



Annual Financial Report
June 30, 2019

Magnolia Educational & Research Foundation



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

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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, 2019 and 2018, and the related statements of activities, cash flows, and statement of functional expenses 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 *2018-2019 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, 2019 and 2018, 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 15, 2019, 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.

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

Rancho Cucamonga, California
December 15, 2019



FINANCIAL STATEMENTS

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash	\$ 21,006,470	\$ 22,600,493
Accounts receivable	4,871,200	4,781,620
Prepaid expenses and other current assets	53,464	1,027,408
Total Current Assets	<u>25,931,134</u>	<u>28,409,521</u>
Non-Current Assets		
Restricted cash	2,406,421	4,659,987
Bond issue costs, net	998,413	1,076,199
Security deposit	-	43,117
Property and equipment	55,361,868	46,055,549
Less: accumulated depreciation	(4,871,177)	(4,120,699)
Total Non-Current Assets	<u>53,895,525</u>	<u>47,714,153</u>
Total Assets	<u>\$ 79,826,659</u>	<u>\$ 76,123,674</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 6,051,459	\$ 3,232,385
Deferred revenue	2,367,850	2,290,659
Current portion of long-term obligations	942,596	901,166
Total Current Liabilities	<u>9,361,905</u>	<u>6,424,210</u>
Long-Term Obligations		
Non-current portion of long-term obligations	42,351,051	42,788,502
Total Liabilities	<u>51,712,956</u>	<u>49,212,712</u>
Net Assets		
Without donor restrictions		
Designated	2,391,084	2,443,468
Unrestricted	25,722,619	24,467,494
Total Net Assets	<u>28,113,703</u>	<u>26,910,962</u>
Total Liabilities and Net Assets	<u>\$ 79,826,659</u>	<u>\$ 76,123,674</u>

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

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

CONSOLIDATED STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local Control Funding Formula	\$ 39,134,304	\$ 36,259,514
Federal revenue	2,728,824	3,851,301
State revenue	7,421,950	8,196,747
Local revenue	722,973	1,528,298
Total Revenues	<u>50,008,051</u>	<u>49,835,860</u>
Expenses		
Program services	32,968,880	27,967,973
Management and general	15,836,430	16,435,335
Total Expenses	<u>48,805,310</u>	<u>44,403,308</u>
Change in Net Assets	1,202,741	5,432,552
Net Assets, Beginning of Year	<u>26,910,962</u>	<u>21,478,410</u>
Net Assets, End of Year	<u>\$ 28,113,703</u>	<u>\$ 26,910,962</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, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 1,202,741	\$ 5,432,552
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	1,125,296	1,136,583
Changes in operating assets and liabilities		
(Increase) in accounts receivable	(89,580)	(1,587,208)
Decrease in prepaid expenses	973,944	592,749
Decrease in security deposits	43,117	21,573
Increase in accounts payable	2,819,074	19,894
Increase in deferred revenue	77,191	1,771,596
Net Cash Provided by Operating Activities	<u>6,151,783</u>	<u>7,387,739</u>
Cash Flows From Investing Activities		
Restricted cash received (used)	2,253,566	(4,011,227)
Purchases of property and equipment	(9,681,137)	(16,029,316)
Net Cash (Used) by Investing Activities	<u>(7,427,571)</u>	<u>(20,040,543)</u>
Cash Flows From Financing Activities		
Bond issue cost, net	77,786	(717,417)
Loan proceeds	-	29,264,988
Loan principal payment	(396,021)	(3,129,116)
Net Cash Provided (Used) by Financing Activities	<u>(318,235)</u>	<u>25,418,455</u>
Net Increase (Decrease) in Cash	(1,594,023)	12,765,651
Cash, Beginning of Year	<u>22,600,493</u>	<u>9,834,842</u>
Cash, End of Year	<u>\$ 21,006,470</u>	<u>\$ 22,600,493</u>
Supplemental cash flow disclosure		
Cash paid during the period for interest	<u>\$ 2,254,208</u>	<u>\$ 1,183,925</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 FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 18,101,150	\$ 6,217,434	\$ 24,318,584
Employee benefits	3,375,994	-	3,375,994
Payroll taxes	5,370,756	1,424,213	6,794,969
Total Personnel	<u>26,847,900</u>	<u>7,641,647</u>	<u>34,489,547</u>
Operating			
Fees for services	-	2,389,516	2,389,516
Advertising and promotions	-	139,296	139,296
Office expenses	343,814	131,974	475,788
Information technology	214,391	-	214,391
Occupancy	-	1,790,006	1,790,006
Travel	-	105,990	105,990
Conferences and meeting	-	13,103	13,103
Interest	-	2,254,208	2,254,208
Depreciation	1,125,296	-	1,125,296
Insurance	-	239,214	239,214
Other expenses	907,008	1,131,476	2,038,484
Capital outlay	1,182,012	-	1,182,012
Special Education Local Plan Area fees	810,474	-	810,474
Instructional materials	772,729	-	772,729
Nutrition	302,878	-	302,878
District oversight fees	462,378	-	462,378
Total Operating	<u>6,120,980</u>	<u>8,194,783</u>	<u>14,315,763</u>
Total Functional Expenses	<u>\$ 32,968,880</u>	<u>\$ 15,836,430</u>	<u>\$ 48,805,310</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, 2018)

JUNE 30, 2019

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Magnolia Educational & Research Foundation

Magnolia Educational & Research Foundation (MERF) is a California not-for-profit organization. During the fiscal year ended June 30, 2019, MERF operated ten Magnolia Science Academy (MSA) kindergarten through grade twelve charter schools serving 3,957 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
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

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.

