VAUGHN NEXT CENTURY LEARNING CENTER

Independent Auditor's Report
and Financial Statements
For the Year Ended
June 30, 2016

VAUGHN NEXT CENTURY LEARNING CENTER

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Vicenti, Lloyd & Stutzman, CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vaughn Next Century Learning Center
San Fernando, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Vaughn Next Century Learning Center (Vaughn), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Board of Directors
Vaughn Next Century Learning Center

Opinion

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of Vaughn as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on Vaughn's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis 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*. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

<u>Other Reporting Required by Government Auditing Standards</u>

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2016 on our consideration of Vaughn's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Vaughn's internal control over financial reporting and compliance.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
October 28, 2016

VAUGHN NEXT CENTURY LEARNING CENTER

STATEMENT OF FINANCIAL POSITION
June 30, 2016

	K-12			Pre-School		
ASSETS	Unrestricted	Temporarily Restricted	Total K-12	Unrestricted	Eliminations	Total Vaughn
CURRENT ASSETS:						
Cash in county treasury	$ 12,576,267	$ -	$ 12,576,267	$ -	$ -	$ 12,576,267
Cash in banks	3,231,439	-	3,231,439	-	-	3,231,439
Accounts receivable - federal and state	1,060,545	-	1,060,545	212,067	-	1,272,612
Accounts receivable - other	207,317	-	207,317	-	(152,315)	55,002
Prepaid expenses and other current assets	421,703	-	421,703	-	-	421,703
Total current assets	17,497,271	-	17,497,271	212,067	(152,315)	17,557,023
LONG-TERM ASSETS:						
Investments	35,084,023	-	35,084,023	-	-	35,084,023
Property, plant and equipment, net	79,161,312	-	79,161,312	-	-	79,161,312
Cash and investments restricted for bond obligations	5,599,773	-	5,599,773	-	-	5,599,773
Total long-term assets	119,845,108	-	119,845,108	-	-	119,845,108
Total assets	$ 137,342,379	$ -	$ 137,342,379	$ 212,067	$ (152,315)	$ 137,402,131
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable	$ 902,305	$ -	$ 902,305	$ 152,315	$ (152,315)	$ 902,305
Accrued payroll	2,775,144	-	2,775,144	59,752	-	2,834,896
Deferred revenue	9,750	-	9,750	-	-	9,750
Accrued interest payable	188,105	-	188,105	-	-	188,105
Due to grantor government	32,414	-	32,414	-	-	32,414
Total current liabilities	3,907,718	-	3,907,718	212,067	(152,315)	3,967,470
LONG-TERM LIABILITIES:						
OPEB liability	421,090	-	421,090	-	-	421,090
Bonds payable	8,500,000	-	8,500,000	-	-	8,500,000
Total long-term liabilities	8,921,090	-	8,921,090	-	-	8,921,090
NET ASSETS:						
Invested in capital assets, net of debt	70,661,312	-	70,661,312	-	-	70,661,312
Unrestricted - undesignated	18,103,421	-	18,103,421	-	-	18,103,421
Designated	35,748,838	-	35,748,838	-	-	35,748,838
Total net assets	124,513,571	-	124,513,571	-	-	124,513,571
Total liabilities and net assets	$ 137,342,379	$ -	$ 137,342,379	$ 212,067	$ (152,315)	$ 137,402,131

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

VAUGHN NEXT CENTURY LEARNING CENTER

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

	K-12			Pre-School		
	Unrestricted	Temporarily Restricted	Total K-12	Unrestricted	Eliminations	Total Vaughn
REVENUES:						
State revenue:						
State aid	$ 20,485,787	$ -	$ 20,485,787	$ -	$ -	$ 20,485,787
Other state revenue	4,677,453	-	4,677,453	1,394,999	-	6,072,452
Federal revenue:						
Grants and entitlements	4,481,262	-	4,481,262	-	-	4,481,262
Local revenue:						
In-lieu property tax revenue	5,438,479	-	5,438,479	-	-	5,438,479
Contributions	106,405	-	106,405	-	-	106,405
Investment income	584,914	-	584,914	-	-	584,914
Other revenue	470,051	-	470,051	-	(57,996)	412,055
Net assets released from restriction	4,828,401	(4,828,401)	-	-	-	-
Total revenues	41,072,752	(4,828,401)	36,244,351	1,394,999	(57,996)	37,581,354
EXPENSES:						
Program services	27,067,000	-	27,067,000	1,361,634	(57,996)	28,370,638
Management and general	1,460,410	-	1,460,410	33,365	-	1,493,775
Total expenses	28,527,410	-	28,527,410	1,394,999	(57,996)	29,864,413
Change in net assets	12,545,342	(4,828,401)	7,716,941	-	-	7,716,941
Beginning net assets	111,968,229	4,828,401	116,796,630	-	-	116,796,630
Ending net assets	$ 124,513,571	$ -	$ 124,513,571	$ -	$ -	$ 124,513,571

