanding loans are listed as follows:

<u>For the year ended June 30,</u>	<u>Amount</u>
2015	130,229
2016	50,000
2017	49,998
2018	25,000
Thereafter	<u>2,192,504</u>
Total	<u>\$ 2,447,731</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Magnolia Science Academy – Santa Ana has been approved from the State of California’s Charter School Facilities Program for \$17,413,956 for constructing a new facility which will cost the same amount. The State will fund 50% of the total amount of \$17,413,956 through a grant in the amount of \$8,706,978; the State will fund another 50% of the total project cost through a loan in the amount of \$8,706,978. As of June 30, 2014, the School has received total amount of \$4,081,396, of which \$2,040,698 was loan, and \$2,040,698 was grant. The grant portion of the amount is classified as temporarily restricted net assets until the fund is used for the purchase of the land and the construction of the facility.

NOTE 6 - NET ASSETS PRIOR PERIOD ADJUSTMENT

Magnolia Science Academy – Santa Clara made a prior period adjustment in the amount of \$117,301. This was due to the amounts of \$117,301 accounts receivable booked in prior year are deemed uncollectable this year. They are written off and the net effect is recognized as a reduction to prior year net assets.

These notes are an integral part of the preceding financial statements.

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - NET ASSETS PRIOR PERIOD ADJUSTMENT (continued)

Increase in net assets this year	\$	5,305,767
Net assets, beginning of the year		4,791,707
Prior year adjustment		<u>(117,301)</u>
Net assets, end of the year	\$	<u>9,980,173</u>

NOTE 7 - OPERATING LEASES

The Organization leases buildings for administrative offices in Westminster and leases land and buildings for school sites in Los Angeles, San Diego, Santa Clara, and Orange County under various operating leases. The Organization also leases copiers at various school sites. It is unlikely that the Organization will cancel any of these leases before they expire. The aggregate minimum rental payments required under the terms of all operating leases as of June 30, 2014 are as follows:

<u>Year Ending June 30,</u>	<u>Office Buildings</u>	<u>Equipments</u>	<u>Total</u>
2015	\$ 1,313,618	\$ 49,589	\$ 1,363,207
2016	766,486	29,367	795,853
2017	757,207	22,139	779,346
2018	63,181	16,899	80,080
2019	-0-	8,475	8,475
Thereafter	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	<u>\$ 2,900,492</u>	<u>\$ 126,469</u>	<u>\$ 3,026,961</u>

Rental expenses were \$2,105,150 for the year ended June 30, 2014.

NOTE 8 - RELATED PARTY TRANSACTIONS

MERF home office provides back office services to its related schools in the form of management, accounting, human resources, and information technology. MERF home office allocates these costs based on a fee structure dependent on Average Daily Attendance per school. Administrative expenses provided by MERF home office for the year ended June 30, 2014 were \$2,282,219.

These notes are an integral part of the preceding financial statements.

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - RELATED PARTY TRANSACTIONS (continued)

Due to the nature of the operations, the MERF home office and its related schools incurred expenses and received funds from each other, which were recorded in the appropriate school or MERF home office accounting records, with offsetting entries to the intra-company receivable or payable accounts.

NOTE 9 - LITIGATION

In June 2014, the charter renewal applications for schools MSA-6 and MSA-7 were denied by the Los Angeles Unified School District. MERF has pursued litigation due to its contention that the District has not followed standard due process protocols in support of their decision. The litigation process is ongoing with no certain completion date. However, there is an injunction in place keeping the schools open during the litigation process. An adverse outcome could result in the closure of these two schools. MERF will exhaust all legal remedies to keep the schools open including pursuing any remaining appeal rights it has. The closure of these two schools would have a material effect on the School's financial condition. In the event of the closure of the two schools, MERF would implement a plan to immediately reduce costs to minimize the impact on its overall business operations. Management is unable to estimate an outcome of the appeal at this time but believes it has meritorious defenses and intends to vigorously contest the District's original decision.

NOTE 10 - SUBSEQUENT EVENTS

The organization's Management has evaluated subsequent events for the period from June 30, 2014 through January 20, 2014, the date the financial statements were available to be issued.

