



**MAGNOLIA EDUCATIONAL &  
RESEARCH FOUNDATION**

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**ANNUAL FINANCIAL REPORT**

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**JUNE 30, 2018**

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

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**JUNE 30, 2018**

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Magnolia Educational & Research Foundation (the Foundation) (A California Nonprofit Public Benefit Corporation), which are comprised of the statement of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation, as of June 30, 2018 and 2017, and the changes in its net assets, and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information such as the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the other supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2018, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

*Vannink, Tui, Day & Co., LLP*

Rancho Cucamonga, California  
December 13, 2018

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***FINANCIAL STATEMENTS***

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(With comparative financial information at June 30, 2017)**

**JUNE 30, 2018**

	2018	2017
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 22,600,493	\$ 9,834,842
Restricted cash	4,659,987	648,760
Accounts receivable	4,781,620	3,194,412
Prepaid expenses and other current assets	1,027,408	1,620,157
Total Current Assets	33,069,508	15,298,171
Non-Current Assets:		
Debt issue costs, net	1,076,199	358,782
Security deposits	43,117	64,690
Fixed assets	46,055,549	30,157,534
Less: accumulated depreciation	(4,120,699)	(3,115,417)
Total Non-Current Assets	43,054,166	27,465,589
Total Assets	\$ 76,123,674	\$ 42,763,760
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accruals	\$ 3,232,385	\$ 3,212,491
Deferred revenue	2,290,659	519,063
Current portion of long-term obligations	822,520	3,129,116
Total Current Liabilities	6,345,564	6,860,670
Long-Term Obligations:		
Non-current portion of long-term obligations	43,383,648	14,424,680
Total Liabilities	49,729,212	21,285,350
<b>NET ASSETS</b>		
Unrestricted	24,467,494	20,413,178
Designated	2,443,468	1,065,232
Total Net Assets	26,910,962	21,478,410
Total Liabilities and Net Assets	\$ 76,640,174	\$ 42,763,760

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**  
**(With comparative financial information at June 30, 2017)**

**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>REVENUES</b>		
State apportionments	\$ 36,259,514	\$ 34,483,963
Federal revenue	3,851,301	3,756,458
Other state revenue	8,196,747	6,383,153
Local revenue	1,528,298	1,400,619
Total Revenues	<u>49,835,860</u>	<u>46,024,193</u>
<b>EXPENSES</b>		
Program services:		
Salaries and benefits	23,353,633	23,151,926
Student services	1,867,468	2,173,408
Materials and supplies	426,368	839,491
Student nutrition	1,472,329	1,670,987
Other expenses	848,175	1,221,591
Subtotal	<u>27,967,973</u>	<u>29,057,403</u>
Management and general:		
Salaries and benefits	5,770,193	5,787,982
Amortization	38,894	12,814
Depreciation	1,228,552	907,827
Insurance	11,628	790
Management fee	16,296	326,637
Occupancy	2,613,954	1,809,451
Operating expenses	5,571,915	6,622,041
Debt service	691,435	360,088
Interest	492,468	173,344
Subtotal	<u>16,435,335</u>	<u>16,000,974</u>
Total Expenses	<u>44,403,308</u>	<u>45,058,377</u>
<b>CHANGE IN NET ASSETS BEFORE EXTRAORDINARY ITEM</b>	<u>5,432,552</u>	<u>965,816</u>
Extraordinary item - MSA Santa Clara	-	(348,866)
<b>CHANGE IN NET ASSETS</b>	<u>5,432,552</u>	<u>616,950</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>21,478,410</u>	<u>20,861,460</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 26,910,962</u>	<u>\$ 21,478,410</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**  
**(With comparative financial information at June 30, 2017)**

**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Change in net assets</b>	\$ 5,432,552	\$ 616,950
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,136,583	776,526
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	(1,587,208)	1,122,987
Prepaid expenses and other current assets	592,749	(1,478,486)
Security deposits	21,573	79,460
Increase in liabilities		
Accounts payable and accruals	19,894	95,417
Deferred revenue	1,771,596	11,145
Net Cash Provided by Operating Activities	<u>7,387,739</u>	<u>1,223,999</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	<u>(16,029,316)</u>	<u>(6,765,790)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan principal payments	(3,129,116)	(190,867)
Proceeds from long-term debt obligation	29,781,488	-
Restricted cash	(4,011,227)	5,678,755
Debt issue cost payments	(717,417)	12,814
Net Cash Provided by Financing Activities	<u>21,923,728</u>	<u>5,500,702</u>
<b>NET CHANGE IN CASH</b>	<u>13,282,151</u>	<u>(41,089)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>9,834,842</u>	<u>9,875,931</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 23,116,993</u>	<u>\$ 9,834,842</u>
<b>Supplemental cash flow disclosure:</b>		
Cash paid during the period for interest	<u>\$ 492,468</u>	<u>\$ 173,344</u>

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**  
**(With comparative financial information at June 30, 2017)**

**JUNE 30, 2018**

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**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, 2018, MERF operated ten 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 Foundations offer the following programs, which are mostly free of charge:

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

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

**Other Related Entities**

*Magnolia Properties Management, Inc. (MPM Inc.)*

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

*MPM Sherman Way, LLC*

MERF formed the MPM Sherman Way, LLC exclusively for the acquisition of property and assets of Magnolia Science Academy Charter Schools, for charitable purposes as specified in Section 501(c)(3) of the Internal Revenue Service. The Magnolia Science Academy 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. MPM Inc. is the sole member of the LLC.