Principles of Consolidation

The consolidated financial statements include the accounts of Magnolia Science Academy, Magnolia Science Academy 2, Magnolia Science Academy, 3, Magnolia Science Academy 4, Magnolia Science Academy 5, Magnolia Science Academy 6, Magnolia Science Academy 7, Magnolia Science Academy Bell, Magnolia Science Academy Santa Ana, and Magnolia Science Academy San Diego. All material intercompany transactions have been eliminated (Eliminations). As a part of its mission, Magnolia Educational & Research Foundation, has created a limited liability companies that own real estate for educational purposes. Magnolia Educational & Research Foundation, is the sole member of these LLC's. They lease these facilities to MPM Inc. Since this support is closely aligned with Magnolia Educational & Research Foundation and they are financially inter-related, the MPM Inc. financial information is consolidated with the Magnolia Educational & Research Foundation audit. This consolidation is required due to common control with shared leadership and management. For disclosure purposes, the financial information of the 14 entities are separated within the report as a matter of clarification.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Charter School's audited financial statements for the year ending June 30, 2018.

Cash and Cash Equivalents

The Charter School considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents (including cash in the County Investment Pool).

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, 2018)

JUNE 30, 2019

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2019, there was no provision for the allowance for uncollectable accounts receivable.

Property and Equipment

Property and equipment additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 30 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Charter School reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2019.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions also include the investment in property and equipment, net of accumulated depreciation. The Charter School's policy is to designate funds without restriction at the discretion of the board of directors. The board of directors has designated net assets without donor restrictions for the following uses:

Designated for Discretionary State Grants – Amounts remaining from annual spendable income of board-designated for discretionary grants.

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

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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JUNE 30, 2019

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporarily in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Charter School reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the Charter School has no net assets with donor restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the Charter School are derived principally from State and Federal sources. The Charter School receives State funding based on each of the enrolled student's average daily attendance (ADA) in its schools. The Charter School receives Federal grants, which are paid through the California Department of Education or other Federal and State agencies. Revenues related to these Federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met. Unrestricted support given by the State is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods or services were received during the year ended June 30, 2019.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses, excluding depreciation and grant disbursements are allocated on the basis of estimates of time and effort.

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

MAGNOLIA EDUCATIONAL & RESEARCH FOUNDATION
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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JUNE 30, 2019

The financial statements report categories of expenses that are attributed to program service activities or supporting services activities. The expenses are generally directly attributable to a functional category with no significant allocations between program service activities and supporting service activities occurring.

Management has elected to omit the analysis of expenses by functional classification for the prior period ending June 30, 2018.

Income Taxes

The Charter School is a California 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 provided in Section 170(b) (1) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. The Charter School is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Charter School is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Charter School determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Charter School 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 financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Charter School to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Financial Instruments and Credit Risk

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

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, 2018)

JUNE 30, 2019

Intracompany Payable

Intracompany payable results from a net cumulative difference between resources provided or used by the CMO to the Charter Schools and reimbursement for those resources.

Recent Accounting Pronouncements

On June 21, 2018, the FASB completed its project on revenue-recognition of grants and contracts by not-for-profit entities by issuing Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in the Update provide a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction.

Specifically, the amendments in the Update:

- Clarify how a not-for-profit entity determines whether a resource provider is participating in an exchange transaction or a contribution
- Help an entity to evaluate whether contributions are conditional or unconditional by stating that a conditional contribution must have (1) a barrier that must be overcome and (2) a right of return or release of obligation
- Modify the simultaneous release option currently in generally accepted accounting principles (GAAP), which allows a not-for-profit entity to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is not in the same period that revenue is recognized.

The ASU is effective for the MERF for the year ended June 30, 2020. Management is evaluating the impact of the adoption of this standard.

Change in Accounting Policy

As of July 1, 2018, the Charter School adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Charter School's donor restricted endowment funds and underwater endowments. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Charter School's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Charter School's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

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, 2018)

JUNE 30, 2019

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Charter School has elected not to present comparative information for these amendments.

The Charter School has adopted this standard as management believes the standard improves the usefulness and understandability of the Charter School's financial reporting.