In July, 2014, MERF home office transferred all due intra-company balances to the schools.

In November, 2014, the charter application for MSA-8 was denied by Los Angeles Unified School District. Management believes the charter will be renewed by Los Angeles County Office of Education or the State of California.

In January, 2015, MERF's Board of Directors approved a revised home office allocation schedule to more accurately reflect administrative costs incurred for MERF-managed schools. MERF home office unallocated expenses as of June 30, 2014, are allocated to the schools in the year ended June 30, 2015.

These notes are an integral part of the preceding financial statements.

SUPPLEMENTARY SCHEDULES

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
 At June 30, 2014
 (With comparative totals at June 30, 2013)

ASSETS	<u>MSA</u>	<u>MSA 2</u>	<u>MSA 3</u>	<u>MSA 4</u>	<u>MSA 5</u>	<u>MSA 6</u>	<u>MSA 7</u>	<u>MSA 8</u>	<u>MSA SD unrestricted</u>	<u>MSA SD Temporarily restricted</u>
CURRENT ASSETS:										
Cash and cash equivalents (Note 2)	\$ 1,399,426	\$ 355,249	\$ 213,882	\$ 102,651	\$ 358,831	\$ 157,957	\$ 229,263	\$ 1,439,272	\$ 227,857	\$ 161,762
Accounts receivable	1,023,223	532,221	496,489	187,106	232,119	173,325	483,287	616,975	302,654	
Pledge receivable						150,000				
Intra-company receivable		123,169	224,700		350,000	(294,100)		868,481		
Total current assets	<u>2,422,649</u>	<u>1,010,639</u>	<u>935,071</u>	<u>289,757</u>	<u>940,950</u>	<u>187,182</u>	<u>712,550</u>	<u>2,924,728</u>	<u>530,511</u>	<u>161,762</u>
PROPERTY AND EQUIPMENT:										
Construction in progress (Note 3 and 5)									15,573	141,850
Furniture and equipment (Note 3)	283,867	146,801	136,648	92,630	100,637	62,699	48,502	31,958	328,746	
Leasehold improvements (Note 3)	374,818	10,061					27,904			
Less: accumulated depreciation (Note 3)	<u>(598,800)</u>	<u>(131,656)</u>	<u>(105,557)</u>	<u>(86,896)</u>	<u>(76,479)</u>	<u>(54,238)</u>	<u>(33,655)</u>	<u>(10,758)</u>	<u>(220,775)</u>	
Net property and equipment	<u>59,885</u>	<u>25,206</u>	<u>31,091</u>	<u>5,734</u>	<u>24,158</u>	<u>8,461</u>	<u>42,751</u>	<u>21,200</u>	<u>123,544</u>	<u>141,850</u>
OTHER ASSETS:										
Security deposits	39,035	21,310	20,035	19,225			24,259	101,566		
Total other assets	<u>39,035</u>	<u>21,310</u>	<u>20,035</u>	<u>19,225</u>			<u>24,259</u>	<u>101,566</u>		
Total assets	<u>\$ 2,521,569</u>	<u>\$ 1,057,155</u>	<u>\$ 986,197</u>	<u>\$ 314,716</u>	<u>\$ 965,108</u>	<u>\$ 195,643</u>	<u>\$ 779,560</u>	<u>\$ 3,047,494</u>	<u>\$ 654,055</u>	<u>\$ 303,612</u>
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES:										
Accounts payable	\$ 214,362	\$ 122,857	\$ 176,783	\$ 39,555	\$ 42,184	\$ 100,285	\$ 169,805	\$ 151,017	\$ 253,253	\$
Accrued payroll and related liabilities	83,291	19,892	116,523	16,466	16,722	7,458	11,242	9,019	84,781	9,019
Deferred revenue									2,517	
Advances on program revenue										
Loans payable-current portion (Note 4 and 5)		25,000		20,103	16,688	23,438			20,000	
Total current liabilities	<u>297,653</u>	<u>167,749</u>	<u>293,306</u>	<u>76,124</u>	<u>75,594</u>	<u>131,181</u>	<u>181,047</u>	<u>160,036</u>	<u>360,551</u>	
LONG-TERM LIABILITIES:										
Loans payable-net of current portion (Note 4 and 5)		49,998								151,806
Total long-term liabilities		<u>49,998</u>								<u>151,806</u>
Total liabilities	<u>297,653</u>	<u>217,747</u>	<u>293,306</u>	<u>76,124</u>	<u>75,594</u>	<u>131,181</u>	<u>181,047</u>	<u>160,036</u>	<u>360,551</u>	<u>151,806</u>
NET ASSETS:										
Unrestricted	2,223,916	839,408	692,891	238,592	889,514	64,462	598,513	2,887,458	293,504	151,806
Temporarily restricted (Note 5)										
Total net assets	<u>2,223,916</u>	<u>839,408</u>	<u>692,891</u>	<u>238,592</u>	<u>889,514</u>	<u>64,462</u>	<u>598,513</u>	<u>2,887,458</u>	<u>293,504</u>	<u>151,806</u>
Total liabilities and net assets	<u>\$ 2,521,569</u>	<u>\$ 1,057,155</u>	<u>\$ 986,197</u>	<u>\$ 314,716</u>	<u>\$ 965,108</u>	<u>\$ 195,643</u>	<u>\$ 779,560</u>	<u>\$ 3,047,494</u>	<u>\$ 654,055</u>	<u>\$ 303,612</u>

