

**VAUGHN NEXT CENTURY LEARNING CENTER  
CHARTER SCHOOL NUMBER: #0016**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2019**



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CONSULTING**

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## INDEPENDENT AUDITORS' REPORT

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

### **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, 2019, 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.

### ***Auditors' 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 auditors' 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.

### ***Opinion***

In our opinion, the financial statements referred to on page 1 present fairly, in all material respects, the financial position of Vaughn as of June 30, 2019, 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* and is not a required part of the basic financial statements. The K-12, Preschool and Elimination columns in the statements of financial position, activities, cash flows and functional expenses in addition to the accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the 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.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2019 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 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 on Vaughn'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 Vaughn's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Glendora, California  
December 11, 2019

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2019**

<b>ASSETS</b>	<u>K-12</u> <u>Without Donor</u> <u>Restriction</u>	<u>Pre-School</u> <u>Without Donor</u> <u>Restriction</u>	<u>Eliminations</u>	<u>Total Vaughn</u>
<b>CURRENT ASSETS:</b>				
Cash In County Treasury	\$ 17,416,660	\$ -	\$ -	\$ 17,416,660
Cash In Banks	1,717,884	-	-	1,717,884
Accounts Receivable - Federal And State	2,381,000	157,194	(157,194)	2,381,000
Prepaid Expenses And Other Current Assets	1,462,944	-	-	1,462,944
Total Current Assets	<u>22,978,488</u>	<u>157,194</u>	<u>(157,194)</u>	<u>22,978,488</u>
<b>LONG-TERM ASSETS:</b>				
Investments	55,730,924	-	-	55,730,924
Capital Assets, Net	93,691,728	-	-	93,691,728
Cash And Investments Restricted				
For Bond Obligations	8,465,004	-	-	8,465,004
Total Long-Term Assets	<u>157,887,656</u>	<u>-</u>	<u>-</u>	<u>157,887,656</u>
 Total Assets	 <u>\$ 180,866,144</u>	 <u>\$ 157,194</u>	 <u>\$ (157,194)</u>	 <u>\$ 180,866,144</u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES:</b>				
Accounts Payable	\$ 576,981	\$ 157,194	\$ (157,194)	\$ 576,981
Accrued Payroll	2,529,961	-	-	2,529,961
Deferred Revenue	4,700	-	-	4,700
Accrued Interest Payable	376,210	-	-	376,210
Bonds Payable, Current Portion	8,500,000	-	-	8,500,000
Total Current Liabilities	<u>11,987,852</u>	<u>157,194</u>	<u>(157,194)</u>	<u>11,987,852</u>
<b>LONG-TERM LIABILITIES:</b>				
OPEB Liability	468,744	-	-	468,744
Total Long-Term Liabilities	<u>468,744</u>	<u>-</u>	<u>-</u>	<u>468,744</u>
Total Liabilities	12,456,596	157,194	(157,194)	12,456,596
<b>NET ASSETS:</b>				
Without Donor Restrictions				
Invested In Capital Assets, Net Of Debt	93,691,728	-	-	93,691,728
Undesignated	18,400,521	-	-	18,400,521
Designated	56,317,299	-	-	56,317,299
Total Net Assets	<u>168,409,548</u>	<u>-</u>	<u>-</u>	<u>168,409,548</u>
 Total Liabilities and Net Assets	 <u>\$ 180,866,144</u>	 <u>\$ 157,194</u>	 <u>\$ (157,194)</u>	 <u>\$ 180,866,144</u>

See accompanying Notes to Financial Statements.