Adjustments Resulting from Change in Accounting Policy

As disclosed above, MSA adopted the provisions of ASU 2016-14, Presentation of Financial Statements for Not-For-Profit Entities as of June 30, 2019. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Charter School's June 30, 2018 net assets

The effect on the Charter School's statement of financial position as of June 30, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, beginning of the year			
Unrestricted	\$ 21,478,410	\$ (21,478,410)	\$ -
Net assets without donor restrictions		21,478,410	21,478,410
Net assets, end of the year			
Unrestricted	\$ 26,910,962	\$ (26,910,962)	\$ -
Net assets without donor restrictions	-	26,910,962	26,910,962

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, 2018)

JUNE 30, 2019

NOTE 2 – LIQUIDITY AND AVAILABILITY

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

	<u>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 21,006,470	\$ 22,600,493
Accounts receivable	4,871,200	4,781,620
Prepaid expenses and other assets	53,464	1,027,408
Financial Assets, at year end	<u>25,931,134</u>	<u>28,409,521</u>
Less those unavailable for general expenditures within one year, due to:		
Designated net assets	<u>(2,391,084)</u>	<u>(2,443,468)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 23,540,050</u>	<u>\$ 25,966,053</u>

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash at June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>		<u>2018</u>	
	Reported Amount	Bank Balance	Reported Amount	Bank Balance
Deposits				
Cash on hand and in banks	\$ 20,332,541	\$ 23,309,682	\$ 22,096,194	\$ 25,881,140
Cash with Orange County Investment Pool	591,479	N/A	442,241	N/A
Cash with San Diego County Investment Pool	82,450	N/A	62,058	N/A
Total	<u>\$ 21,006,470</u>	<u>\$ 23,309,682</u>	<u>\$ 22,600,493</u>	<u>\$ 25,881,140</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, 2019 and 2018, MERF had \$22,809,682 and \$25,388,140, respectively, in excess of FDIC insured limits in bank accounts.

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

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NOTE 4 - RESTRICTED CASH

At June 30, 2019 and 2018, cash held for restricted purposes consisted of the following:

	2019	2018
Current restricted cash	\$ 2,406,421	\$ 4,659,987

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, 2019 and 2018, MERF had \$2,156,421 and \$4,409,987, respectively, in excess of FDIC insured limits in bank accounts.

NOTE 5 - INVESTMENTS

Summary of Investments

Two MSA charter schools have investments held in county investment pools. Investments as of June 30, 2019 and 2018, are classified in the accompanying financial statements as follows:

Investment Type	2019 Reported Amount	2018 Reported Amount
Orange County Pooled Investment Funds	\$ 591,479	\$ 442,241
San Diego County Pooled Investment Funds	82,450	62,058
Total	\$ 673,929	\$ 504,299

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

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.

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Weighted Average Maturity

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

Investment Type	2019		2018	
	Reported Amount	Weighted Average Days to Maturity	Reported Amount	Weighted Average Days to Maturity
Orange County Pooled Investment Funds	\$ 591,479	310	\$ 442,241	302
San Diego County Pooled Investment Funds	82,450	528	62,058	370
Total	<u>\$ 673,929</u>		<u>\$ 504,299</u>	

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.

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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, 2019:

Investment Type	2019		2018	
	Reported Amount	Uncatergorized	Reported Amount	Uncatergorized
Orange County Pooled Investment Funds	\$ 591,479	\$ 591,479	\$ 442,241	\$ 442,241
San Diego County Pooled Investment Funds	82,450	82,450	62,058	62,058
Total	<u>\$ 673,929</u>	<u>\$ 673,929</u>	<u>\$ 504,299</u>	<u>\$ 504,299</u>

NOTE 7 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Local Control Funding Formula	\$ 2,581,620	\$ 2,261,602
Federal receivables	555,845	965,463
State receivables	1,244,316	1,216,639
Lottery	175,873	335,247
Local receivables	313,546	2,669
	<u>\$ 4,871,200</u>	<u>\$ 4,781,620</u>

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NOTE 8 - PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Insurance and miscellaneous vendors	\$ 53,464	\$ 1,027,408

NOTE 9 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Land	\$ 2,566,854	\$ 2,386,854
Building improvements	28,388,867	28,388,867
Computers and equipment	2,808,123	2,775,055
Leasehold improvements	10,061	384,879
Work in progress	21,587,963	12,119,894
Subtotal	55,361,868	46,055,549
Less: accumulated depreciation	(4,871,177)	(4,120,699)
Total Property and Equipment	\$ 50,490,691	\$ 41,934,850

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Salaries and benefits	\$ 1,312,377	\$ 733,254
Compensated absences	121,768	121,768
Due to grantor	-	395,910
Vendor payable	4,617,314	1,981,453
	\$ 6,051,459	\$ 3,232,385

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NOTE 11 - DEFERRED REVENUE

Deferred revenue at June 30, 2019, consisted of the following:

	2019	2018
State sources	\$ 2,367,850	\$ 2,290,659

NOTE 12 - LONG-TERM OBLIGATIONS

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 MERF by the Maximum Annual Debt Service for all outstanding indebtedness. As of June 30, 2019 and 2018, MSA had a 3.39 and 7.10, respectively, Debt Service Coverage Ratio and was in compliance with the 1.10 to 1.00 required ratio.

2019		2018	
Debt Service Coverage		Debt Service Coverage	
Net Income	\$ 1,202,741	Net Income	\$ 5,432,552
Depreciation	1,125,296	Depreciation	1,228,552
Management fees (50%)	3,040,412	Management fees (50%)	3,196,425
Rent	2,277,538	Rent	1,614,758
Income Available for Coverage	7,645,987	Income Available for Coverage	11,472,287
Debt Service	2,277,538	Debt Service	1,614,758
Debt Service Coverage	3.36	Debt Service Coverage	7.10
Limit	1.10	Limit	1.10
Compliance	Yes	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, 2019 and 2018, MERF had 580 and 542, respectively days cash on hand and was in compliance with the 45 days required.