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

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

At June 30, 2014

(With comparative totals at June 30, 2013)

ASSETS	MSA SA unrestricted	MSA SA Temporarily restricted	MSA SC	Foundation Home Office	Total unrestricted	Total restricted	Total	Eliminations / adjustment	2014 Total	2013 Total
CURRENT ASSETS:										
Cash and cash equivalents (Note 2)	\$ 102,210	\$ 725,836	\$ 302,243	\$ 41,577	\$ 4,930,418	\$ 887,598	\$ 5,818,016	\$	\$ 5,818,016	\$ 2,933,886
Accounts receivable	244,613		418,783	193,451	4,904,246		4,904,246	(193,451)	4,710,795	5,010,875
Pledge receivable					150,000		150,000		150,000	
Intra-company receivable				(1,272,250)						
Total current assets	<u>346,823</u>	<u>725,836</u>	<u>721,026</u>	<u>(1,037,222)</u>	<u>9,984,664</u>	<u>887,598</u>	<u>10,872,262</u>	<u>(193,451)</u>	<u>10,678,811</u>	<u>7,944,761</u>
PROPERTY AND EQUIPMENT:										
Construction in progress (Note 3 and 5)	750	3,355,560			16,323	3,497,410	3,513,733		3,513,733	3,151,626
Furniture and equipment (Note 3)	129,287		165,474	114,626	1,641,875		1,641,875		1,641,875	1,438,094
Leasehold improvements (Note 3)					412,783		412,783		412,783	401,712
Less: accumulated depreciation (Note 3)	(70,044)		(70,091)	(71,406)	(1,530,355)		(1,530,355)		(1,530,355)	(1,296,954)
Net property and equipment	<u>59,993</u>	<u>3,355,560</u>	<u>95,383</u>	<u>43,220</u>	<u>540,626</u>	<u>3,497,410</u>	<u>4,038,036</u>		<u>4,038,036</u>	<u>3,694,478</u>
OTHER ASSETS:										
Security deposits	9,078		37,351	1,525	273,384		273,384		273,384	127,733
Total other assets	<u>9,078</u>		<u>37,351</u>	<u>1,525</u>	<u>273,384</u>		<u>273,384</u>		<u>273,384</u>	<u>127,733</u>
Total assets	<u>\$ 415,894</u>	<u>\$ 4,081,396</u>	<u>\$ 853,760</u>	<u>\$ (992,477)</u>	<u>\$ 10,798,674</u>	<u>\$ 4,385,008</u>	<u>\$ 15,183,682</u>	<u>\$ (193,451)</u>	<u>\$ 14,990,231</u>	<u>\$ 11,766,972</u>
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES:										
Accounts payable	\$ 103,167		\$ 203,205	\$ 376,916	\$ 1,953,389		\$ 1,953,389	\$ (193,451)	\$ 1,759,938	\$ 2,305,800
Accrued payroll and related liabilities	5,787		100,963	1,224	473,368		473,368		473,368	302,753
Deferred revenue			182,667	143,837	329,021		329,021		329,021	
Advances on program revenue										505,300
Loans payable-current portion (Note 4 and 5)	25,000				130,229		130,229		130,229	1,475,714
Total current liabilities	<u>133,954</u>		<u>486,835</u>	<u>521,977</u>	<u>2,886,007</u>		<u>2,886,007</u>	<u>(193,451)</u>	<u>2,692,556</u>	<u>4,589,567</u>
LONG-TERM LIABILITIES:										
Loans payable-net of current portion (Note 4 and 5)	75,000	2,040,698			124,998	2,192,504	2,317,502		2,317,502	2,385,698
Total long-term liabilities	<u>75,000</u>	<u>2,040,698</u>			<u>124,998</u>	<u>2,192,504</u>	<u>2,317,502</u>		<u>2,317,502</u>	<u>2,385,698</u>
Total liabilities	<u>208,954</u>	<u>2,040,698</u>	<u>486,835</u>	<u>521,977</u>	<u>3,011,005</u>	<u>2,192,504</u>	<u>5,203,509</u>	<u>(193,451)</u>	<u>5,010,058</u>	<u>6,975,265</u>
NET ASSETS:										
Unrestricted	206,940		366,925	(1,514,454)	7,787,669	151,806	7,939,475		7,939,475	2,751,009
Temporarily restricted (Note 5)		2,040,698				2,040,698	2,040,698		2,040,698	2,040,698
Total net assets	<u>206,940</u>	<u>2,040,698</u>	<u>366,925</u>	<u>(1,514,454)</u>	<u>7,787,669</u>	<u>2,192,504</u>	<u>9,980,173</u>		<u>9,980,173</u>	<u>4,791,707</u>
Total liabilities and net assets	<u>\$ 415,894</u>	<u>\$ 4,081,396</u>	<u>\$ 853,760</u>	<u>\$ (992,477)</u>	<u>\$ 10,798,674</u>	<u>\$ 4,385,008</u>	<u>\$ 15,183,682</u>	<u>\$ (193,451)</u>	<u>\$ 14,990,231</u>	<u>\$ 11,766,972</u>