**VAUGHN NEXT CENTURY LEARNING CENTER  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019**

	K-12 <u>Without Donor Restrictions</u>	Pre-School <u>Without Donor Restrictions</u>	<u>Eliminations</u>	<u>Total Vaughn</u>
<b>REVENUES:</b>				
State Revenue:				
State Aid	\$ 25,177,108	\$ -	\$ -	\$ 25,177,108
Other State Revenue	5,411,985	2,216,493	-	7,628,478
Federal Revenue:				-
Grants And Entitlements	6,819,503	-	-	6,819,503
Local Revenue:				
In-Lieu Property Tax Revenue	7,730,215	-	-	7,730,215
Contributions	250	-	-	250
Investment Income	3,631,122	-	-	3,631,122
Other Revenue	596,697	-	(181,602)	415,095
Total Revenues	<u>49,366,880</u>	<u>2,216,493</u>	<u>(181,602)</u>	<u>51,401,771</u>
<b>EXPENSES:</b>				
Program Services	35,270,864	1,991,539	(181,602)	37,080,801
Management And General	1,643,395	224,954	-	1,868,349
Total Expenses	<u>36,914,259</u>	<u>2,216,493</u>	<u>(181,602)</u>	<u>38,949,150</u>
<b>CHANGE IN NET ASSETS</b>	12,452,621	-	-	12,452,621
Net Assets, Beginning of Year	<u>155,956,927</u>	<u>-</u>	<u>-</u>	<u>155,956,927</u>
<b>NET ASSETS- END OF YEAR</b>	<u><u>\$ 168,409,548</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 168,409,548</u></u>

See accompanying Notes to Financial Statements.

**VAUGHN NEXT CENTURY LEARNING CENTER  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2019**

	K-12	Pre-School	Eliminations	Total Vaughn
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Change In Net Assets	\$ 12,452,621	\$ -	\$ -	\$ 12,452,621
Adjustments To Reconcile Change In Net Assets				
To Net Cash Flows From Operating Activities:				
Depreciation	2,698,957	-	-	2,698,957
Realized and Unrealized Investment (Gains)/Losses	(1,215,225)	-	-	(1,215,225)
Change In Operating Assets:				
Accounts Receivable - Federal And State	703,087	2,621	(2,621)	703,087
Accounts Receivable - Other	18,781	-	-	18,781
Prepaid Expenses And Other Current Assets	(725,949)	-	-	(725,949)
Change In Operating Liabilities:				
Accounts Payable	342,647	(2,621)	2,621	342,647
Accrued Payroll	165,982	-	-	165,982
Deferred Revenue	(1,311,489)	-	-	(1,311,489)
Accrued Interest Payable	188,105	-	-	188,105
Due To Grantor Government	(9,844)	-	-	(9,844)
OPEB Liability	84,403	-	-	84,403
Net Cash Flows From Operating Activities	13,392,076	-	-	13,392,076
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Proceeds From Sale Of Investments	37,204,501	-	-	37,204,501
Purchase Of Investments	(44,801,913)	-	-	(44,801,913)
Purchases Of Property, Plant And Equipment	(6,339,640)	-	-	(6,339,640)
Net Cash Flows From Investing Activities	(13,937,052)	-	-	(13,937,052)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(544,976)	-	-	(544,976)
Cash and Cash Equivalents, Beginning of Year	20,100,480	-	-	20,100,480
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 19,555,504</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,555,504</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
Cash Paid For Interest	<u>\$ 188,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 188,105</u>
Reconciliation to Statement of Financial Position				
Cash In County Treasury	17,416,660	-	-	17,416,660
Cash In Banks	1,717,884	-	-	1,717,884
Cash And Investments Restricted For Bond Obligations	420,960	-	-	420,960
Total Cash and Cash Equivalents	<u>\$ 19,555,504</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,555,504</u>

See accompanying Notes to Financial Statements.