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

VAUGHN NEXT CENTURY LEARNING CENTER

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016

	K-12	Pre-School	Eliminations	Total Vaughn
CASH FLOWS from OPERATING ACTIVITIES:				
Change in net assets	$ 7,716,941	$ -	$ -	$ 7,716,941
Adjustments to reconcile change in net assets to net cash flows from operating activities:				
Depreciation	2,231,642	-	-	2,231,642
Non-operating investment (gains)/losses	1,280,007	-	-	1,280,007
Change in operating assets:				
Accounts receivable - federal and state	135,138	(46,742)	-	88,396
Accrued interest receivable	218,056	-	-	218,056
Accounts receivable - other	(107,934)	-	(68,932)	(176,866)
Prepaid expenses and other current assets	(284,236)	-	-	(284,236)
for bond obligations	(987,082)	-	-	(987,082)
Change in operating liabilities:				
Accounts payable	(554,530)	68,932	68,932	(416,666)
Accrued payroll	167,609	(22,190)	-	145,419
Deferred revenue	9,750	-	-	9,750
Accrued interest payable	188,105	-	-	188,105
Due to grantor government	(50,504)	-	-	(50,504)
OPEB liability	54,053	-	-	54,053
Net cash flows from operating activities	10,017,015	-	-	10,017,015
CASH FLOWS from INVESTING ACTIVITIES:				
Net purchases/sales of investments	(1,283,391)	-	-	(1,283,391)
Purchases of property, plant and equipment	(6,602,083)	-	-	(6,602,083)
Net cash flows from investing activities	(7,885,474)	-	-	(7,885,474)
CASH FLOWS from FINANCING ACTIVITIES:				
Repayments on capital lease	(17,110)	-	-	(17,110)
Net cash flows from financing activities	(17,110)	-	-	(17,110)
Net change in cash and cash equivalents	2,114,431	-	-	2,114,431
Cash and cash equivalents at the beginning of the year	13,693,275	-	-	13,693,275
Cash and cash equivalents at the end of the year	$ 15,807,706	$ -	$ -	$ 15,807,706
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest during the fiscal year	$ 188,105	$ -	$ -	$ 188,105

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

VAUGHN NEXT CENTURY LEARNING CENTER

STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	K-12			Pre-School				
	Program Services	Management and General	Total K-12	Program Services	Management and General	Total Pre-School	Eliminations	Total Vaughn
Salaries and wages	$ 15,308,694	$ 272,478	$ 15,581,172	$ 872,162	$ -	$ 872,162	$ -	$ 16,453,334
Pension expense	1,082,545	19,617	1,102,162	-	-	-	-	1,102,162
Other employee benefits	1,586,288	46,193	1,632,481	246,873	-	246,873	-	1,879,354
Payroll taxes	536,997	9,731	546,728	-	-	-	-	546,728
Instructional Materials	1,159,305	-	1,159,305	25,575	-	25,575	-	1,184,880
Other fees for services	929,240	450,749	1,379,989	159,028	-	159,028	-	1,539,017
Office expenses	888,640	23,363	912,003	-	-	-	-	912,003
Occupancy expenses	959,716	137,570	1,097,286	57,996	-	57,996	(57,996)	1,097,286
Travel expenses	102,594	-	102,594	-	-	-	-	102,594
Interest expense	376,210	-	376,210	-	-	-	-	376,210
Depreciation expense	2,187,642	44,000	2,231,642	-	-	-	-	2,231,642
Insurance expense	-	132,654	132,654	-	-	-	-	132,654
Other expenses	1,949,129	324,055	2,273,184	-	33,365	33,365	-	2,306,549
	$ 27,067,000	$ 1,460,410	$ 28,527,410	$ 1,361,634	$ 33,365	$ 1,394,999	$ (57,996)	$ 29,864,413

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Vaughn Next Century Learning Center (Vaughn) provides preschool, elementary, middle school, and high school education offering improved learning facilities for underprivileged children in an impoverished, overcrowded neighborhood in the city of Los Angeles. Vaughn receives most of its support from the Federal and State governments through the State of California and Los Angeles Unified School District (LAUSD). As a charter school under LAUSD authorization, Vaughn is considered to be part of LAUSD but it is independent from the district in that all decisions, including those regarding management and the use of funds, are made at the school level.

Vaughn accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's California School Accounting Manual. The accounting policies of Vaughn conform to U.S. generally accepted accounting principles as applicable to non-profit organizations.

The following summary of significant accounting policies of Vaughn is provided to assist the reader in interpreting the basic financial statements presented in this section. These policies, as presented, should be viewed as an integral part of the accompanying basic financial statements.

***Reporting Entity* –**Vaughn is authorized by Los Angeles Unified School District (LAUSD) to operate as a charter school starting July 1, 1993. Vaughn operated as an unincorporated public educational agency until May 2, 2011 when it was incorporated in the State of California as a California Nonprofit Public Benefit Corporation. The incorporation and amendment of bylaws were approved by the Board of Education of the City of Los Angeles (LAUSD governing board) and Vaughn's governing board. Vaughn has received a tax exemption status under Internal Revenue Code Section 501(c)(3) and California Revenue & Taxation Code Section 23701(d).

Vaughn is presenting its financial reporting in accordance with the Financial Accounting Standard Board, standards set forth for not-for-profit entities.

***Cash and Cash Equivalents* –** Vaughn defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less (see Note 2).

***Use of Estimates* –** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

***Basis of Accounting* –** The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Functional Allocation of Expenses* –** Costs of providing Vaughn's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

***Basis of Presentation* –** The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

***Net Asset Classes* –** Vaughn is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of Vaughn are defined as:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of Vaughn.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. Vaughn had no temporarily restricted net assets as of June 30, 2016.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by Vaughn. Vaughn does not currently have any permanently restricted net assets.

All grants/contributions are considered to be unrestricted unless specifically restricted by the donor. All donor-restricted grant/contributions made in the year ended June 30, 2016, whose restrictions have been met in this period, are included in the statement of activities as unrestricted revenue.

Vaughn's policy, for any expense to be incurred for which both unrestricted and restricted resources are available, is to first apply and exhaust restricted resources to satisfy the expense, and then apply unrestricted resources towards that expense.

***Capital Assets* –** Capital assets purchased or acquired with an original cost of $5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital expenditure that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Any gain or loss on the sale of land, buildings and other property is reported as other revenues on the financial statement of activities. Depreciation on all assets is calculated on the straight-line basis over the various estimated useful lives ranging from 5 to 39:

Asset	Years
Buildings	39
Improvements	15
Furniture & equipment	7
Library materials	5

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Receivables **–** Receivables are stated at the amount management expects to collect from outstanding balances. Management writes-off uncollectible amounts through a charge to bad debt expense account and an adjustment to receivable.