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

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
For the year ended June 30, 2014
(With comparative totals for the year June 30, 2013)

	MSA 1	MSA 2	MSA 3	MSA 4	MSA 5	MSA 6	MSA 7	MSA 8	MSA SD unrestricted	MSA SD temporarily restricted
REVENUES:										
Federal support	\$ 577,677	\$ 152,982	\$ 396,381	\$ 113,354	\$ 128,362	\$ 74,238	\$ 383,574	\$ 279,447	\$ 89,069	\$
State support	3,945,210	3,091,666	3,115,549	1,538,944	1,938,090	1,197,744	2,437,202	3,822,637	2,263,106	151,806
Local support	628,519	19,017	54,589	44,979	40,253	180,661	77,772	47,332	360,563	
Contributions	72,190	34,394								
Other revenue	67,440	24,697								
CMO services										
Total revenues	<u>5,291,036</u>	<u>3,322,756</u>	<u>3,566,519</u>	<u>1,697,277</u>	<u>2,106,705</u>	<u>1,452,643</u>	<u>2,898,548</u>	<u>4,149,416</u>	<u>2,712,738</u>	<u>151,806</u>
EXPENSES:										
Certificated salaries	1,605,530	1,256,281	1,365,459	633,852	797,250	419,873	795,125	1,573,812	1,152,564	
Classified salaries	292,643	67,324	96,730	27,040	156,215	61,930	85,569	168,263	140,159	
Benefits	478,219	406,512	361,475	149,230	213,968	130,495	221,580	423,718	331,887	
Books and supplies	471,428	232,632	529,062	137,056	130,537	63,647	218,164	150,777	160,893	
Services and other operating expenses	1,555,916	778,878	990,180	452,179	465,315	347,445	745,887	951,494	597,102	
Interest		169		377	378	790			210	
Depreciation	19,144	29,839	26,259	18,526	17,247	12,540	14,732	5,610	55,372	
Capital outlay	60,029									
Total expenses	<u>4,482,909</u>	<u>2,771,635</u>	<u>3,369,165</u>	<u>1,418,260</u>	<u>1,780,910</u>	<u>1,036,720</u>	<u>2,081,057</u>	<u>3,273,674</u>	<u>2,438,187</u>	
Increase in net assets	808,127	551,121	197,354	279,017	325,795	415,923	817,491	875,742	274,551	151,806
Net assets, beginning of the year	1,415,789	288,287	495,537	(40,425)	563,719	(351,461)	(218,978)	2,011,716	18,953	
Prior period adjustment (Note 6)										
Net assets, end of the year	<u>\$ 2,223,916</u>	<u>\$ 839,408</u>	<u>\$ 692,891</u>	<u>\$ 238,592</u>	<u>\$ 889,514</u>	<u>\$ 64,462</u>	<u>\$ 598,513</u>	<u>\$ 2,887,458</u>	<u>\$ 293,504</u>	<u>\$ 151,806</u>