2019		2018	
Days Cash on Hand		Days Cash on Hand	
Total Expenses	\$ 14,315,763	Total Expenses	\$ 16,435,335
Depreciation	1,125,296	Depreciation	1,228,552
Cash Expenses	13,190,467	Cash Expenses	15,206,783
Expense/Day	36,138	Expense/Day	41,662
Cash	21,006,470	Cash	22,600,493
Days Cash on Hand		Days Cash on Hand	
Limit		Limit	
Compliance		Compliance	
	581		542
	45		45
	Yes		Yes

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, 2019, the principal balance outstanding was \$5,695,000.

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, 2019, the principal balance outstanding was \$25,000,000.

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The bonds mature through 2045 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2020	\$ 620,000	\$ 1,641,088	\$ 2,261,088
2021	655,000	1,607,444	2,262,444
2022	685,000	1,607,444	2,292,444
2023	720,000	1,572,269	2,292,269
2024	760,000	1,535,387	2,295,387
2025-2029	4,310,000	7,117,626	11,427,626
2030-2034	5,025,000	6,498,538	11,523,538
2035-2039	6,735,000	4,843,338	11,578,338
2040-2044	9,035,000	2,611,500	11,646,500
2045	2,150,000	256,319	2,406,319
Total	<u>\$ 30,695,000</u>	<u>\$ 29,290,953</u>	<u>\$ 59,985,953</u>

Loans (CCSFP)

Magnolia Science Academy Santa Ana (MSA SA)

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, 2019, was \$8,264,342.

Fiscal Year Ending June 30,	Payments
2020	\$ 392,165
2021	392,166
2022	392,166
2023	392,165
2024	392,166
2025-2029	1,960,829
2030-2034	1,960,826
2035-2039	1,960,829
2040-2044	1,960,829
2045-2047	980,415
Less: Amount Representing Interest	<u>(2,519,103)</u>
Total	<u>\$ 8,265,453</u>

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

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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, 2019, was \$151,806.

Note Payable

Magnolia Science Academy (MSA 1)

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. The balance as of June 30, 2019 was \$4,181,388.

Future payments are as follows:

Fiscal Year Ending June 30,	Payments
2020	\$ 512,833
2021	508,375
2022	503,417
2023	497,958
2024	492,000
2025-2029	2,324,207
2030-2034	2,113,501
2035-2039	1,945,626
2040-2044	1,729,083
2045	27,042
Less: Amount Representing Interest	(6,472,654)
Total	<u>\$ 4,181,388</u>

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NOTE 13 - NET ASSETS

Net assets at June 30, 2019, consisted of the following:

	<u>2019</u>	<u>2018</u>
Net Assets without Donor Restrictions		
Designated for State programs	2,391,084	2,443,468
Unrestricted	<u>25,722,619</u>	<u>24,467,494</u>
Total Net Assets without Donor Restrictions	<u><u>\$ 28,113,703</u></u>	<u><u>\$ 26,910,962</u></u>

NOTE 14 - FACILITIES USES AGREEMENTS

Magnolia Educational & Research Foundation

The Magnolia Educational and Research Foundation entered into a lease agreement with Kajima Development Corporation on February 18, 2016, for the property located at 250 E. First Street, Los Angeles, California. Monthly payments in the amount of \$13,000 shall be made beginning in fiscal year 2015-2016. The term of the lease expires on April 30, 2023. Lease payments during 2018-2019 were \$166,200.

<u>Year Ending June 30,</u>	<u>Facility Lease Payments</u>
2020	\$ 171,600
2021	177,600
2022	184,600
2023	<u>158,000</u>
Total	<u><u>\$ 691,800</u></u>

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Magnolia Science Academy

The Magnolia Science Academy entered into a lease agreement with MPM Sherman Way, LLC on June 1, 2014, for the property located at 18238 Sherman Way, Reseda, California. Monthly payments shall be made beginning in fiscal year 2014-2015. The term of the lease expires on June 25, 2044. Lease payments during 2018-2019 were \$1,291,901.

Year Ending June 30,	Facility Lease Payments
2020	\$ 1,295,589
2021	1,295,476
2022	1,297,781
2023	1,302,336
2024	1,307,572
Thereafter	27,255,683
Total	<u>\$33,754,437</u>

Magnolia Science Academy 7

The Magnolia Science Academy 7 entered into a lease agreement with First Lutheran Church of Northridge on December 1, 2011, for the property located at 18355 Roscoe Boulevard, Northridge, California for the sole purpose of operating the Charter School educational programs and related Charter School activities and include rental fees shall that shall be paid on the first of every month. Monthly payments in the amount of \$14,000 shall be made beginning in fiscal year 2011-2012 and increase 3 percent annually and ending in fiscal year 2021-2022. Lease payments during 2018-2019 were \$280,236

Fiscal Year	Facility Lease Payments
2020	\$ 265,656
2021	273,624
2022	281,832
Total	<u>\$ 821,112</u>

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Magnolia Science Academy San Diego

The Magnolia Science Academy San Diego renewed a Facilities Use Agreement with SDUSD for the sole purpose of operating the Charter School education programs and related Charter Schools activities. The terms of this agreement expires on June 30, 2020 and include rental fees that shall be paid on the first of every month. Lease payments during 2018-2019 were \$240,000.