Compensated Absences **–** Vaughn employees earn sick days based on the amount of time worked annually. Unused sick days for full-time employees is cumulative from year to year and can be accrued. Unused sick days cannot be converted to cash. Vaughn's policy is to record the use of sick days and substitute payment as an operating expense in the period taken. Thus sick days are not recognized as a liability.

Property Taxes **–** Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are payable in two installments on or before November 1 and February 1. Unsecured property taxes are not a lien against real property and are payable in one installment on or before August 31. The County bills and collects property taxes for all taxing agencies within the County and distributes these collections to the various agencies. The sponsor agency of Vaughn is required by law to provide in-lieu property tax payments on a monthly basis, from August through July. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

Investments **–** Investments are reported at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820. Earnings from investments are recorded as other local income in these financial statements. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date. All realized and unrealized gains or losses on investments are reported as increase or decrease in unrestricted net assets and are classified as non-operating activities.

Revenue Recognition **–** Amounts received from the California Department of Education are recognized as revenue by Vaughn based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

Donated Services **–** No amounts have been reflected in the accompanying financial statements for donated services inasmuch as no objective basis is available to measure the value of such services; however, some volunteers have donated their time to Vaughn.

Contributions **–** All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unrestricted revenue.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Income Taxes **–** Vaughn is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. Vaughn files informational returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Evaluation of Subsequent Events **–** Vaughn has evaluated subsequent events through October 28, 2016, the date these financial statements were available to be issued.

NOTE 2: CASH AND INVESTMENTS

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

Cash in county treasury	$	12,576,267
Cash with financial institutions		3,231,439
Cash and investments held for bond requirement		5,599,773
Long-term investments		35,084,023

Cash in County Treasury

In accordance with Education Code 41001 Vaughn maintains substantial amount of its cash in the Los Angeles County Treasury as part of the common investment pool. The fair value of Vaughn's deposits as of June 30, 2016 as provided by the pool sponsor was $12,576,267. The County is authorized to deposit cash and invest funds by California Government Code Section 53648 et. seq. The County is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the County are either secured by federal depository insurance or are collateralized. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

NOTE 2: CASH AND INVESTMENTS

Cash with Financial Institutions

Vaughn also maintains cash balances held in banks and revolving funds which are insured up to $250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. Vaughn has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Long-term Investments by Vanguard Asset Management Services

Investments are held by Vanguard Asset Management Services in the following managed investment accounts:

1. Program Fund Account
2. Employee Incentive Account
3. Capital Project Fund Account, and
4. Self-Directed Growth Account

Fair values of aggregate investments in the four categories of investment accounts at June 30, 2016 consisted of the following:

	Program	Employee Incentive	Capital Project	Self-Directed Growth	Total
U.S Equities	$ 7,427,675	$ 1,092,773	$ 4,773,932	$ 528,748	$13,823,128
International Equities	4,836,258	711,505	3,108,223	247,974	8,903,960
U.S. Bonds	3,753,533	859,293	3,754,082	161,764	8,528,672
International Bonds	1,615,013	369,602	1,614,703	58,452	3,657,770
Alternative*	-	-	-	159,143	159,143
Money Market Funds	-	-	-	11,350	11,350
Total Investments	$17,632,479	$ 3,033,173	$13,250,940	$ 1,167,431	$35,084,023

*(Vanguard Real Estate Funds, Permanent Portfolio Fund)

The target allocation of the Program Fund account is 70 percent equity and 30 percent fixed-income or bonds. The target allocation of the Employee Incentive and Capital Project Fund accounts is 60 percent equity and 40 percent bonds. The target allocation of the Self-Directed Growth account is 80 percent equity and 20 percent bond.

For the first three accounts listed above, the Vanguard manager uses a mix of Vanguard actively managed and Vanguard index funds encompassing small, medium, and large capitalization U.S. stocks. The Vanguard manager uses a Vanguard index fund as the investment vehicle for international stocks as well as a mix of Vanguard bond funds encompassing a range of duration (from short term to long-term) and credit quality (U.S. government bonds to high-yield corporate bonds).

NOTE 2: CASH AND INVESTMENTS

The Self-Directed Growth account is jointly managed by Vaughn's Board of Directors and an outside financial consultant who is a related party. This account is composed of a mix of the following:

1. Vanguard actively managed and Vanguard index funds encompassing small, medium, and large capitalization U.S. stocks with emphasis on socially responsible and value stocks;
2. Vanguard actively managed and Vanguard index funds as the investment vehicles for international and emerging market stocks and bonds;
3. Vanguard bond market and short-term investment grade bond index funds; and
4. Alternative investment funds encompassing real-estate, foreign currency, and precious metals.

All investments are subject to risks. Equities are subject to market risk, with small and medium capitalization stocks historically having been more volatile than large capitalization stocks. Foreign investing involves additional risks including currency fluctuations and political uncertainty. Stocks of companies in emerging markets are generally riskier than stocks of companies in developing countries. Investments in bond funds are subject to credit, interest rate, and inflation risk.

Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the estimated fair value of investments reported in the statement of financial position as of June 30, 2016. However, the diversification of Vaughn's invested assets among these various asset classes should mitigate the impact of any dramatic change on any one asset class.

Cash and Investments Held for Bond Obligations

Vaughn established a bond portfolio account with Payden & Rygel, an investment management company, to hold and invest required quarterly deposits for repayment (the sinking fund) of its 10-year, $8.5 million Qualified School Construction Bond (QSCB) issued in October 2010 (see Note 10). Each quarter $223,684 of Vaughn's revenue is intercepted from the State and placed into this account. This account's portfolio consists of actively managed diversified bond, corporate high-yield, high-yielding floating-rate, and low-maturity bond funds that encompass a wide range of maturities (short-term to long-term) and credit quality (AAA to high-yield corporate bonds). The investment guidelines for this portfolio are 100% fixed income (bonds) with a maximum average duration of 5 years and minimum average credit quality of investment grade.