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**  
**(With comparative financial information at June 30, 2017)**

**JUNE 30, 2018**

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*MPM Santa Ana, LLC*

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

*MPM San Diego, LLC*

MERF formed the MPM San Diego, 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 Magnolia Science Academy San Diego (MSA-SD) makes lease payments to the LLC, in accordance with the lease agreement specifically for the MSA-SD Project. Accordingly, the financial activities of the LLC have been included in the consolidated financial statements of MERF. MPM Inc. is the sole member of the LLC.

*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 15 to the financial statements.

**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, 2018 and 2017, respectively. In addition, MERF is required to present a Statement of Cash Flows.

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**  
**(With comparative financial information at June 30, 2017)**

**JUNE 30, 2018**

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**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 Foundation 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, MPM Inc., and the LLC had no temporarily or permanently restricted net assets at June 30, 2018 and 2017, respectively.

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, 2018 and 2017, respectively, 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.

**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.

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**  
**(With comparative financial information at June 30, 2017)**

**JUNE 30, 2018**

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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, 2018 and 2017, respectively, 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**

All assets with a useful life of greater than one year and costing more than \$5,000 will be capitalized and (except for land) will be recorded in the depreciation records. 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. Bulk computer, software, and other technology purchases with an aggregate value of \$25,000 or more are captured as fixed assets regardless of individual price of item. In addition, remodeling modifications and replacement costs of integral structural components are only capitalized when such costs incurred exceed \$50,000. 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. Depreciation expense for the year ended June 30, 2018 and 2017, was \$1,228,552 and \$907,827, respectively.

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**  
**(With comparative financial information at June 30, 2017)**

**JUNE 30, 2018**

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**Deferred Revenue**

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by MERF prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when MERF has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Certain grants received before the eligibility requirements are met and recorded as deferred revenue.

**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.

**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, MPM Inc., 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.

**Unrestricted/Designated Net Assets**

Designations of the ending net assets indicate tentative plans for financial resource utilization in a future period. The grant portion of the Foundation Facilities Program is classified as designated assets until the funds are used for the purchase of the land and the construction of the facility. As of June 30, 2018 and 2017, the amount of restricted cash was \$4,659,987 and \$648,760, respectively. As of June 30, 2018 and 2017, there was a designated balance of \$2,443,468 and \$1,065,232, respectively, for California Clean Energy Jobs Act, College Readiness funds, National School Lunch Program, and Proposition 1 D funds.

**Consolidation**

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

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**  
**(With comparative financial information at June 30, 2017)**

**JUNE 30, 2018**

**New Accounting Pronouncements**

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases (see Note 12).

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. Under this guidance, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted, and permanently restricted).

**NOTE 3 - CASH AND CASH EQUIVALENTS**

Cash at June 30, 2018 and 2017, consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 22,096,194	\$ 25,888,140	\$ 9,043,882	\$ 10,098,608
County pooled investment funds	504,299	N/A	790,960	N/A
Total	<u>\$ 22,600,493</u>	<u>\$ 25,888,140</u>	<u>\$ 9,834,842</u>	<u>\$ 10,098,608</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, 2018 and 2017, MERF had \$25,388,140 and \$9,204,748, respectively, in excess of FDIC insured limits in bank accounts.

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**  
 (With comparative financial information at June 30, 2017)

**JUNE 30, 2018**

**NOTE 4 - RESTRICTED CASH**

At June 30, 2018 and 2017, cash held for restricted purposes consisted of the following:

	June 30, 2018		June 30, 2017	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Bond reserve	\$ 4,553,380	\$ 4,553,380	\$ 446,563	\$ 446,563
Facility reserve	106,607	106,607	202,197	202,197
Current Restricted Cash	<u>\$ 4,659,987</u>	<u>\$ 4,659,987</u>	<u>\$ 648,760</u>	<u>\$ 648,760</u>

The majority of MERF's restricted 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, 2018 and 2017, MERF had \$4,553,130 and \$196,563, respectively, in excess of FDIC insured limits in bank accounts.

**NOTE 5 - INVESTMENTS (CASH EQUIVALENTS)**

**Summary of Investments**

Two MSA charter schools have investments held in county investment pools. Investments as of June 30, 2018 and 2017, are classified in the accompanying financial statements as follows:

*Magnolia Science Academy San Diego*

Investment Type	June 30, 2018		June 30, 2017	
	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
San Diego County Pooled Investment Funds	<u>\$ 62,058</u>	<u>\$ 61,400</u>	<u>\$ 14,476</u>	<u>\$ 14,427</u>

*Magnolia Science Academy Santa Ana*

Investment Type	June 30, 2018		June 30, 2017	
	Reported Amount	Fair Market Value	Reported Amount	Fair Market Value
Orange County Pooled Investment Funds	<u>\$ 442,241</u>	<u>\$ 440,337</u>	<u>\$ 776,484</u>	<u>\$ 775,242</u>

All assets have been valued using a market approach, with quoted market prices.

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**  
**(With comparative financial information at June 30, 2017)**

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**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 Foundations 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. MERF manages exposure to interest rate risk by investing in the County Pool.

**Weighted Average Maturity**

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

***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.

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



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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.