**VAUGHN NEXT CENTURY LEARNING CENTER  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2019**

	K-12			Pre-School			Eliminations	Total Vaughn
	Program Services	Management and General	Total K-12	Program Services	Management and General	Total Pre-School		
Salaries And Wages	\$ 19,003,491	\$ 341,846	\$ 19,345,337	\$ 1,254,284	\$ -	\$ 1,254,284	\$ -	\$ 20,599,621
Pension Expense	1,814,282	45,454	1,859,736	160,857	-	160,857	-	2,020,593
Other Employee Benefits	2,086,519	44,230	2,130,749	58,520	-	58,520	-	2,189,269
Payroll Taxes	558,904	16,288	575,192	159,906	-	159,906	-	735,098
Instructional Materials	1,437,098	-	1,437,098	65,844	-	65,844	-	1,502,942
Fees For Services	2,879,585	528,943	3,408,528	110,526	-	110,526	-	3,519,054
Office Expenses	823,719		823,719	-	-	-	-	823,719
Occupancy Expenses	1,246,114	40,537	1,286,651	181,602	-	181,602	(181,602)	1,286,651
Travel Expenses	111,511		111,511	-	-	-	-	111,511
Interest Expense	-	376,210	376,210	-	-	-	-	376,210
Depreciation Expense	2,645,178	53,779	2,698,957	-	-	-	-	2,698,957
Insurance Expense	-	133,475	133,475	-	-	-	-	133,475
Other Expenses	2,664,463	62,633	2,727,096	-	224,954	224,954	-	2,952,050
Total	<u>\$ 35,270,864</u>	<u>\$ 1,643,395</u>	<u>\$ 36,914,259</u>	<u>\$ 1,991,539</u>	<u>\$ 224,954</u>	<u>\$ 2,216,493</u>	<u>\$ (181,602)</u>	<u>\$ 38,949,150</u>

See accompanying Notes to Financial Statements.



**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

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 nonprofit 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 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.

**Basis of Accounting**

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

**Basis of Presentation**

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

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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. The expenses that are allocated include depreciation and occupancy which are allocated on a square footage basis, as well as salaries and wages, benefits, and payroll taxes which are allocated on the basis of estimates of time and effort.

**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.

**Net Asset Classes**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed 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 (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

*Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restriction when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

**VAUGHN NEXT CENTURY LEARNING CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

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.

**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.

**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.

Buildings	39 Years
Improvements	15 Years
Furniture and Equipment	7 Years
Library Materials	5 Years

**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 net assets without donor restriction, if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in net assets with donor restriction.

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance the nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair values in the period received.

**Contributions**

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as contributions with donor restrictions.

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions (continued)**

Restricted contributions that are received and released in the same period are reported as promises to give without donor restrictions. 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 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.

**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.

**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.

**Income Taxes**

Vaughn is a nonprofit 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 is subject to income tax on net income that is derived from business activities that are unrelated to the exempt purposes. Vaughn files an exempt return and applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

**Change in Accounting Principle**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Vaughn has implemented ASU 2016-14, ASU 2017-13 Revenue Recognition, ASU 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, and ASU 2016-18 Statement of Cash Flows and have adjusted the presentation in these financial statements accordingly.

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Subsequent Events**

Vaughn has evaluated subsequent events through December 11, 2019, the date these financial statements were available to be issued.

**NOTE 2 LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure are those without donor or other restrictions limiting their use within one year of the statement of financial position date, comprise of the following:

Cash and Cash Equivalents	\$ 19,134,544
Accounts Receivable	2,381,000
Total	<u>\$ 21,515,544</u>

As part of our liquidity management plan, Vaughn maintains \$17,416,660 at the Los Angeles County Treasury and another revolving bank account with \$2,130,657 at a local bank for the purpose of monthly operating expenses which include payroll, taxes, pension and benefits, operations and housekeeping contracts that average \$3 million per month. As well as for new construction obligations and future commitments (see Note 12).

**NOTE 3 CASH AND INVESTMENTS**

Cash and investments as of June 30, 2019 are classified in the accompanying financial statements as follows:

Cash in County Treasury	\$ 17,416,660
Cash with Financial Institutions	1,717,884
Cash and Investments Held for Bond Requirement	8,465,004
Long-Term Investments	55,730,924

**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, 2019 as provided by the pool sponsor was \$17,416,660. 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.