NOTE 2: CASH AND INVESTMENTS

Cash and investments held for bond obligations at June 30, 2016 consisted of the following:

Investments:		
Absolute Return Bond Fund	$	497,335
Core Bond Fund		1,007,784
Low Duration Fund		2,212,670
Strategic Income Fund		1,249,446
Total investments		4,967,235
Cash held by trustee/bank		632,538
Total cash and investments for bond obligations	$	5,599,773

NOTE 3: FAIR VALUE MEASUREMENT

Vaughn applies the provisions of FASB ASC 820, Fair Value Measurements and Disclosures, for fair value measurements of investments that are recognized and disclosed at fair value in the financial statements on a recurring basis. FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Although Vaughn believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

FASB ASC 820 also establishes a fair value hierarchy that requires Vaughn to maximize the use of observable inputs when measuring fair value. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect Vaughn's market assumptions. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority,
- Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and
- Level 3 inputs are unobservable; supported by little or no market activity and have the lowest priority.

Vaughn uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

NOTE 3: FAIR VALUE MEASUREMENT

Level 1 Fair Value Measurements
The fair values for all other investments are quoted prices in active market for identical assets. All Vaughn investments are under Level 1 fair value measurement.

The following are total Level 1 fair value measurement investments held by Vaughn at June 30, 2016:

	Level 1	Level 2	Level 3	Total
U.S Equities	$13,823,128	$ -	$ -	$13,823,128
International Equities	8,903,960	-	-	8,903,960
U.S. Bonds	8,528,672	-	-	8,528,672
International Bonds	3,657,770	-	-	3,657,770
Alternative*	159,143	-	-	159,143
Money Market Funds	11,350	-	-	11,350
Total Vanguard	$35,084,023	$ -	$ -	$35,084,023

*(Vanguard Real Estate Funds, Permanent Portfolio Fund)

	Level 1	Level 2	Level 3	Total
Absolute Return Bond Fund	$ 497,335	$ -	$ -	$ 497,335
Core Bond Fund	1,007,784	-	-	1,007,784
Low Duration Fund	2,212,670	-	-	2,212,670
Strategic Income Fund	1,249,446	-	-	1,249,446
Total Payden	$ 4,967,235	$ -	$ -	$ 4,967,235

The following schedule summarizes the composition of investment return for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	$ 1,514,293	$ -	$ -	$ 1,514,293
Investment income available for operations	1,514,293	-	-	1,514,293
Non-operating investment gains (losses)	(1,280,007)	-	-	(1,280,007)
Total return on investments	$ 234,286	$ -	$ -	$ 234,286

NOTE 4: CAPITAL ASSETS

Capital assets in the accompanying financial statements are presented net of accumulated depreciation. Vaughn capitalizes all expenditures for land, buildings and equipment in excess of $5,000. Depreciation expense was $2,231,642 for the year ended June 30, 2016.

A summary of changes in fixed assets for the fiscal year ended June 30, 2016 is as follows:

	Balance at June 30, 2015	Additions	Disposal/ Reclassed	Balance at June 30, 2016
Depreciable assets:				
Building & improvements	$ 60,964,972	$ 16,136,233	$ (99)	$ 77,101,106
Library materials	152,984	-	-	152,984
Equipment	2,314,699	182,613	(26,138)	2,471,174
Total depreciable assets	63,432,655	16,318,846	(26,237)	79,725,264
Less: accumulated depreciation	(13,977,350)	(2,231,642)	26,145	(16,182,847)
Net depreciable assets	$ 49,455,305	$ 14,087,204	$ (92)	$ 63,542,417
Non-depreciable assets:				
Land	$ 13,621,204	$ -	$ -	$ 13,621,204
Construction in progress	11,714,362	1,992,491	(11,709,162)	1,997,691
Total non-depreciable assets	$ 25,335,566	$ 1,992,491	$ (11,709,162)	$ 15,618,895
Grand total capital assets	$ 74,790,871	$ 16,079,695	$ (11,709,254)	$ 79,161,312

One of Vaughn's buildings, Pandaland, is pledged as collateral for the Letter of Credit issued by East West bank covering the QSCB issued in October 2010 (see Note 10). The building was appraised at $14,300,000 and had a book value of $9,134,481, net of depreciation.

Furthermore, one of the campuses, the Mainland Elementary School, used by Vaughn is owned by LAUSD. Vaughn has the right to use the property as long as the entity operates as a charter school.

NOTE 5: EMPLOYEE RETIREMENT

Multi-employer Defined Benefit Pension Plans

Qualified employees are covered under multi-employer defined benefit pension plans maintained by agencies of the State of California.

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,

NOTE 5: EMPLOYEE RETIREMENT

employer, and state contribution rates are set by the California Legislature, and (c) if the chooses to stop participating in the multi-employer plan, it may be required to pay a withdrawal liability to the plan. Vaughn has no plans to withdraw from this multi-employer plan.

State Teachers' Retirement System (STRS)

Plan Description

Vaughn contributes to the State Teachers' Retirement System (STRS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total STRS plan net assets are $181 billion, the total actuarial present value of accumulated plan benefits is $287 billion, contributions from all employers totaled $2.55 billion, and the plan is 68.5% funded. Vaughn did not contribute more than 5% of the total contributions to the plan.

Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and www.calstrs.com.