Uncategorized - Investments in the Orange and San Diego County Treasury Investment Pools are not measured using the input levels above because the Foundations' transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The fair value measurements are as follows at June 30, 2018:

*Magnolia Science Academy San Diego*

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
San Diego County Treasury Investment Pool	Uncategorized	<u>\$61,400</u>	370

*Magnolia Science Academy Santa Ana*

Investment Type	Level	Fair Value	Weighted Average Maturity in Days
Orange County Pooled Investment Funds	Uncategorized	<u>\$ 440,337</u>	302

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**NOTE 7 - ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Local Control Funding Formula	\$ 2,261,602	\$ 2,018,722
Federal receivable	965,463	699,232
State receivable	1,216,639	58,203
Due From LACOE	-	16,815
Local receivable	-	21,902
Lottery	335,247	379,538
Other	2,669	-
Total Accounts Receivable	<u>\$ 4,781,620</u>	<u>\$ 3,194,412</u>

**NOTE 8 - FIXED ASSETS**

Fixed assets at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,386,854	\$ 2,386,854
Building improvements	28,388,867	24,123,767
Leasehold improvements	384,879	374,818
Computer and equipment	2,775,055	2,536,238
Work in progress	12,119,894	735,857
Subtotal	46,055,549	30,157,534
Less: accumulated depreciation	(4,120,699)	(3,115,417)
Total Fixed Assets	<u>\$ 41,934,850</u>	<u>\$ 27,042,117</u>

During the years ended June 30, 2018 and 2017, \$1,228,552 and \$907,827, respectively, was charged to depreciation expense.

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

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**NOTE 9 - ACCOUNTS PAYABLE AND ACCRUALS**

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Salaries and benefits	\$ 733,254	\$ 751,947
Compensated absences	121,768	-
Vendor payables	1,981,453	2,324,075
Due to other agencies	395,910	136,469
Total Accounts Payable and Accruals	<u>\$ 3,232,385</u>	<u>\$ 3,212,491</u>

**NOTE 10 - DEFERRED REVENUE**

Deferred revenue at June 30, 2018, consisted of the following:

	<u>2018</u>	<u>2017</u>
State sources	\$ 2,290,659	\$ 446,563
Other	-	72,500
Total Deferred Revenue	<u>\$ 2,290,659</u>	<u>\$ 519,063</u>

**NOTE 11 - LONG-TERM OBLIGATIONS**

At June 30, 2018, MERF's long-term obligations summary is as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Due in</u> <u>One Year</u>
Bonds payable (CSFA)	\$ 5,870,000	\$ 25,000,000	\$ 85,000	\$ 30,785,000	\$ 90,000
Loans (CCSFP)	8,883,784	-	244,116	8,639,668	223,520
Note payable	2,800,000	4,265,000	2,800,000	4,265,000	509,000
Total	<u>\$ 17,553,784</u>	<u>\$ 29,265,000</u>	<u>\$ 3,129,116</u>	<u>\$ 43,689,668</u>	<u>\$ 822,520</u>

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

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At June 30, 2017, MERF's long-term obligations summary is as follows:

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due in One Year
Bonds payable (CSFA)	\$ 5,950,000	\$ -	\$ 80,000	\$ 5,870,000	\$ 85,000
Loans (CCSFP)	8,950,465	-	66,669	8,883,796	244,116
Capital leases	44,198	-	44,198	-	-
Note payable	2,800,000	-	-	2,800,000	2,800,000
Total	<u>\$ 17,744,663</u>	<u>\$ -</u>	<u>\$ 190,867</u>	<u>\$ 17,553,796</u>	<u>\$ 3,129,116</u>

**California School Finance Authority (CSFA) School Facility Revenue Bonds**

**Series 2014A and 2014B**

In June 2014, 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 in August 2044 with monthly interest payments due commencing July 1, 2044. At June 30, 2018, the principal balance outstanding was \$5,785,000.

**Series 2017A-1 and 2017A-2**

In August 2017, the CSFA issued \$25,000,000 in School Facilities Revenues, Series 2017A-1 and Series 2017A-2 for the purpose of a loan to MPM Sherman Way, LLC, MPM Santa Ana, LLC, and MPM Sand Diego, LLC. The proceeds from the bonds will be used for the purpose of purchase, renovations, and improvement of charter school facilities. The bonds mature in July 2044 with monthly interest payments due commencing July 1, 2044. At June 30, 2018, the principal balance outstanding was \$25,000,000.

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The bonds mature through 2045 as follows:

Repayment Year	Current Interest		Total
	Principal	to Maturity	
2019	\$ 90,000	\$ 1,660,688	\$ 1,750,688
2020	620,000	1,641,088	2,261,088
2021	655,000	1,607,444	2,262,444
2022	685,000	1,572,269	2,257,269
2023	720,000	1,535,387	2,255,387
2024-2028	4,230,000	7,117,626	11,347,626
2029-2033	4,740,000	6,498,538	11,238,538
2034-2038	6,350,000	4,843,338	11,193,338
2039-2043	8,520,000	2,611,500	11,131,500
2044-2045	4,175,000	256,319	4,431,319
Total	\$ 30,785,000	\$ 29,344,197	\$ 60,129,197

**Debt Service Coverage and Cash Days on Hand**

Under the current bonding agreement, MPM Sherman Way, MPM Santa Ana, and MPM San Diego (the Lessees) or Magnolia Educational and Research Foundation (MERF) is required to maintain a Debt Service Coverage Ratio of 1.10 to 1.00 and Cash Days on Hand of 45 days.

The Debt Service Coverage Ratio is calculated by dividing the Combined Net Income Available for Debt Service from Magnolia Science Academy (MSA) by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2018, MSA had a 2.56 Debt Service Coverage Ratio and was in compliance with the 1.10 to 1.00 required ratio and cash on hand of 45 days.

**Debt Service Coverage**

Net Income	\$ 1,425,567
Depreciation	6,361
Rent	916,260
Income Available for Coverage	2,348,188
Debt Service	916,260

<b>Debt Service Coverage</b>	<b>2.56</b>
Limit	1.10
Compliance	Yes

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The Days Cash on Hand is calculated by reducing non-cash expenses from total expenses and divided by 365 days. As of June 30, 2018, MSA had 113 days cash on hand and was in compliance with the 45 days required.