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**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. Endowment Account
2. Employee Incentive Account
3. Capital Project Fund Account; and
4. LockBox Account

The target allocation of the Endowment and Employee Incentive accounts is 70 percent equity and 30 percent fixed-income or bonds. In October 2018, a separate, fourth account named "Lockbox" was established for the approximately \$10 million of assets in the Endowment account that had been set aside in April 2018 to preserve the substantial amount of capital gains realized over the past 10 years. The Lockbox account consists of two conservative bond funds (i.e., 100% fixed income or bonds). The target allocation of the Capital Projects Fund account is 60 percent equity and 40 percent bonds.

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 Vanguard index funds as the investment vehicles for international stocks and bonds, 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). For the Lockbox account, the Vanguard manager uses a mix of Vanguard actively managed funds that consist of high- and medium-quality, investment-grade and government bonds with short-term maturities.

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, 2019. 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.

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

**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 7). 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.

Cash and investments held for bond obligations at June 30, 2019 consisted of the following:

Investments:	
Fixed Income Funds	\$ 8,044,044
Total investments	8,044,044
Cash Held by Trustee/Bank	420,960
Total Cash and Investments for Bond Obligations	<u>\$ 8,465,004</u>

**NOTE 4 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

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 4 FAIR VALUE MEASUREMENT (CONTINUED)**

*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.

**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, 2019:

	Level 1	Level 2	Level 3	Total
Fixed Income Funds	\$ 34,485,468	\$ -	\$ -	\$ 34,485,468
Equity Funds	26,608,229	-	-	26,608,229
Total Investments at Fair Value	<u>\$ 61,093,697</u>	<u>\$ -</u>	<u>\$ -</u>	61,093,697
Money Market Funds				\$ 2,681,271
Total Investments				<u>\$ 63,774,968</u>

The following schedule summarizes the composition of investment return for the year ended June 30, 2019:

Dividends and Interest	\$ 2,515,849
Realized and Unrealized Gains	1,215,225
Investment Fees	(99,952)
Total Return on Investments	<u>\$ 3,631,122</u>

**NOTE 5 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 \$2,698,957 for the year ended June 30, 2019.

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 7). 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.



**VAUGHN NEXT CENTURY LEARNING CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

The components of capital assets as of June 30, 2019 are as follows:

Depreciable Assets:	
Building and Improvements	\$ 93,856,906
Library Materials	152,984
Equipment	<u>3,457,746</u>
Total Depreciable Assets	97,467,636
Less: Accumulated Depreciation	<u>(23,605,365)</u>
Net Depreciable Assets	<u>\$ 73,862,271</u>
Nondepreciable Assets:	
Land	\$ 14,604,587
Construction In Progress	<u>5,224,870</u>
Total Nondepreciable Assets	<u>\$ 19,829,457</u>
Grand Total Capital Assets	<u>\$ 93,691,728</u>

**NOTE 6 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, 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. 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, 2018, total STRS plan net assets are \$225 billion, the total actuarial present value of accumulated plan benefits is \$374 billion, contributions from all employers totaled \$4.9 billion, and the plan is 64% 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](http://www.calstrs.com).

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 EMPLOYEE RETIREMENT (CONTINUED)**

Funding Policy

Active plan members hired before January 1, 2013 are required to contribute 10.25% of their salary and those hired after are required to contribute 9.205% 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, 2019 was 16.28% 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:

<u>Year Ended June 30,</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2017	\$ 1,318,882	100%
2018	\$ 1,605,575	100%
2019	\$ 1,936,190	100%

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 10 - OPEB Accounting & Actuarial Information).

Vaughn's post-retirement benefit plans are unfunded. However, Vaughn has designated part of the Employee Incentive investment account to fund a portion of the premiums for retirees' post-retirement benefit. Based on the latest actuarial report and the subsequent contributions made, Vaughn has an estimated liability of \$468,744 as of June 30, 2019. Vaughn will commission an actuarial study every two years.