Funding Policy

Active plan members hired before December 31, 2012 are required to contribute 9.20% of their salary and those hired after are required to contribute 8.56% of their salary. Vaughn is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020–21. The required employer contribution rate for year ended June 30, 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Vaughn's contributions to STRS for the past three years are as follows:

Year Ended June 30,	Required Contribution	Percent Contributed
2014	$ 790,369	100%
2015	$ 911,707	100%
2016	$ 1,048,109	100%

NOTE 5: EMPLOYEE RETIREMENT

Health and Medical Benefits for Retirees

Vaughn provides post-employment health benefits to its contracted, full time, certificated, and permanent employees. To qualify, a staff member must provide continuous years of service at Vaughn immediately prior to retirement without a break in service. Vaughn will follow the Rule of 80 (Years of service credit plus age upon retirement should equal eighty or more) for all eligible employees. Vaughn will accept service credit of former Los Angeles Unified District certificated staff members who began employment at Vaughn before July 1, 1998. The goal is to provide health benefits to eligible staff members (active or retired) up until the age of 65. The maximum level of support is not to exceed five years of health coverage and benefits are limited to a lifetime maximum of $36,000. The spouse or divorced spouse of a retired Vaughn employee is not eligible for Vaughn's post-retirement health benefits. Effective July 1, 2012, this plan is offered to only employees hired before July 1, 2012.

As a result of offering post-employment benefits other than pension (OPEB), Vaughn is required to report the value of such benefits and associated costs according to the accounting requirements of FASB ASC 715-60, Defined Benefit Plans - Other Post-Retirement (FASB ASC 715-60). This standard requires Vaughn to get periodical actuarial reports and disclose the report summary in the financial statements (see Note 11 - OPEB Accounting & Actuarial Information).

Vaughn’s post-retirement benefit plans are unfunded. However, Vaughn has designated part of the Employee Incentive investment account (see Note 2) to fund a portion of the premiums for retirees’ post-retirement benefit. The actuarial report shows that as of June 30, 2016, Vaughn has a liability of $421,090.

NOTE 6: QUALIFIED SCHOOL CONSTRUCTION BOND (QSCB)

In October 2010, the California School Finance Authority issued Education Facilities Revenue Bonds (Vaughn Next Century Learning Center) Series 2010A Qualified School Construction Bonds (QSCB) in the principal amount of $8,500,000. The bond proceeds could be used for construction, rehabilitation, or repair of public school facilities. The terms required Vaughn to provide an equity contribution in the amount of $122,629. Vaughn received net proceeds in the amount of $8,330,000, net of $127,500 (1.5% underwriter’s discount) and $165,129 cost of issuance.

A sinking fund was created to maintain bond repayment fund as required by the terms of the bond. Vaughn deposited $447,368 during the initial year ending and is required to deposit $894,737 yearly starting in fiscal year ending June 30, 2012 through 2020. The bond matures on July 1, 2020.

East West Bank issued a Standby Letter of Credit (SBLC) in the amount of $8,719,456 to warrant the bond repayment and the 4.426% periodic interest to bondholders. East West Bank requested collateral from Vaughn for the same amount of SBLC. For collateral, Vaughn pledged the Panda/and facility located at 13421 Vaughn Street, San Fernando, CA 91340 (the facility was appraised at $14,300,000 with a maximum loan ratio of 60% percent) for $8,580,000 and a cash deposit in the amount of $139,456 for the total of $8,719,456 in pledged assets. In December of 2012, the sinking fund held at

NOTE 6: QUALIFIED SCHOOL CONSTRUCTION BOND (QSCB)

Payden reached an adequate balance that the East West Bank no longer requires the collateral account. Thus, the funds in the account were released and the account was closed.

Vaughn pays 4.426% interest to bondholders bi-annually and receives full reimbursement from the Department of Treasury through a direct cash subsidy. However, the effect of sequestration pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, reduced the interest reimbursement for the year ended June 30, 2016 by 6.8%. Vaughn paid $376,210 in interest to the bond holders and received $350,628 from the Department of Treasury

Vaughn also pays letter of credit maintenance fees in the amount of 1.625% per annum of the SBLC outstanding balance.

Additional quarterly fees are paid to The Melon Bank of New York Trust Company, N.A., the bond trustee, and to the Federal Home Loan Bank (provider of the second SBLC that guarantees East West Bank's SBLC).

The bond trustee makes sure that all bond requirements are met and intercepts Vaughn's revenue from the California Department of Education on a quarterly basis to meet all QSCB's financial obligations.

Vaughn used the proceeds of the QSCB to finance the acquisition, construction, improvements, and equipping the Infrastructure Academy, the VISA Extension Project, the Dragon Building, and Elementary Academy for a Global and Green Generation (G3 Project) which was completed and put in service on July 1, 2012.

At June 30, 2016, the estimated fair value of the QSCB is $9,240,000, estimated based on trade activity close to year end.

NOTE 7: LONG-TERM OBLIGATIONS

The following is a summary of long-term obligations for the year ended June 30, 2016:

	Balance at June 30, 2016
QCSB (interest rate 4.426%)	$ 8,500,000
Total debt (noncurrent)	$ 8,500,000

NOTE 7: LONG-TERM OBLIGATIONS

Scheduled maturities and sinking fund requirements of long-term obligations at June 30, 2016 are as follows:

Year Ended June 30,		
2017	$	894,737
2018		894,737
2019		894,737
2020		894,737
2021		894,737
Thereafter		4,026,315
Total	$	8,500,000

NOTE 8: NET ASSETS

Unrestricted net assets represent the net asset portion that is available for all expenses in the next fiscal year. Part of the unrestricted net assets is designated by the board for specific purposes. The following are the designated and undesignated unrestricted net assets at June 30, 2016:

Unrestricted net assets:	
Invested in capital assets, net of debt	$ 70,661,312
Designated net assets:	
Programs and staff retention	17,712,973
Economic uncertainty	1,240,166
Employee incentives and other benefits	3,018,239
Bond obligations	586,375
Buildings and improvements	13,191,085
Total designated net assets	35,748,838
Undesignated net assets:	18,103,421
Total unrestricted net assets	$ 124,513,571

NOTE 9: MEASURE K

In February 2003, the Los Angeles Unified School District issued the first series of Measure K bonds, which are to be used for various purposes, including the expansion of public charter schools. The School benefited from the proceeds of the bonds by receiving various furniture and equipment. Vaughn entered the lease agreement with the Los Angeles Unified School District on October 1, 2007 for a one year period. The lease agreement is automatically renewed every year unless the charter petition expires or is revoked. The base rent is $1 per year.