**Days Cash on Hand**

Total Expenses	\$ 6,599,203
Depreciation	6,361
Cash Expenses	6,592,842
Expense/Day	18,063
Cash	2,044,087

<b>Days Cash on Hand</b>	<b>113</b>
Limit	45
Compliance	Yes

**Loans (CCSFP)**

Summarized below are MERF's loans at June 30, 2018:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in One Year
MSA SD (CCSFP)	\$ 151,806	\$ -	\$ -	\$ 151,806	\$ -
MSA SA (Revolving)	25,000	-	25,000	-	-
MSA SA (CCSFP)	8,706,978	-	219,116	8,487,862	223,520
Total	<u>\$ 8,883,784</u>	<u>\$ -</u>	<u>\$ 244,116</u>	<u>\$ 8,639,668</u>	<u>\$ 223,520</u>

*Magnolia Science Academy San Diego (MSA SD)*

Magnolia Science Academy San Diego has been approved by the State of California's Charter School Facilities Program (CCSFP) for \$3,036,122 for constructing a new facility, which will cost the same amount. The State will fund 50 percent of the total amount of \$3,036,122; the State will fund 50 percent of the total project cost through a loan in the amount of \$1,518,061 and the other 50 percent through a grant in the amount of \$1,518,061. The loan has an annual interest rate of 2.00 percent and it matures 30 years after the completion of the project, which is estimated to be in the middle of calendar year 2016. The repayment schedule will be determined after completion of the project. The State Controller's Office will deduct the loan payments from MSA SD's State School Fund Apportionments. The outstanding loan balance as of June 30, 2018, was \$151,806.

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

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*Magnolia Science Academy Santa Ana (MSA SA)*

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, 2018, 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 MSA SA's State School Fund Apportionments. At June 30, 2018, the loan was paid in full.

Magnolia Science Academy Santa Ana has been approved by the State of California's Charter School Facilities Program (CCSFP) for \$17,413,956 for constructing a new facility, which will cost the same amount. The State will fund 50 percent of the total amount of \$17,413,956; the State will fund 50 percent of the total project cost through a loan in the amount of \$8,706,990 and the other 50 percent through a grant in the amount of \$8,706,978. The loan has an annual interest rate of 3.00 percent and it matures 30 years after the completion of the project. The outstanding loan balance as of June 30, 2018, was \$8,487,862. The current portion due in 2017-2018 is \$223,520.

**Note Payable**

*Magnolia Science Academy (MSA 1)*

MSA entered into a promissory note agreement with Luxor Properties, Inc. and Michael William Spivak, to purchase the property located at 18220-18228 Sherman Way, Los Angeles, California. MSA 1 received a loan in the amount of \$2,800,000. The loan bears an interest rate of 6.50 percent. The terms of the loan require monthly interest payments of \$15,667 for a 23-month period and the remaining principal balance on the final payment. At June 30, 2018, this note was paid in full.

On December 1, 2017, Magnolia Educational & Research Foundation entered into a promissory note agreement with MPM Santa Ana LLC. The loan agreement provides that the loan will be funded in two tranches. The initial advance of \$1,480,000 on September 6, 2017 and the second advance of \$2,785,000 on December 22, 2017. Monthly payment terms include an interest rate of ten percent beginning in 2017 and maturing June 30, 2045. Total payment made in 2017-2018 was \$226,533 in interest only. Principle payments begin August 1, 2018. The balance as of June 30, 2018 was \$4,265,000.

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Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2019	\$ 509,000
2020	512,833
2021	508,375
2022	503,417
2023	497,958
2024-2028	2,380,666
2029-2033	2,137,583
2034-2038	1,983,127
2039-2043	1,777,458
2044-2045	352,625
Less: Amount Representing Interest	(6,898,042)
Total	<u>\$ 4,265,000</u>

**NOTE 12 - FACILITIES USES AGREEMENTS/OPERATING LEASES**

Total rental and facility expenses were \$1,027,496 for year ended June 30, 2018, for the sole purpose of operating the Foundations' education programs, related Charter Schools' activities. Future rental and facility expenses are as follows:

Fiscal Year Ending	Future Lease Commitments
2019	\$ 926,408
2020	1,153,425
2021	927,619
2022	944,561
2023	639,275
Thereafter	10,763,284
Total	<u>\$ 15,354,572</u>

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**Lease Commitments**

<u>Charter School</u>	<u>Future Lease Commitments</u>
MSA 1	\$ 12,937,551
MSA 7	1,079,021
MSA SD	480,000
MERF Office	858,000
Total	<u>\$ 15,354,572</u>

**NOTE 13 - FAIR VALUE FINANCIAL INSTRUMENTS**

The carrying amounts and estimated fair values of MERF financial instruments as of June 30, 2018 are as follows:

	<u>June 30, 2018</u>		<u>June 30, 2017</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 22,600,493	\$ 22,600,493	\$ 9,834,842	\$ 9,833,550
Restricted cash and cash equivalents	4,659,987	4,659,987	648,760	648,760
Revolving and CCSF loans	8,639,668	8,639,668	8,883,796	8,883,796
Notes payable	4,265,000	4,265,000	2,800,000	2,800,000
Bonds payable (CSFA)	30,785,000	30,785,000	5,870,000	5,870,000

**NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS**

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

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

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The details of each plan are as follows:

**California State Teachers' Retirement System (CalSTRS)**

**Plan Description**

The Foundation 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, 2017, total actuarial value of assets are \$180 billion, the actuarial obligation is \$287 billion, contributions from all employers totaled \$4.0 billion, and the plan is 62.6 percent funded.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2017, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at:

<http://www.calstrs.com/member-publications>.

**Benefits Provided**

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

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

The Foundation contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

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The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
Hire date	2% at 60	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	60	62
Retirement age	2.0% - 2.4%	2.0% - 2.4%
Monthly benefits as a percentage of eligible compensation	10.25%	9.205%
Required employee contribution rate	14.43%	14.43%
Required employer contribution rate	9.328%	9.328%
Required state contribution rate		

**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, 2018 and 2017, are presented above and the Foundation's total contributions were \$2,272,070 and \$1,944,962, respectively.