**VAUGHN NEXT CENTURY LEARNING CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 7 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 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, 2019 by 6.8%. Vaughn paid \$376,210 in interest to the bond holders and received \$176,442 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, 2019, the estimated fair value of the QSCB is \$9,679,144, estimated based on trade activity close to year-end.

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 7 QUALIFIED SCHOOL CONSTRUCTION BOND (QSCB) (CONTINUED)**

The following is a summary of obligations for the year ended June 30, 2019:

	Balance at June 30, 2019
QCSB (Interest Rate 4.426%)	<u>\$ 8,500,000</u>
Total Debt	<u><u>\$ 8,500,000</u></u>

**NOTE 8 NET ASSETS**

Net assets without donor restriction represent the net asset portion that is available for all expenses in the next fiscal year. Part of the net assets without donor restrictions are designated by the board for specific purposes.

The following are the designated and undesignated net assets without donor restriction at June 30, 2019:

Net Assets Without Donor Restrictions:	
Invested In Capital Assets, Net Of Debt	\$ 93,691,728
Designated Net Assets:	
Programs And Staff Retention	17,771,638
Economic Uncertainty	10,388,634
Employee Incentives And Other Benefits	5,496,291
Bond Obligations	586,375
Buildings And Improvements	<u>22,074,361</u>
Total Designated Net Assets	56,317,299
Undesignated Net Assets:	<u>18,400,521</u>
Total Net Assets Without Donor Restrictions:	<u><u>\$ 168,409,548</u></u>

**NOTE 9 RELATED PARTY**

Vaughn has established the Vaughn Next Century Foundation (the Foundation), a nonprofit 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, 2019, was estimated at \$22,000, reported in the financial statements as other receivables.

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 10 OPEB ACCOUNTING AND ACTUARIAL INFORMATION**

Vaughn provides post-employment benefits other than pensions (OPEB) to employees who meet certain criteria (discussed in Note 6). 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 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 3.48%, which was determined under a cash flow matching process and the FTSE Pension Discount Curve as of June 30, 2019.

*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, combined with Vaughn's historical premium rate experience, suggests a 7.00% medical cost increase for the 2018-2019 fiscal year, grading down to an ultimate rate of 4.50% for the fiscal year beginning July 1, 2028 and beyond. Dental and vision costs are assumed to increase at 5.00% per year and costs towards HRA funding are not assumed to increase in the future.

*Morbidity* – Based on the June 2013 Society of Actuaries Study entitled "Health Care Costs – From Birth to Death". Pre-65 morbidity rates were based on the HMO costs.

*Spouses* – Assumption is not applicable Employee-only benefits are valued.

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 10 OPEB ACCOUNTING AND ACTUARIAL INFORMATION (CONTINUED)**

*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, 2019, Vaughn's plan has an Accumulated Postretirement Benefit Obligation of \$468,744, and is unfunded. The plan had zero assets and the net amount of actuarial accrued liability recognized is \$468,744.

The following table presents the net periodic postretirement benefit cost and reconciliation of the funded status as of June 30, 2019.

<u>Net Periodic Postretirement Benefits Cost</u>	<u>June 30, 2019</u>
Service Cost	\$ 25,887
Interest Cost	16,455
Expected Return on Plan Assets	N/A
Amortization of Net (Gain)/Loss	(10,245)
Amortization of Prior Service Cost	-
Amortization of Transition Obligation	5,149
Net Periodic Postretirement Benefits Cost	<u>\$ 37,246</u>

<u>Reconciliation of Funded Status</u>	<u>June 30, 2019</u>
Accumulated Postretirement Benefit Obligation	\$ 468,744
Fair Value of Plan Assets	-
Unfunded Status	<u>468,744</u>
Unrecognized Amounts:	
Actuarial (Gain)/Loss	147,475
Transition (Obligation)/Asset	(72,090)
Accrued Postretirement Benefit Cost	<u>\$ 544,129</u>