Year Ending June 30, <hr/> 2020	Facility Lease Payments <hr/> \$ 240,000 <hr/>
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The Magnolia Science Academy San Diego entered into a lease agreement with MPM Sherman Way, LLC on August 1, 2017, for the property located at 6525 Estrella Avenue, San Diego, California. Monthly payments shall be made beginning in fiscal year 2017-2018. The term of the lease expires on July 1, 2044. Lease payments during 2018-2019 were \$473,760.

Year Ending June 30, <hr/>	Facility Lease Payments <hr/>
2020	\$ 476,172
2021	476,397
2022	478,130
2023	481,275
2024	482,139
Thereafter	10,281,145
Total	<hr/> \$12,675,258 <hr/>

NOTE 15 - 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).

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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.

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.

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, 2019, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	16.28%	16.28%
Required state contribution rate	9.828%	9.828%

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, 2019 and 2018, are presented above and the Foundation's total contributions were \$2,532,531 and \$2,272,070, 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.

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

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

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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, 2019, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	7.00%
Required employer contribution rate	18.062%	18.062%

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, 2019 and 2018, are presented above and the total Charter School contributions were \$654,602 and \$485,547, respectively.

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

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JUNE 30, 2019

On Behalf Payments

The State of California makes contributions to CalSTRS and CalPERS on behalf of the School. These payments consist of State General Fund contributions to CalSTRS in the amount of \$2,037,817 (9.828 percent of salaries subject to CalSTRS and SB 90 contribution) and to CalPERS in the amount of \$192,107 (SB 90 contribution only). Senate Bill 90 (Chapter 33, Statutes of 2019), which was signed by the Governor on June 27, 2019, appropriated for an additional 2018-2019 contribution on-behalf of school employers of \$2.2456 billion for CalSTRS and \$904 million for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, both amounts have been recorded in these financial statements.

NOTE 16 - 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 2018-2019 at the time this report was issued. However, financial statements should be available from the respective agency.

During the years ended June 30, 2019 and 2018, Magnolia Science Academy Charter Schools made payments of \$441,986 and \$448,499, respectively, to CharterSAFE for services received. At June 30, 2019 and 2018, MERF had no recorded accounts receivable or accounts payable to CharterSAFE.

NOTE 17 - 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.

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, 2018)

JUNE 30, 2019

Litigation

MERF is not currently a party to any legal proceedings.

NOTE 18 - 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 15, 2019, 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.

SUPPLEMENTARY INFORMATION



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

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through CDE:			
Elementary and Secondary Education Act			
Title I, Part A	84.010	14329	\$ 1,368,355
Title II, Part A	84.367	14341	164,399
Title III, English Learner Student Program	84.365	14346	69,329
Title IV, Part A	84.424	15391	114,231
Special Education Cluster	84.027	13379	592,160
State Charter School Facilities Incentive Grants	84.242D	[1]	411,215
Total Expenditures of Federal Awards			<u>\$ 2,719,689</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, 2019

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, 2019, the Foundations operated by MERF were as follows:

Charter School Name	Charter Number	Sponsoring District	Charter Expiration	Grades Served	Number of Students Served
Magnolia Science Academy	0438	Los Angeles County Office of Education	June 30, 2022	6-12	590
Magnolia Science Academy 2	0906	Los Angeles County Office of Education	June 30, 2022	6-12	437
Magnolia Science Academy 3	0917	Los Angeles County Office of Education	June 30, 2022	6-12	510
Magnolia Science Academy 4	0986	Los Angeles Unified School District	June 30, 2023	6-12	176
Magnolia Science Academy 5	0987	Los Angeles County Office of Education	June 30, 2023	6-12	248
Magnolia Science Academy 6	0988	Los Angeles Unified School District	June 30, 2024	6-8	156
Magnolia Science Academy 7	0989	Los Angeles Unified School District	June 30, 2024	K-5	291
Magnolia Science Academy 8	1236	Los Angeles Unified School District	June 30, 2020	6-8	471
Magnolia Science Academy Santa Ana	1686	California Department of Education	June 30, 2020	6-8	674
Magnolia Science Academy San Diego	698	San Diego Unified School District	June 30, 2024	K-12	404

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, 2019

BOARD OF DIRECTORS

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Rabbi Haim Beliak	Chair	February 8, 2022
Dr. Umit Yapanel	Vice Chair	October 11, 2022
Ms. Sandra Covarrubias	Director	August 10, 2022
Dr. Salih Dikbas	Director	December 10, 2019
Mr. Shohrat Glediyev	Director	March 11, 2020
Mrs. Diane Gonzalez	Director	December 10, 2019
Mr. Serdar Orazov	Director	September 9, 2020

ADMINISTRATION

Alfredo Rubalcava	Chief Executive Officer, Superintendent
Nanie Montijo	Chief Financial Officer

See accompanying note to supplementary information.