**California Public Employees Retirement System (CalPERS)**

**Plan Description**

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law. According to the most recently available Actuarial Valuation Report for the year ended June 30, 2016, the Schools Pool total plan assets are \$55.8 billion, the total accrued liability is \$77.5 billion, contributions from all employers totaled \$1.43 billion, and the plan is 71.9 percent funded.

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, 2016, annual actuarial valuation report, Schools Pool Actuarial Valuation, 2016. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:

<https://www.calpers.ca.gov/page/forms-publications>.

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

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**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, 2018, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before	On or after
Hire date	2% at 55	2% at 62
Benefit formula	5 years of service	5 years of service
Benefit vesting schedule	Monthly for life	Monthly for life
Benefit payments	55	62
Retirement age	1.1% - 2.5%	1.0% - 2.5%
Monthly benefits as a percentage of eligible compensation	7.00%	6.50%
Required employee contribution rate	15.531%	15.531%
Required employer contribution rate		

**Contributions**

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Foundation 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, 2018 and 2017, are presented above and the total Charter School contributions were \$485,547 and \$302,590, respectively.

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$1,087,636 (9.328 percent of salaries 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.

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

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***NOTE 15 - 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 2017-2018 at the time this report was issued. However, financial statements should be available from the respective agency.

During the years ended June 30, 2018 and 2017, Magnolia Science Academy Charter Schools made payments of \$448,499 and \$392,554, respectively, to CharterSAFE for services received. At June 30, 2018 and 2017, MERF had no recorded accounts receivable or accounts payable to CharterSAFE.

***NOTE 16 - CONTINGENCIES***

**Grants**

MERF has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. The LAUSD Office of Inspector General has been in the process of reviewing prior year's activity. Per the LAUSD Office of Inspector General letter dated November 6, 2017, "unless the Office of Inspector General receives new information or is directed otherwise by the Board, the Office of Inspector General will not be moving forward on this matter at this time". Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

**Litigation**

MERF is not currently a party to any legal proceedings.

***NOTE 17 - SUBSEQUENT EVENTS***

MERF's management has evaluated events or transactions that may occur for potential recognition or disclosure in the consolidated financial statements through December 13, 2018, which is the date the consolidated financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year consolidated financial statements.

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

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***SUPPLEMENTARY INFORMATION***

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

**CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Special Education:			
Basic Local Assistance Entitlement, Part B, Section 611	84.027	13379	\$ 572,884
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	1,428,512
Title I, Part G: Advanced Placement (AP) Test Fee Reimbursement Program	84.330B	14831	271
Title II, Part A, Supporting Effective Instruction	84.367	14341	165,992
Title III, English Learner Student Program	84.365	14346	66,026
State Charter School Facilities Incentive Grants	84.242D	[1]	507,580
Total U.S. Department of Education			<u>2,741,265</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through California Department of Education (CDE):			
Child Nutrition Cluster:			
Basic School Breakfast Program	10.553	13525	68,717
Especially Needy Breakfast	10.553	13526	280,828
National School Lunch Program	10.555	13524	731,203
Food Distribution	10.555	13524	29,288
Total Child Nutrition Cluster			<u>1,110,036</u>
Total U.S. Department of Agriculture			<u>1,110,036</u>
Total Federal Programs			<u>\$ 3,851,301</u>

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

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, 2018**

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**ORGANIZATION**

MERF operates ten schools in California under ten 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, 2018, the Foundations operated by MERF were as follows:

<b>Charter School Name</b>	<b>Charter Number</b>	<b>Sponsoring District</b>	<b>Charter Expiration</b>	<b>Grades Served</b>	<b>Number of Students Served</b>
Magnolia Science Academy	0438	Los Angeles COE	June 30, 2022	6-12	537
Magnolia Science Academy 2	0906	Los Angeles COE	June 30, 2022	6-12	448
Magnolia Science Academy 3	0917	Los Angeles COE	June 30, 2022	6-12	455
Magnolia Science Academy 4	0986	Los Angeles USD	June 30, 2023	6-12	185
Magnolia Science Academy 5	0987	Los Angeles COE	June 30, 2023	6-12	206
Magnolia Science Academy 6	0988	Los Angeles USD	June 30, 2019	6-8	155
Magnolia Science Academy 7	0989	Los Angeles USD	June 30, 2019	K-5	200
Magnolia Science Academy Bell	1236	Los Angeles USD	June 30, 2020	6-8	487
Magnolia Science Academy San Diego	0698	San Diego USD	June 30, 2020	6-8	397
Magnolia Science Academy Santa Ana	1686	CDE	June 30, 2019	K-12	720

See accompanying note to supplementary information.



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

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE, *Continued***  
**FOR THE YEAR ENDED JUNE 30, 2018**

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**BOARD OF DIRECTORS**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mr. Saken Sherkhanov	President	December 11, 2018
Mr. Haim Beliak	Vice-Chair	February 8, 2022
Dr. Charlotte Brimmer	Director	August 10, 2022
Ms. Sandra Covarrubias	Director/Parent	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Geldiyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 2019
Mr. Serdar Orazov	Director	September 9, 2020
Dr. Umit Yapanel	Director	October 11, 2022

**ADMINISTRATION**

Alfredo Rubalcava <sup>1</sup>	Chief Executive Officer, Superintendent
Caprice Young, Ed.D. <sup>2</sup>	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

<sup>1</sup> Effective July 1, 2018

<sup>2</sup> Resigned June 30, 2018

See accompanying note to supplementary information.