Accrued Postretirement Benefit Cost as of July 1, 2018	\$ 518,062
Net Periodic Postretirement Benefit Cost for Fiscal Year	37,246
Estimated Employer Contributions for Fiscal Year	(11,179)
Accrued Postretirement Benefit Cost as of June 30, 2019	<u>\$ 544,129</u>

The following table presents the reconciliation of accrued benefit cost for the year ended June 30, 2019:

Accrued Postretirement Benefit Cost as of July 1, 2018	\$ 518,062
Net Periodic Postretirement Benefit Cost for Fiscal Year	37,246
Estimated Employer Contributions for Fiscal Year	(11,179)
Accrued Postretirement Benefit Cost as of June 30, 2019	<u>\$ 544,129</u>

**VAUGHN NEXT CENTURY LEARNING CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 10 OPEB ACCOUNTING AND ACTUARIAL INFORMATION (CONTINUED)**

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	
	1% Increase	1% Decrease
Effect on Health Care Component of the:		
Accumulated Postretirement Benefit Obligation	Increase of \$58,516	Decrease of \$54,292
Service Cost Plus Interest Cost	Increase of \$6,098	Decrease of \$5,658

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:

<u>Fiscal Year Beginning</u>	<u>Amount</u>
7/1/2020	\$ 23,103
7/1/2021	17,088
7/1/2022	10,178
7/1/2023	3,965
7/1/2024	7,931
June 30, 2025 - June 30 2029	102,297

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

**NOTE 11 CONTINGENCIES**

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 12 FUTURE COMMITMENTS**

**Construction Contracts**

Vaughn has construction in progress at the following addresses:

- 11505 Herrick Avenue (VISA Performing Arts Center, an extension of Vaughn High School)- an architect contract was executed with CSDA Design Group during 2016-2017 school year for \$312,000. The amount left to be paid on this contract is expected to be \$23,650. In addition, a construction contract was executed with Del Amo Construction for \$5,371,395 and \$1,760,463 is expected left to be paid.

**VAUGHN NEXT CENTURY LEARNING CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 12 FUTURE COMMITMENTS (CONTINUED)**

- 13253-13269 Eustace Street (MIT Performing Arts Center, an extension of Vaughn Middle School) – an architect contract was executed with CSDA Design Group for \$819,000 and they have \$206,735 left to be paid. A contract was also executed with Del Amo Construction for demolition for \$550,079 and \$259,505 is expected to be paid. In addition, a construction contract was executed with Del Amo Construction for \$11,641,263, the entire amount is expected to be paid.
- 13330 Vaughn Street (LAUSD Charter School Augmentation Grant Project – Construction of 12 classrooms and core spaces on LAUSD owned campus). Vaughn received a matching grant of \$8,200,000 on May 21, 2019 where the estimated project cost is \$16,400,000. LAUSD is matching the project with \$8,200,000. In addition, they executed an architect contract with CSDA Design Group for \$948,000, the entire amount is expected to be paid.

**NOTE 13 SUBSEQUENT EVENTS**

Vaughn Board adopted the following related to investment policies and strategies:

1. Make no change to the bond portfolios
2. Consolidate numerous short term funds into one
3. Maintain the money market fund
4. Move all domestic equity funds into the Index Centrix Model
5. Revise investment policy statements and framework to include the following;
  - Board determines asset allocations of these funds in consultation with Fund Managers and consultant.
  - Board reviews market trends, investment cycles and receive monthly updates from Fund Managers and consultants approved by the Board.
  - Board discusses and revises investment strategies, allocation plan as needed
  - Board considers risk factors
    - Market volatility will impact capital preservation
    - Time gap between sources and uses of funds
    - Interest and foreign exchange rate risks
    - Portfolio mix: short term vs. long term and balancing of small, mid and large cap stocks
  - Board mitigates risks by:
    - Proactive monitoring of market volatility vs. risk tolerance levelTimely financial data to aide decision making.