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

Assets	MERF	MSA	MSA 2	MSA 3	MSA 4	MSA 5	MSA 6
Current Assets							
Cash	\$ 2,681,572	\$ 2,939,938	\$ 1,158,184	\$ 991,716	\$ 1,475,263	\$ 1,987,156	\$ 1,719,960
Accounts receivable	63,475	1,273,139	576,220	777,695	290,221	337,071	256,078
Intracompany receivable	1,412,686	849,433	153,812	6,759	46,259	1,026	8,002
Prepaid expenses and other current assets	14,665	2,059	1,091	613	377	-	9,714
Total Current Assets	<u>4,172,398</u>	<u>5,064,569</u>	<u>1,889,307</u>	<u>1,776,783</u>	<u>1,812,120</u>	<u>2,325,253</u>	<u>1,993,754</u>
Non-Current Assets							
Investments in LLC	-	161,923	-	-	-	-	-
Restricted cash	-	-	-	-	-	-	-
Bond issue costs, net	-	-	-	-	-	-	-
Security deposit	-	-	-	-	-	-	-
Property and equipment	134,513	1,114,916	410,237	267,427	178,296	205,518	158,971
Less: accumulated depreciation	(117,895)	(361,701)	(364,182)	(245,203)	(147,493)	(141,155)	(148,877)
Total Non-Current Assets	<u>16,618</u>	<u>915,138</u>	<u>46,055</u>	<u>22,224</u>	<u>30,803</u>	<u>64,363</u>	<u>10,094</u>
Total Assets	<u>\$ 4,189,016</u>	<u>\$ 5,979,707</u>	<u>\$ 1,935,362</u>	<u>\$ 1,799,007</u>	<u>\$ 1,842,923</u>	<u>\$ 2,389,616</u>	<u>\$ 2,003,848</u>
Liabilities							
Current Liabilities							
Accounts payable	\$ 417,278	\$ 1,002,872	\$ 863,200	\$ 730,924	\$ 518,992	\$ 496,724	\$ 175,226
Deferred revenue	-	13,462	11,351	11,368	1,136	5,090	12,223
Intracompany payable	2,148,075	101,215	44,258	9,705	66	105,795	2,110
Current portion of long-term debt	-	-	-	-	-	-	-
Total Current Liabilities	<u>2,565,353</u>	<u>1,117,549</u>	<u>918,809</u>	<u>751,997</u>	<u>520,194</u>	<u>607,609</u>	<u>189,559</u>
Long-Term Obligations							
Non-current portion of long-term debt	-	-	-	-	-	-	-
Total Liabilities	<u>2,565,353</u>	<u>1,117,549</u>	<u>918,809</u>	<u>751,997</u>	<u>520,194</u>	<u>607,609</u>	<u>189,559</u>
Net Assets							
Without donor restrictions							
Designated	-	721,439	284,380	362,240	-	284,969	217,955
Unrestricted	1,623,663	4,140,719	732,173	684,770	1,322,729	1,497,038	1,596,334
Total Net Assets	<u>1,623,663</u>	<u>4,862,158</u>	<u>1,016,553</u>	<u>1,047,010</u>	<u>1,322,729</u>	<u>1,782,007</u>	<u>1,814,289</u>
Total Liabilities and Net Assets	<u>\$ 4,189,016</u>	<u>\$ 5,979,707</u>	<u>\$ 1,935,362</u>	<u>\$ 1,799,007</u>	<u>\$ 1,842,923</u>	<u>\$ 2,389,616</u>	<u>\$ 2,003,848</u>

See accompanying note to supplementary information.

<u>MSA 7</u>	<u>MSA Bell</u>	<u>MSA Santa Ana</u>	<u>MSA San Diego</u>	<u>MPM Inc. / LLC</u>	<u>Elimination</u>	<u>2019 Total</u>	<u>2018 Total</u>
\$ 1,314,944	\$ 2,529,656	\$ 882,408	\$ 235,322	\$ 3,090,351	\$ -	\$ 21,006,470	\$ 22,600,493
409,828	536,075	217,899	133,499	-	-	4,871,200	4,781,620
-	1,811,055	618,358	116,401	-	(5,023,791)	-	-
23,786	233	635	291	-	-	53,464	1,027,408
<u>1,748,558</u>	<u>4,877,019</u>	<u>1,719,300</u>	<u>485,513</u>	<u>3,090,351</u>	<u>(5,023,791)</u>	<u>25,931,134</u>	<u>28,409,521</u>
-	-	75,554	198,191	-	(435,668)	-	-
-	-	-	106,607	2,299,814	-	2,406,421	4,659,987
-	-	-	-	998,413	-	998,413	1,076,199
-	-	-	-	-	-	-	43,117
290,998	353,397	22,622,538	667,450	28,957,607	-	55,361,868	46,055,549
(122,900)	(253,100)	(1,651,959)	(387,776)	(928,936)	-	(4,871,177)	(4,120,699)
<u>168,098</u>	<u>100,297</u>	<u>21,046,133</u>	<u>584,472</u>	<u>31,326,898</u>	<u>(435,668)</u>	<u>53,895,525</u>	<u>47,714,153</u>
<u>\$ 1,916,656</u>	<u>\$ 4,977,316</u>	<u>\$ 22,765,433</u>	<u>\$ 1,069,985</u>	<u>\$ 34,417,249</u>	<u>\$ (5,459,459)</u>	<u>\$ 79,826,659</u>	<u>\$ 76,123,674</u>
\$ 359,410	\$ 721,283	\$ 413,797	\$ 351,753	\$ -	\$ -	\$ 6,051,459	\$ 3,232,385
1,859	20,038	664	-	2,290,659	-	2,367,850	2,290,659
12,746	434	2,375,621	223,766	-	(5,023,791)	-	-
-	-	322,596	-	620,000	-	942,596	901,166
<u>374,015</u>	<u>741,755</u>	<u>3,112,678</u>	<u>575,519</u>	<u>2,910,659</u>	<u>(5,023,791)</u>	<u>9,361,905</u>	<u>6,424,210</u>
-	-	12,124,245	151,806	30,075,000	-	42,351,051	42,788,502
<u>374,015</u>	<u>741,755</u>	<u>15,236,923</u>	<u>727,325</u>	<u>32,985,659</u>	<u>(5,023,791)</u>	<u>51,712,956</u>	<u>49,212,712</u>
9,783	-	272,871	237,447	-	-	2,391,084	2,443,468
1,532,858	4,235,561	7,255,639	105,213	1,431,590	(435,668)	25,722,619	24,467,494
1,542,641	4,235,561	7,528,510	342,660	1,431,590	(435,668)	28,113,703	26,910,962
<u>\$ 1,916,656</u>	<u>\$ 4,977,316</u>	<u>\$ 22,765,433</u>	<u>\$ 1,069,985</u>	<u>\$ 34,417,249</u>	<u>\$ (5,459,459)</u>	<u>\$ 79,826,659</u>	<u>\$ 76,123,674</u>