NOTE 10: RELATED PARTY

Vaughn has established the Vaughn Next Century Foundation (the Foundation), a non-profit foundation under Internal Revenue Code 501(c)(3) as a supporting organization to the charter school. All fundraising activities for Vaughn are carried through the Foundation. The Foundation supports some of Vaughn's college preparation programs such as college tours, college scholarships, international student exchange and testing programs for college readiness.

Additionally, Vaughn is sharing its original location with LAUSD. The property is owned by LAUSD and the district runs a program (Vaughn Early Education Center) at the location. Vaughn has been occupying the property rent-free but pays 100 percent of the utility costs and receives reimbursements from LAUSD for the district's share of the utility cost. The unreimbursed amount at June 30, 2016, was estimated at $18,824, reported in the financial statements as other receivables.

NOTE 11: OPEB ACCOUNTING & ACTUARIAL INFORMATION

Vaughn provides post-employment benefits other than pensions (OPEB) to employees who meet certain criteria (discussed in Note 5). As a result of offering such benefits, Vaughn is required to disclose benefit information in accordance with the FASB ASC 715-60.

Vaughn provides health benefits to retirees. Vaughn pays a major portion of the cost of premiums for eligible retirees. All active employees hired before July 1, 2012 who retire directly from Vaughn and meet the eligibility criteria may participate. Vaughn has not contributed any assets to the plan but continue to use “Pay-As-You-Go” method for current retiree’s health benefit expenses.

Although Vaughn has set aside funds for OPEB future obligations, Vaughn has not established a plan or equivalent arrangement that contains an irrevocable transfer of assets dedicated to providing benefits to retirees in accordance with the terms of the plan and that are legally protected from creditors.

Actuarial Cost Method

The actuarial valuation of OPEB was prepared using the projected unit credit actuarial cost method. Under this method the actuarial accrued liability is equal to the present value of all benefits actually expected to be paid from the plan multiplied by a fraction, the numerator of which is the number of years of service worked and the denominator of which is the total number of years of service that will be worked when the employee reaches full benefit eligibility age. The service cost is equal to the present

NOTE 11: OPEB ACCOUNTING & ACTUARIAL INFORMATION

value of all benefits actually expected to be paid divided by the total number of years of service that will be worked when the employee reaches full benefit eligibility age. The actuarial accrued liability is called the Accumulated Postretirement Benefit Obligation ("APBO") and the present value of all benefits actually expected to be paid is called the Expected Postretirement Benefit Obligation ("EPBO").

Actuarial Assumptions

Discount Rate **–** The rate used to discount liabilities is 3.43%, which was determined by a cash flow matching analysis using plan specific expected benefit payments and spot rates from the Citigroup Pension Discount Curve as of June, 2016.

Trend Rate **–** The healthcare trend assumption reflects healthcare cost inflation expected to impact the plan based on forecast information in published papers from industry experts (actuaries, health economists, etc.). This research suggests a 6.00% medical cost increase for the 2016-2017 fiscal year, trending down to an ultimate 5.00% increase for the 2018-2019 and later fiscal years. The dental and vision costs are assumed to increase 5.00% per year.

Fiscal Year	Medical Trend	Dental and Vision Trend
2016-2017	6.00%	5.00%
2017-2018	5.50%	5.00%
2018 and beyond	5.00%	5.00%

Morbidity **–** Expected medical claims are assumed to increase 2%, on average, as participants age.

Spouses **–** Spouses were assumed where current benefit elections indicted spousal coverage. If spouse date of birth was not provided, the spouse is assumed to be the same age as the participant.

Salary Scale **–** There are no liabilities dependent on salary, therefore no salary increase rate is assumed.

Funded Status and Funding Progress

As of June 30, 2016, Vaughn's plan has an Accumulated Postretirement Benefit Obligation of $458,170, and is unfunded. The plan had zero assets and the net amount of actuarial accrued liability recognized is $421,090.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual net postretirement benefit costs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

NOTE 11: OPEB ACCOUNTING & ACTUARIAL INFORMATION

Following is a summary of the actuarial valuation results of the OPEB Plan as of June 30, 2016.

Expected postretirement benefit obligation (EPBO)	$	1,043,990
Fair value of plan assets		-
Accumulated postretirement benefit obligation (APBO)		
Actives		393,646
Retirees		64,524
Total APBO		458,170
Accrued postretirement benefit cost at June 30, 2016		421,090
Service cost (beginning of year)		31,826
Net periodic postretirement benefit cost		
July 1, 2015 - June 30, 2016		54,053
July 1, 2016 - June 30, 2017		53,262
Discount rate		3.43%

The following table presents the net periodic postretirement benefit cost and reconciliation of the funded status as of June 30, 2016.

Net Periodic Postretirement Benefits Cost		July 1, 2016
Service cost	$	32,918
Interest cost		15,431
Expected return on plan assets		-
Amortization of net (gain)/loss		(236)
Amortization of prior service cost		-
Amortization of transition obligation		5,149
Net Periodic postretirement benefits cost	$	53,262

Reconciliation of Funded Status		June 30, 2016
Accumulated postretirement benefit obligation	$	458,170
Fair value of plan assets		-
Unfunded status		458,170
Unrecognized amounts:		
Actuarial (gain)/loss		50,457
Prior service cost		-
Transition (obligation)/asset		(87,537)
Accrued postretirement benefit cost	$	421,090

NOTE 11: OPEB ACCOUNTING & ACTUARIAL INFORMATION

The following table presents the reconciliation of accrued benefit cost for the year ended June 30, 2016:

Accrued postretirement benefit cost as of July 1, 2015	$	367,037
Net periodic postretirement benefit cost for the fiscal year		54,053
Estimated employer contributions for the fiscal year		-
Accrued postretirement benefit cost as of June 30, 2016	$	421,090

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effect:

	Change in Medical Trend Rate	
Effect on health care component of the:	1% Increase	1% Decrease
Accumulated postretirement benefit obligation	Increase of $9,752	Decrease of $12,379
Service cost plus interest cost	Increase of $1,105	Decrease of $1,426

Unrecognized gains and losses, including changes in actuarial assumptions, are amortized over the average remaining lifetime of the active participants, to the extent that they exceed, in absolute value, 10% of the greater of the Fair Value of Plan Assets or the Accumulated Postretirement Benefit Obligation.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Fiscal Year Beginning		Amount
7/1/2016	$	14,803
7/1/2017		19,593
7/1/2018		19,300
7/1/2019		23,571
7/1/2020-6/30/2025		38,696

As the OPEB is not funded, there are no plan assets to report.