**VAUGHN NEXT CENTURY LEARNING CENTER  
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE  
YEAR ENDED JUNE 30, 2019**

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, 2018. 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 Administrator as of the year ended June 30, 2019 were as follows:

<u>Board of Directors</u>		
<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Leland Tang	President	3-Year Term Ending September 2021
Steve Holle	Vice President	3-Year Term Ending September 2021
Ky Cheng	Treasurer	3-year Term Ending August 2021
Jonathan Ochoa	Secretary	3-Year Term Ending May 2020
Xitlali Castro	Member	3-Year Term Ending August 2021
Julie De La Torre	Member	3-Year Term Ending October 2021
Jasmin Guerrero	Member	1-year Term Ending June 2020
Trinidad Barajas	Member	1-year Term Ending June 2020
Alina Kheyfets	Member	1-year Term Ending June 2020
<u>Administrator</u>		
Fidel Ramirez	Executive Director	

**VAUGHN NEXT CENTURY LEARNING CENTER  
SCHEDULE OF INSTRUCTIONAL TIME  
YEAR ENDED JUNE 30, 2019**

	Instructional Minutes		Traditional	Status
	Requirement	Actual	Calendar Days	
Kindergarten	36,000	56,130	180	In Compliance
Grade 1	50,400	54,290	180	In Compliance
Grade 2	50,400	56,530	180	In Compliance
Grade 3	50,400	56,530	180	In Compliance
Grade 4	54,000	58,420	180	In Compliance
Grade 5	54,000	58,420	180	In Compliance
Grade 6	54,000	64,284	180	In Compliance
Grade 7	54,000	64,284	180	In Compliance
Grade 8	54,000	68,192	180	In Compliance
Grade 9	54,000	68,192	180	In Compliance
Grade 10	54,000	68,192	180	In Compliance
Grade 11	54,000	68,192	180	In Compliance
Grade 12	54,000	68,192	180	In Compliance

*See the Auditors' Report and the Notes to Supplementary Information.*

**VAUGHN NEXT CENTURY LEARNING CENTER  
SCHEDULE OF AVERAGE DAILY ATTENDANCE  
YEAR ENDED JUNE 30, 2019**

	Second Period Report		Annual Report	
	Classroom Based	Total	Classroom Based	Total
Grades TK / K-3	1,089.32	1,089.32	1,089.05	1,089.05
Grades 4-6	708.11	708.11	705.97	705.97
Grades 7-8	430.63	430.63	427.26	427.26
Grades 9-12	707.31	707.31	703.15	703.15
Totals	<u>2,935.37</u>	<u>2,935.37</u>	<u>2,925.43</u>	<u>2,925.43</u>

*See the Auditors' Report and the Notes to Supplementary Information.*

**VAUGHN NEXT CENTURY LEARNING CENTER  
RECONCILIATION OF ANNUAL FINANCIAL REPORT  
WITH AUDITED FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2019**

June 30, 2019 Annual Financial Report	
Fund Balances (Net Assets)	\$ 173,495,952

Adjustments and Reclassifications:

Increasing (Decreasing) the Fund Balance (Net Assets):

Cash in Banks	2,062
Accounts Receivable	168,227
Prepaid Expenses and Other Assets	(226,527)
Investments	(5,004,063)
Property, Plant and Equipment, Net	306,565
Accounts Payable	(248,265)
OPEB Liability	(84,403)
Net Adjustments and Reclassifications	(5,086,404)

June 30, 2019 Audited Financial Statement	
Fund Balances (Net Assets)	\$ 168,409,548