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

CONSOLIDATING STATEMENT OF ACTIVITIES
JUNE 30, 2019

	<u>MERF</u>	<u>MSA</u>	<u>MSA 2</u>	<u>MSA 3</u>	<u>MSA 4</u>	<u>MSA 5</u>	<u>MSA 6</u>
Revenues							
Local Control Funding Formula	\$ -	\$ 6,399,704	\$ 4,605,903	\$ 5,190,998	\$ 1,797,472	\$ 2,519,073	\$ 1,496,543
Federal revenue	-	663,788	297,621	253,403	107,915	136,309	98,528
State revenue	-	1,863,464	736,395	925,719	263,369	239,173	321,358
Local revenue	5,864,094	323,831	74,393	66,432	83,494	13,837	5,441
Rental income	-	-	-	-	-	-	-
Total Revenues	<u>5,864,094</u>	<u>9,250,787</u>	<u>5,714,312</u>	<u>6,436,552</u>	<u>2,252,250</u>	<u>2,908,392</u>	<u>1,921,870</u>
Expenses							
Program services	1,635,659	5,181,054	3,662,733	3,762,174	1,604,257	2,130,052	1,242,399
Management and general	3,398,733	4,019,419	2,152,256	2,691,085	795,778	891,665	469,080
Total Expenses	<u>5,034,392</u>	<u>9,200,473</u>	<u>5,814,989</u>	<u>6,453,259</u>	<u>2,400,035</u>	<u>3,021,717</u>	<u>1,711,479</u>
Change in Net Assets	829,702	50,314	(100,677)	(16,707)	(147,785)	(113,325)	210,391
Net Assets, Beginning of Year	<u>793,961</u>	<u>4,811,844</u>	<u>1,117,230</u>	<u>1,063,717</u>	<u>1,470,514</u>	<u>1,895,332</u>	<u>1,603,898</u>
Net Assets, End of Year	<u>\$ 1,623,663</u>	<u>\$ 4,862,158</u>	<u>\$ 1,016,553</u>	<u>\$ 1,047,010</u>	<u>\$ 1,322,729</u>	<u>\$ 1,782,007</u>	<u>\$ 1,814,289</u>

See accompanying note to supplementary information.

MSA 7	MSA Bell	MSA Santa Ana	MSA San Diego	MPM Inc. / LLC	Elimination	2019 Total	2018 Total
\$ 2,764,875	\$ 4,646,128	\$ 6,767,105	\$ 2,946,503	\$ -	\$ -	\$ 39,134,304	\$ 36,259,514
314,706	334,005	415,188	107,361	-	-	2,728,824	3,851,301
796,108	750,585	981,462	544,317	-	-	7,421,950	8,196,747
56,165	31,869	74,339	93,070	116,832	(6,080,824)	722,973	1,528,298
-	-	-	-	2,849,864	(2,849,864)	-	-
<u>3,931,854</u>	<u>5,762,587</u>	<u>8,238,094</u>	<u>3,691,251</u>	<u>2,966,696</u>	<u>(8,930,688)</u>	<u>50,008,051</u>	<u>49,835,860</u>
2,246,312	3,331,289	5,241,451	2,704,240	227,260	-	32,968,880	27,967,973
<u>1,641,097</u>	<u>2,279,454</u>	<u>2,970,426</u>	<u>1,797,437</u>	<u>1,660,688</u>	<u>(8,930,688)</u>	<u>15,836,430</u>	<u>16,435,335</u>
<u>3,887,409</u>	<u>5,610,743</u>	<u>8,211,877</u>	<u>4,501,677</u>	<u>1,887,948</u>	<u>(8,930,688)</u>	<u>48,805,310</u>	<u>44,403,308</u>
44,445	151,844	26,217	(810,426)	1,078,748	-	1,202,741	5,432,552
<u>1,498,196</u>	<u>4,083,717</u>	<u>7,502,293</u>	<u>1,153,086</u>	<u>352,842</u>	<u>(435,668)</u>	<u>26,910,962</u>	<u>21,478,410</u>
<u>\$ 1,542,641</u>	<u>\$ 4,235,561</u>	<u>\$ 7,528,510</u>	<u>\$ 342,660</u>	<u>\$ 1,431,590</u>	<u>\$ (435,668)</u>	<u>\$ 28,113,703</u>	<u>\$ 26,910,962</u>