NOTE 12: CONTINGENCIES

Vaughn is named as a defendant in a civil suit filed on July 8, 2013 in the Los Angeles County Superior Court by Pueblo Contracting Services, Inc. (Pueblo v. Vaughn Next Century Center). Pueblo, a general contractor that has worked with Vaughn on several different construction projects over the years, is alleging that Vaughn has not paid for certain services rendered pursuant to change orders in the amount

NOTE 12: CONTINGENCIES

of $594,340. Pueblo is also seeking a $166,891 indemnity claim, plus the costs of litigation. Vaughn's management and its legal team claim that the contractor did not comply with the contractual provisions authorizing change orders. On October 27, 2014, Pueblo demanded $447,589. Mediation that took place on December 29, 2014 failed. Court-mandated mediation conference is scheduled November 15, 2016 and a trial commencing January 30, 2017.

Additionally, Vaughn has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

NOTE 13: FUTURE COMMITMENTS

Construction Contracts – Vaughn has construction in progress at the following addresses:

- 11201 Herrick Avenue (a Family and Community Center for Education Technology Project named – F.A.C.E.T.); expected to be completed in September 2016. Total cost for the project is $2,504,000. The unbilled and unpaid balance under contract at June 30, 2016 was $469,741.
- 13330 Vaughn Street (a portable classroom replacement project with 50% match grant from LAUSD); expected to be completed in May 30, 2017. Total cost for the project is $9,682,000. The unbilled and unpaid balance under contract at June 30, 2016 was $9,463,727.

Equipment Leases – Furthermore, Vaughn leases copier machines under contracts. Although some of the contracts suggest they are capital leases, Vaughn has no intention to purchase any of the equipment after the end of, at least, the five-year lease contract on each piece of equipment – to avoid costs of maintenance and to enable Vaughn to keep up with rapid changing technology. Vaughn plans to upgrade to the most updated machines in the market after the end of each lease. Total operating cost of equipment lease and rental for fiscal year ended June 30, 2016 was $131,529. The following is a schedule of minimum payments under these operating lease contracts:

Year Ended June 30,	
2017	$ 97,744
2018	97,744
2019	58,142
2020	7,380
Total	$ 261,010

NOTE 14: SUBSEQUENT EVENTS

After June 30, 2016, Vaughn purchased 14 new modules for classroom buildings, including custom engineering and design costing $3,745,519.

NOTE 14: SUBSEQUENT EVENTS

Additionally, in September 2016, Vaughn closed escrow on a property that will be used as the Vaughn Family and Community Center. Parents will come to this center to learn from each other on becoming active participants in the education of their children at Vaughn. Additionally, the property will provide adult education opportunities to the community. The total cost for this property was $481,682.

SUPPLEMENTARY INFORMATION

VAUGHN NEXT CENTURY LEARNING CENTER

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
For the Year Ended June 30, 2016

Vaughn Next Century Learning Center (Vaughn) began operations as an independent charter school on July 1, 1993. Vaughn is charter school number 16 in the State of California. Vaughn's current charter was approved by the Los Angeles Unified School District on July 1, 2008 and a new one renewed on July 1, 2013. Vaughn is located at 13330 Vaughn Street, San Fernando, California in the San Fernando Valley of the County of Los Angeles. It serves an attendance area of approximately 12 square miles including the cities of Pacoima, San Fernando and Sylmar. The school operates 5 campuses: the primary center serving preschool through grade 1; the lower elementary, serving grades 2 and 3; the upper elementary serving grades 4 and 5; the middle school serving grades 6 through 8; and the high school, serving grades 9 through 12.

The Board of Directors and the Administrators as of the year ended June 30, 2016 were as follows:

BOARD OF DIRECTORS

Member	Office	Term (in years)	Term Expires
Leland Tang	President	3	September 2017
Steven Holle	Vice-President	3	September 2017
Sadie Edemann	Secretary	1	August 2016
Noemi Beck	Treasurer	3	September 2017
Julie De La Torre	Member	3	September 2017
Rachael Allen	Member	1	August 2016
Elvia Teck	Member	3	August 2018
Fidel Ramirez	Member	3	August 2018

ADMINISTRATORS

Yvonne Chan	Founder
Anita Zepeda	Executive Director

VAUGHN NEXT CENTURY LEARNING CENTER

SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2016

	Instructional Minutes		Instructional	
	Requirement	Actual	Days	Status
T-Kindergarten	36,000	54,550	179	In compliance
Kindergarten	36,000	55,810	179	In compliance
Grade 1	50,400	57,405	179	In compliance
Grade 2	50,400	58,080	179	In compliance
Grade 3	50,400	58,080	179	In compliance
Grade 4	54,000	58,470	179	In compliance
Grade 5	54,000	58,470	179	In compliance
Grade 6	54,000	64,479	179	In compliance
Grade 7	54,000	64,479	179	In compliance
Grade 8	54,000	64,479	179	In compliance
Grade 9	64,800	68,269	179	In compliance
Grade 10	64,800	68,269	179	In compliance
Grade 11	64,800	68,269	179	In compliance
Grade 12	64,800	68,269	179	In compliance

See independent auditor's report and the notes to the supplementary information.