**VAUGHN NEXT CENTURY LEARNING CENTER  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2019**

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Education</b>			
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	84.334A	N/A	\$ 1,429,565
Pass-Through Program from California Department of Education Every Student Succeeds Act:			
Title I, Part A - Basic Grants Low-Income and Neglected	84.010	14329	1,349,240
Title II, Part A - Improving Teaching Quality	84.367	14341	155,721
Title III - Limited English Proficiency (LEP)	84.365	14346	107,403
Title IV, Part A Safety and Drug	84.424	N/A	94,837
Special Education Cluster:			
Special Education - IDEA Basic Local Assistance	84.027	13379	609,417
Total Special Education Cluster			<u>609,417</u>
Total Pass-Through from California Department of Education			<u>2,316,618</u>
Total U.S. Department of Education			3,746,183
<b>U.S. Department of Agriculture</b>			
Pass-Through Program from California Department of Education Child Nutrition Cluster:			
School Breakfast Program Especially Needy	10.553	13526	1,154,086
National School Lunch Program	10.555	13396	1,810,167
Meal Supplements	10.555	13396	109,067
Total Child Nutrition Cluster			<u>3,073,320</u>
Total U.S. Department of Agriculture			<u>3,073,320</u>
Total Federal Awards			<u>\$ 6,819,503</u>

N/A - Pass-through entity number not readily available or not applicable.

**VAUGHN NEXT CENTURY LEARNING CENTER  
NOTES TO SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2019**

**PURPOSE OF SCHEDULES**

**NOTE 1 SCHEDULE OF INSTRUCTIONAL TIME**

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

**NOTE 2 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.

**NOTE 3 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.

**NOTE 4 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, 2019. 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.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 5 INDIRECT COST RATE**

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



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**INDEPENDENT AUDITORS' 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, 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 Vaughn Next Century Learning Center (Vaughn), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2019, 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 December 11, 2019.

**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.

### **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 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 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Glendora, California  
December 11, 2019





CliftonLarsonAllen LLP  
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**INDEPENDENT AUDITORS' 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, California

**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, 2019. Vaughn's major federal programs are identified in the summary of auditors' 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.

***Auditors' 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, 2019.

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

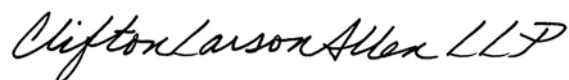
Management of Vaughn is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Vaughn's internal control over compliance with the types of requirements 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.



**CliftonLarsonAllen LLP**

Glendora, California  
December 11, 2019



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## INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited Vaughn Next Century Learning Center's (Vaughn) compliance with the types of compliance requirements described in the *2018-2019 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, 2019. 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.

### Auditors' 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 *2018-2019 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:

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

***Compliance Requirements Tested (Continued)***

<u>Description</u>	<u>Procedures Performed</u>
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
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, 2019.

**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 *2018-2019 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.



**CliftonLarsonAllen LLP**

Glendora, California  
December 11, 2019

**VAUGHN NEXT CENTURY LEARNING CENTER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2019**

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***Section I - Summary of Auditors' Results***

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**Financial Statements**

1. Type of Auditors' Report Issued: Unmodified
2. Internal Control over Financial Reporting:
- Material Weakness(es) Identified                      Yes       X       No
  - Significant Deficiency(ies) Identified                      Yes       X       None Reported  
not Considered to be Material Weakness(es)
3. Noncompliance Material to Financial Statements Noted                      Yes       X       No

**Federal Awards**

1. Internal Control over Major Programs:
- Material Weakness(es) Identified                      Yes       X       No
  - Significant Deficiency(ies) Identified                      Yes       X       None Reported  
Not Considered to be Material Weakness(es)
2. Type of Auditors' Report Issued on Compliance for the Major Programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance?                      Yes       X       No

Identification of major programs:

CFDA Number(s)  
10.553, 10.555

Name of Federal Program or Cluster  
Child Nutrition Cluster

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 (CONTINUED)  
YEAR ENDED JUNE 30, 2019**

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

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Program
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

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***Section II – Financial Statement Findings***

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Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards* or the *2019-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

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***Section III – Findings and Questioned Costs – Major Federal Programs***

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Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

**VAUGHN NEXT CENTURY LEARNING CENTER  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2019**

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