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

FOUNDATION ONLY COMPARATIVE STATEMENT OF FINANCIAL POSITION
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,681,572	\$ 475,054
Accounts receivable	63,475	-
Intercompany receivable	1,412,686	2,263,534
Prepaid expenses and other current assets	14,665	419,062
Total Current Assets	<u>4,172,398</u>	<u>3,157,650</u>
Non-Current Assets		
Security deposit	-	16,000
Property and equipment	134,513	134,513
Less: accumulated depreciation	(117,895)	(117,723)
Total Non-Current Assets	<u>16,618</u>	<u>32,790</u>
Total Assets	<u>\$ 4,189,016</u>	<u>\$ 3,190,440</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 417,278	\$ 296,731
Intercompany payable	2,148,075	2,099,748
Total Liabilities	<u>2,565,353</u>	<u>2,396,479</u>
Net Assets		
Without donor restrictions		
Unrestricted	<u>1,623,663</u>	<u>793,961</u>
Total Liabilities and Net Assets	<u>\$ 4,189,016</u>	<u>\$ 3,190,440</u>

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

FOUNDATION ONLY COMPARATIVE STATEMENT OF ACTIVITIES
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Revenues		
Local revenue	\$ 5,864,094	\$ 6,803,273
Expenses		
Program services	1,635,659	2,482,099
Management and general	3,398,733	2,760,435
Total Expenses	<u>5,034,392</u>	<u>5,242,534</u>
Change in Net Assets	829,702	1,560,739
Net Assets (Deficit), Beginning of Year	793,961	(766,778)
Net Assets, End of Year	<u>\$ 1,623,663</u>	<u>\$ 793,961</u>

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

FOUNDATION ONLY COMPARATIVE STATEMENT OF CASH FLOWS
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 829,702	\$ 1,560,739
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	172	933
Changes in operating assets and liabilities		
(Increase) Decrease in accounts receivable	(63,475)	463
Decrease in intercompany receivable	850,848	535,324
(Increase) Decrease in prepaid expenses	404,397	(1,351)
Decrease in security deposits	16,000	-
Increase (Decrease) in accounts payable	120,547	(146,773)
Increase (Decrease) in intercompany payable	48,327	(1,454,452)
(Decrease) in deferred revenue	-	(72,500)
Net Cash Provided by Operating Activities	<u>2,206,518</u>	<u>422,383</u>
Net Increase in Cash	2,206,518	422,383
Cash, Beginning of Year	475,054	52,671
Cash, End of Year	<u><u>\$ 2,681,572</u></u>	<u><u>\$ 475,054</u></u>
Supplemental cash flow disclosure		
Cash paid during the period for interest	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

FOUNDATION ONLY COMPARATIVE STATEMENT OF FUNCTIONAL EXPENSES
(With comparative financial information at June 30, 2018)

JUNE 30, 2019

	Program Services	Management and General	Total Expenses
Personnel			
Salaries and wages	\$ 521,064	\$ 1,838,289	\$ 2,359,353
Employee benefits	328,068	-	328,068
Payroll taxes	493,597	251,565	745,162
Total Personnel	<u>1,342,729</u>	<u>2,089,854</u>	<u>3,432,583</u>
Operating			
Fees for services	-	357,530	357,530
Advertising and promotions	-	27,581	27,581
Office expenses	245	11,658	11,903
Information technology	106,471	-	106,471
Occupancy	-	182,901	182,901
Travel	-	58,386	58,386
Conferences and meeting	-	3,000	3,000
Depreciation	172	-	172
Insurance	-	37,541	37,541
Other expenses	20,437	630,282	650,719
Capital outlay	23,259	-	23,259
Instructional materials	122,079	-	122,079
Nutrition	20,267	-	20,267
Total Operating	<u>292,930</u>	<u>1,308,879</u>	<u>1,601,809</u>
Total Functional Expenses	<u>\$ 1,635,659</u>	<u>\$ 3,398,733</u>	<u>\$ 5,034,392</u>

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2019

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.

The following schedule provides reconciliation between revenues reported on the Statement of Activities and Changes in Net Assets, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Medi-Cal Billing Option funds which have been recorded in the current period as revenues that have not been expended as of June 30, 2019. These unspent balances are reported as legally restricted ending balances within the net assets

Description	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 2,728,824
Medi-Cal Billing Option	93.778	<u>(9,135)</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 2,719,689</u>

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.



INDEPENDENT AUDITOR'S REPORTS



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

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, 2019, 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 15, 2019.

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.

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

Rancho Cucamonga, California
December 15, 2019



**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, 2019. 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, 2019.

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.



Rancho Cucamonga, California
December 15, 2019



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2019

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>
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(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I, Part A</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, 2019

None reported.

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

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

None reported.

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.
FOR THE YEAR ENDED JUNE 30, 2019

There were no audit findings reported in the prior year.