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

**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2018**

	MERF	MSA-1	MSA-2	MSA-3	MSA-4	MSA-5	MSA-6
<b>ASSETS</b>							
Current Assets:							
Cash and cash equivalents	\$ 475,054	\$ 2,044,087	\$ 1,094,844	\$ 740,137	\$ 1,336,770	\$ 1,731,955	\$ 1,442,531
Restricted cash and cash equivalents	-	-	-	-	-	-	-
Accounts receivable	-	1,349,175	521,854	440,748	156,659	157,623	162,484
Intra-company receivable	2,263,534	588,400	62,177	6,604	936	22,592	2,500
Prepaid expenses and other current assets	419,062	260,679	87,263	1,743	377	11,698	14,884
Total Current Assets	3,157,650	4,242,341	1,766,138	1,189,232	1,494,742	1,923,868	1,622,399
Non-Current Assets:							
Debt issue cost, net	-	-	-	-	-	-	-
Investments in LLC's	-	161,923	-	-	-	-	-
Security deposits	16,000	-	-	-	-	-	-
Fixed assets	134,513	1,489,734	410,237	267,427	178,296	205,518	158,971
Less: accumulated depreciation	(117,723)	(665,047)	(294,698)	(181,398)	(131,837)	(123,576)	(130,981)
Total Non-Current Assets	32,790	986,610	115,539	86,029	46,459	81,942	27,990
Total Assets	\$ 3,190,440	\$ 5,228,951	\$ 1,881,677	\$ 1,275,261	\$ 1,541,201	\$ 2,005,810	\$ 1,650,389
<b>LIABILITIES</b>							
Current Liabilities:							
Accounts payable and accruals	\$ 296,731	\$ 267,565	\$ 729,383	\$ 208,639	\$ 70,621	\$ 102,310	\$ 46,433
Intra-company payable	2,099,748	149,542	35,064	2,905	66	8,168	58
Deferred revenue	-	-	-	-	-	-	-
Current portion of long-term obligations	-	-	-	-	-	-	-
Total Current Liabilities	2,396,479	417,107	764,447	211,544	70,687	110,478	46,491
Long-Term Obligations:							
Non-current portion of long-term obligations	-	-	-	-	-	-	-
Total Liabilities	2,396,479	417,107	764,447	211,544	70,687	110,478	46,491
<b>NET ASSETS</b>							
Unrestricted (deficit)	793,961	4,446,128	834,378	788,750	1,205,407	1,644,202	1,491,714
Designated	-	365,716	282,852	274,967	265,107	251,130	112,184
Total Net Assets	793,961	4,811,844	1,117,230	1,063,717	1,470,514	1,895,332	1,603,898
Total Liabilities and Net Assets	\$ 3,190,440	\$ 5,228,951	\$ 1,881,677	\$ 1,275,261	\$ 1,541,201	\$ 2,005,810	\$ 1,650,389

See accompanying note to supplementary information.

MSA-7	MSA-Bell	MSA-SD	MSA-SA	MPM Inc./ LLC	Elimination	Total	Memo 2017 Total
\$ 1,269,979	\$ 1,907,434	\$ 657,784	\$ 708,858	\$ 9,191,060	\$ -	\$ 22,600,493	\$ 9,834,842
-	-	106,607	-	4,553,380	-	4,659,987	648,760
318,241	385,404	271,945	1,017,487	-	-	4,781,620	3,194,412
-	1,722,916	-	34,430	-	(4,704,089)	-	-
22,337	79,980	128,519	866	-	-	1,027,408	1,620,157
1,610,557	4,095,734	1,164,855	1,761,641	13,744,440	(4,704,089)	33,069,508	15,298,171
-	-	-	-	1,076,199	-	1,076,199	358,782
-	-	198,191	75,554	-	(435,668)	-	-
7,227	-	-	19,890	-	-	43,117	64,690
290,998	320,329	667,450	22,622,538	19,309,538	-	46,055,549	30,157,534
(122,900)	(187,190)	(372,561)	(1,091,112)	(701,676)	-	(4,120,699)	(3,115,417)
175,325	133,139	493,080	21,626,870	19,684,061	(435,668)	43,054,166	27,465,589
\$ 1,785,882	\$ 4,228,873	\$ 1,657,935	\$ 23,388,511	\$ 33,428,501	\$ (5,139,757)	\$ 76,123,674	\$ 42,763,760
\$ 277,107	\$ 144,722	\$ 137,405	\$ 951,469	\$ -	\$ -	\$ 3,232,385	\$ 3,212,491
10,579	434	215,638	2,181,887	-	(4,704,089)	-	-
-	-	-	-	2,290,659	-	2,290,659	519,063
-	-	-	901,166	-	-	901,166	3,129,116
287,686	145,156	353,043	4,034,522	2,290,659	(4,704,089)	6,424,210	6,860,670
-	-	151,806	11,851,696	30,785,000	-	42,788,502	14,424,680
287,686	145,156	504,849	15,886,218	33,075,659	(4,704,089)	49,212,712	21,285,350
1,243,634	3,810,806	803,763	7,487,577	352,842	(435,668)	24,467,494	20,413,178
254,562	272,911	349,323	14,716	-	-	2,443,468	1,065,232
1,498,196	4,083,717	1,153,086	7,502,293	352,842	(435,668)	26,910,962	21,478,410
\$ 1,785,882	\$ 4,228,873	\$ 1,657,935	\$ 23,388,511	\$ 33,428,501	\$ (5,139,757)	\$ 76,123,674	\$ 42,763,760