VAUGHN NEXT CENTURY LEARNING CENTER

SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2016

	Second Period Report		Annual Report	
	Classroom Based	Total	Classroom Based	Total
Grades TK / K-3	1,069.99	1,069.99	1,065.43	1,065.43
Grades 4-6	663.41	663.41	662.81	662.81
Grades 7-8	399.75	399.75	399.22	399.22
Grades 9-12	628.09	628.09	621.64	621.64
ADA Totals	2,761.24	2,761.24	2,749.10	2,749.10

See independent auditor's report and the notes to the supplementary information.

VAUGHN NEXT CENTURY LEARNING CENTER

RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

June 30, 2016 Annual Financial Report	
Fund Balances (Net Assets)	$ 124,902,649
Adjustments and Reclassifications:	
Increasing (Decreasing) the Fund Balance (Net Assets):	
Cash in county treasury	(3)
Cash in banks	(225)
Accounts receivable - federal and state	(711)
Accounts receivable - other	55,002
Prepaid expenses and other assets	(19,448)
Property, plant and equipment, net	(9,601)
Accounts payable	(414,092)
Net Adjustments and Reclassifications	(389,078)
June 30, 2016 Audited Financial Statement	
Fund Balances (Net Assets)	$ 124,513,571

See independent auditor's report and the notes to the supplementary information.

VAUGHN NEXT CENTURY LEARNING CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Pass Through Program From California Department of Education:			
No Child Left Behind Act			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	$ 1,084,557
Title II, Part A, Improving Teacher Quality	84.367	14341	83,346
Title III, Limited English Proficiency (LEP)	84.365	14346	76,781
Special Education: IDEA Basic Local Assistance	84.027	13379	525,517
Total U.S Department of Education			1,770,201
U.S. Department of Agriculture:			
Pass Through Program From California Department of Education:			
Child Nutrition Programs	10.555	13396	2,692,323
National School Lunch Program Equipment Assistance	10.579	N/A	18,738
Total U.S Department of Agriculture			2,711,061
Total Federal Expenditures			$ 4,481,262

See independent auditor's report and the notes to the supplementary information.

NOTES TO THE SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

NOTE 1: PURPOSE OF SCHEDULES

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by Vaughn and whether Vaughn complied with the corresponding provisions of the Education Code.

Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of Vaughn. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets of the charter schools as reported on the Annual Financial Report form to the audited financial statements.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Vaughn under programs of the federal governmental for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of Vaughn, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Vaughn.

Indirect Cost Rate

Vaughn has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Vicenti, Lloyd & Stutzman, CPAs

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

Board of Directors
Vaughn Next Century Learning Center
San Fernando, CA

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 Vaughn Next Century Learning Center (Vaughn), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated October 28, 2016.

Internal Control Over Financial Reporting

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

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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*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vaughn'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 non-compliance 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
October 28, 2016

Vicenti, Lloyd & Stutzman, CPAs

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

Board of Directors
Vaughn Next Century Learning Center
San Fernando, CA

Report on Compliance for Each Major Federal Program

We have audited the compliance of Vaughn Next Century Learning Center (Vaughn) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. Vaughn'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 federal statutes, regulations, and terms and conditions of federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Vaughn'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 Vaughn'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 Vaughn's compliance.

Opinion on Each Major Federal Program

In our opinion, Vaughn 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, 2016.

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

Report on Internal Control Over Compliance

Management of Vaughn 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 Vaughn'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 Vaughn's internal control over compliance.

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

Purpose of this Report

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.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
October 28, 2016

Vicenti, Lloyd & Stutzman, CPAs

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Directors
Vaughn Next Century Learning Center
San Fernando, CA

We have audited Vaughn Next Century Learning Center's (Vaughn) compliance with the types of compliance requirements described in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2016. Vaughn's State compliance requirements are identified in the table below.

Management's Responsibility

Management is responsible for the compliance with the State laws and regulations as identified below.

Auditor's Responsibility

Our responsibility is to express an opinion on Vaughn's compliance based on our audit of the types of compliance requirements referred to below. 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 *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about Vaughn's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of Vaughn's compliance.

Compliance Requirements Tested

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

Description	Procedures Performed
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Not applicable
After School Education and Safety Program	Yes
Proper Expenditure of Education Protection Account Funds	Yes

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Description	Procedures Performed
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
Immunizations	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-based instructional/independent study	Not applicable
Determination of funding for nonclassroom-based instruction	Not applicable
Annual instructional minutes – classroom based	Yes
Charter School Facility Grant Program	Not applicable

Opinion on State Compliance

In our opinion, Vaughn complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2016.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.

Vicenti Lloyd + Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
October 28, 2016

VAUGHN NEXT CENTURY LEARNING CENTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:		*Unmodified*

Internal control over financial reporting:				
Material weakness(es) identified?	____	*Yes*	X	*No*
Significant deficiency(ies) identified?	____	*Yes*	X	*None Reported*
Noncompliance material to financial statements noted?	____	*Yes*	X	*No*

Federal Awards

Internal control over major federal awards:				
Material weakness(es) identified?	____	*Yes*	X	*No*
Significant deficiency(ies) identified?	____	*Yes*	X	*None Reported*

Type of auditor's report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____	*Yes*	X	*No*

Identification of Major Federal Programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.555	Child Nutrition Programs

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee?	X	*Yes*	____	*No*

VAUGHN NEXT CENTURY LEARNING CENTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

All audit findings must be identified as one or more of the following twelve categories:

Five Digit Code	Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Program
50000	Federal Compliance
60000	Miscellaneous
62000	Local Control Accountability Plan
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no findings and questioned costs related to the basic financial statements, federal awards or state awards for June 30, 2016.

VAUGHN NEXT CENTURY LEARNING CENTER

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016

There were no findings and questioned costs related to the basic financial statements, federal awards or state awards for the prior year.