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

MAGNOLIA EDUCATIONAL AND RESEARCH FOUNDATION
CONSOLIDATING STATEMENT OF ACTIVITIES
For the year ended June 30, 2014
(With comparative totals for the year June 30, 2013)

	MSA SA unrestricted	MSA SA temporarily restricted	MSA SC	Foundation Home Office	Total unrestricted	Total restricted	Total	Adjustments and Eliminations	2014	2013
REVENUES:										
Federal support	76,477	\$	\$ 59,352	\$	\$ 2,330,913	\$	\$ 2,330,913	\$	\$ 2,330,913	\$ 2,047,144
State support	1,307,512		3,257,784		27,915,444	151,806	28,067,250		28,067,250	24,224,272
Local support	52,917		191,824		1,698,426		1,698,426		1,698,426	3,351,437
Contributions				3,369	109,953		109,953		109,953	1,024,633
Other revenue					92,137		92,137		92,137	
CMO services				2,282,219	2,282,219		2,282,219	(2,282,219)		
Total revenues	1,436,906		3,508,960	2,285,588	34,429,092	151,806	34,580,898	(2,282,219)	32,298,679	30,647,486
EXPENSES:										
Certificated salaries	574,966		1,308,113		11,482,825		11,482,825		11,482,825	11,348,116
Classified salaries	39,308		128,586	882,021	2,145,788		2,145,788		2,145,788	2,029,752
Benefits	153,215		348,065	139,752	3,358,116		3,358,116		3,358,116	3,679,493
Books and supplies	123,358		221,147	34,315	2,473,016		2,473,016		2,473,016	1,758,884
Services and other operating expenses	396,492		1,116,625	1,122,043	9,519,556		9,519,556	(2,282,219)	7,237,337	7,520,778
Interest	324		6	146	2,400		2,400		2,400	276,579
Depreciation	23,952		30,264	13,961	267,446		267,446		267,446	233,034
Capital outlay					60,029		60,029		60,029	27,496
Total expenses	1,311,615		3,152,806	2,192,238	29,309,176		29,309,176	(2,282,219)	27,026,957	26,874,132
Increase in net assets	125,291		356,154	93,350	5,119,916	151,806	5,271,722		5,271,722	3,773,354
Net assets, beginning of the year	81,649	2,040,698	128,072	(1,641,849)	2,751,009	2,040,698	4,791,707		4,791,707	1,018,353
Prior period adjustment (Note 6)			(117,301)		(117,301)		(117,301)		(117,301)	
Net assets, end of the year	206,940	\$ 2,040,698	\$ 366,925	\$ (1,548,499)	\$ 7,753,624	\$ 2,192,504	\$ 9,946,128		\$ 9,946,128	\$ 4,791,707

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