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

**CONSOLIDATING STATEMENT OF ACTIVITIES**  
**JUNE 30, 2018**

	MERF	MSA-1	MSA-2	MSA-3	MSA-4	MSA-5	MSA-6
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>							
<b>REVENUES</b>							
State apportionments	\$ -	\$ 5,502,695	\$ 4,472,148	\$ 4,459,164	\$ 1,713,551	\$ 1,927,351	\$ 1,449,785
Federal revenue	-	980,659	489,784	444,672	243,319	218,909	143,028
Other State revenue	-	1,589,193	825,899	925,197	444,462	481,588	374,247
Rent revenue	-	-	-	-	-	-	-
Local revenue	6,803,273	175,333	105,589	84,847	45,510	124,580	52,349
Total Revenues	6,803,273	8,247,880	5,893,420	5,913,880	2,446,842	2,752,428	2,019,409
<b>EXPENSES</b>							
Program services:							
Salaries and benefits	2,377,403	3,015,806	2,627,816	2,575,050	1,005,461	1,207,677	887,176
Student services	-	151,514	183,325	220,659	173,790	167,097	80,009
Materials and supplies	-	63,887	70,533	-	29,527	33,358	18,712
Student nutrition	16,645	238,193	222,727	189,326	64,698	85,556	44,443
Other expenses	88,051	90,337	103,544	74,152	38,253	56,762	34,220
Subtotal	2,482,099	3,559,737	3,207,945	3,059,187	1,311,729	1,550,450	1,064,560
Management and general:							
Salaries and benefits	594,351	753,952	666,961	643,762	247,132	291,913	221,794
Amortization	-	-	-	-	-	-	-
Depreciation	933	6,361	48,000	22,407	15,656	11,392	28,726
Insurance	11,628	-	-	-	-	-	-
Management fee	-	1,095,870	993,132	993,132	82,190	82,190	82,190
Occupancy	165,442	982,094	356,041	261,243	134,184	119,251	125,889
Operating expenses	1,988,081	378,797	401,197	502,393	215,596	177,457	151,273
Debt service	-	-	-	-	-	-	-
Interest	-	45,500	-	-	-	-	-
Subtotal	2,760,435	3,262,574	2,465,331	2,422,937	694,758	682,203	609,872
Total Expenses	5,242,534	6,822,311	5,673,276	5,482,124	2,006,487	2,232,653	1,674,432
<b>CHANGE IN UNRESTRICTED NET ASSETS BEFORE EXTRAORDINARY ITEM</b>	1,560,739	1,425,569	220,144	431,756	440,355	519,775	344,977
Extraordinary item - MSA Santa Clara	-	-	-	-	-	-	-
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	1,560,739	1,425,569	220,144	431,756	440,355	519,775	344,977
<b>NET ASSETS (DEFICIT), BEGINNING OF YEAR</b>	(766,778)	3,386,275	897,086	631,961	1,030,159	1,375,557	1,258,921
Contributed capital	-	-	-	-	-	-	-
<b>NET ASSETS (DEFICIT), END OF YEAR</b>	\$ 793,961	\$ 4,811,844	\$ 1,117,230	\$ 1,063,717	\$ 1,470,514	\$ 1,895,332	\$ 1,603,898

See accompanying note to supplementary information.

MSA-7	MSA-Bell	MSA-SD	MSA-SA	MPM Inc./ LLC	Elimination	Total	Memo 2017 Total
\$2,565,977	\$4,538,699	\$2,947,210	\$6,682,934	\$ -	\$ -	\$36,259,514	\$34,483,963
241,181	342,604	117,595	629,550	-	-	3,851,301	3,756,458
945,358	980,866	788,908	841,029	-	-	8,196,747	6,383,153
-	-	-	-	880,748	(880,748)	-	-
98,633	74,954	99,365	173,872	66,546	(6,376,553)	1,528,298	1,400,619
3,851,149	5,937,123	3,953,078	8,327,385	947,294	(7,257,301)	49,835,860	46,024,193
1,393,792	2,287,778	1,901,413	4,074,261	-	-	23,353,633	23,151,926
177,626	231,491	181,840	300,117	-	-	1,867,468	2,173,408
45,381	27,207	8,906	128,857	-	-	426,368	839,491
93,406	144,444	31,385	341,506	-	-	1,472,329	1,670,987
48,552	124,961	50,080	139,263	-	-	848,175	1,221,591
1,758,757	2,815,881	2,173,624	4,984,004	-	-	27,967,973	29,057,403
348,448	539,574	472,297	990,009	-	-	5,770,193	5,787,982
-	-	-	-	38,894	-	38,894	12,814
18,515	57,572	30,567	527,830	460,593	-	1,228,552	907,827
-	-	-	-	-	-	11,628	790
547,935	1,095,870	324,470	1,095,870	-	(6,376,553)	16,296	326,637
293,076	318,111	698,460	40,911	-	(880,748)	2,613,954	1,809,451
398,552	392,797	349,260	616,512	-	-	5,571,915	6,622,041
-	-	-	-	691,435	-	691,435	360,088
-	-	-	446,968	-	-	492,468	173,344
1,606,526	2,403,924	1,875,054	3,718,100	1,190,922	(7,257,301)	16,435,335	16,000,974
3,365,283	5,219,805	4,048,678	8,702,104	1,190,922	(7,257,301)	44,403,308	45,058,377
485,866	717,318	(95,600)	(374,719)	(243,628)	-	5,432,552	965,816
-	-	-	-	-	-	-	(348,866)
485,866	717,318	(95,600)	(374,719)	(243,628)	-	5,432,552	616,950
1,012,330	3,366,399	1,248,686	7,877,012	160,802	-	21,478,410	20,861,460
-	-	-	-	435,668	(435,668)	-	-
\$1,498,196	\$4,083,717	\$1,153,086	\$7,502,293	\$352,842	\$(435,668)	\$26,910,962	\$21,478,410

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

**FOUNDNTATION ONLY COMPARATIVE STATEMENT OF FINANCIAL POSITION**  
**(With comparative financial information at June 30, 2017)**

**JUNE 30, 2018**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 475,054	\$ 52,671
Accounts receivable	-	463
Intra-company receivable	2,263,534	2,798,858
Prepaid expenses and other current assets	419,062	417,711
Total Current Assets	<u>3,157,650</u>	<u>3,269,703</u>
Non-Current Assets:		
Security deposits	16,000	16,000
Fixed assets	134,513	134,513
Less: accumulated depreciation	(117,723)	(116,790)
Total Non-Current Assets	<u>32,790</u>	<u>33,723</u>
Total Assets	<u>\$ 3,190,440</u>	<u>\$ 3,303,426</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accruals	\$ 296,731	\$ 443,504
Intra-company payable	2,099,748	3,554,200
Deferred revenue	-	72,500
Total Liabilities	<u>2,396,479</u>	<u>4,070,204</u>
<b>NET ASSETS</b>		
Unrestricted	793,961	(766,778)
Total Liabilities and Net Assets	<u>\$ 3,190,440</u>	<u>\$ 3,303,426</u>

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

**FOUNDATION ONLY COMPARATIVE STATEMENT OF ACTIVITIES**  
**(With comparative financial information at June 30, 2017)**

**JUNE 30, 2018**

	2018	2017
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>REVENUES</b>		
Local revenue	\$ 6,803,273	\$ 6,522,442
<b>EXPENSES</b>		
Program services:		
Salaries and benefits	2,377,403	2,817,654
Materials and supplies	-	12,200
Student nutrition	16,645	28,445
Other expenses	88,051	107,407
Subtotal	2,482,099	2,965,706
Management and general:		
Salaries and benefits	594,351	704,413
Depreciation	933	1,440
Insurance	11,628	790
Occupancy	165,442	157,972
Operating expenses	1,988,081	2,368,307
Interest	-	74
Subtotal	2,760,435	3,232,996
Total Expenses	5,242,534	6,198,702
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
<b>BEFORE EXTRAORDINARY ITEM</b>	1,560,739	323,740
Extraordinary item - equity transfer	-	(768,450)
Extraordinary item - MSA Santa Clara	-	(348,866)
Total extraordinary items	-	(1,117,316)
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	1,560,739	(793,576)
<b>NET ASSETS, BEGINNING OF YEAR</b>	(766,778)	26,798
<b>NET ASSETS, END OF YEAR</b>	\$ 793,961	\$ (766,778)

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

**FOUNDATION ONLY COMPARATIVE STATEMENT OF CASH FLOWS**  
**(With comparative financial information at June 30, 2017)**

**JUNE 30, 2018**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Change in Unrestricted Net Assets</b>	\$ 1,560,739	\$ (793,576)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	933	1,440
Changes in operating assets and liabilities:		
(Increase) Decrease in assets		
Accounts receivable	463	98,152
Intra-company receivable	535,324	(243,308)
Prepaid expenses and other current assets	(1,351)	(376,983)
Security deposits	-	1,525
Increase (Decrease) in liabilities		
Accounts payable and accruals	(146,773)	(139,293)
Intra-company payable	(1,454,452)	1,366,413
Deferred revenue	(72,500)	72,500
Net Cash Provided by (Used in) Operating Activities	422,383	(13,130)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan principal payments	-	(16,667)
<b>NET CHANGE IN CASH</b>	422,383	(29,797)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	52,671	82,468
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 475,054	\$ 52,671
<b>Supplemental cash flow disclosure:</b>		
Cash paid during the period for interest	\$ -	\$ 74



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

**NOTE TO SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2018**

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***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 Magnolia Science Academy charter schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Magnolia Science Academy charter schools have not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

**Local Education Agency Organization Structure**

This schedule provides information about the Foundations 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, MSA Santa Ana, MSA San Diego, and CMO fees paid to MERF from the MSA charter schools in accordance with the structured fee schedule.

**Foundation Only Comparative Statements**

The accompanying foundation only comparative financial statements report the individual program of MERF and are presented on the accrual basis of accounting.

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***INDEPENDENT AUDITOR'S REPORTS***

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VAVRINEK, TRINE, DAY & CO., LLP  
Certified Public Accountants

VALUE THE *difference*

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Magnolia Educational & Research Foundation (the Foundation) which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2018.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vannink, Tai, Day & Co., LLP

Rancho Cucamonga, California

December 13, 2018



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited Magnolia Educational & Research Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Magnolia Educational & Research Foundation's (the Charter) major Federal programs for the year ended June 30, 2018. Magnolia Educational & Research Foundation'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 federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Magnolia Educational & Research Foundation'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Magnolia Educational & Research Foundation'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 Magnolia Educational & Research Foundation's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Magnolia Educational & Research Foundation 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, 2018.

### **Report on Internal Control Over Compliance**

Management of Magnolia Educational & Research Foundation 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 Magnolia Educational & Research Foundation'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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Magnolia Educational & Research Foundation's internal control over compliance.

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

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

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

*Vannink, Tai, Day & Co., LLP*

Rancho Cucamonga, California  
December 13, 2018

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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

**SUMMARY OF AUDITOR'S RESULTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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**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 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or 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>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>



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

**FINANCIAL STATEMENT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

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

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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None reported.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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There were no audit findings reported in the prior year.



**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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Magnolia Educational & Research Foundation  
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Los Angeles, California

In planning and performing our audit of the financial statements of Magnolia Educational & Research Foundation (MERF) for the year ended June 30, 2018, 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.

We are pleased to report there are no matters to note for the year ended June 30, 2018.

*Vavrinek, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
December 13, 2018