

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)

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AUDITED FINANCIAL STATEMENTS

June 30, 2015

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)
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Independent Auditors' Report

To The Board of Directors
Vaughn Next Century Learning Center
13330 Vaughn Street
San Fernando, California 91340

Report on the Financial Statements

We have audited the accompanying statement of financial position of Vaughn Next Century Learning Center (A California Non-Profit Public Benefit Corporation) as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, and the provisions of California Code of Regulations (CCR), Title 5, Education, Section 19810, et seq. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vaughn Next Century Learning Center as of June 30, 2015, and the changes in 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 Reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015, on our consideration of Vaughn Next Century Learning Center's internal control over financial reporting and our tests of the School's 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 Next Century Learning Center's internal control over financial reporting and compliance.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by US. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements of Vaughn Next Century Learning Center. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The remaining supplemental financial and statistical information listed in the table of contents are also presented for purposes of additional analysis and are not a required part of the basic financial statements of Vaughn Next Century Learning Center. The schedule of expenditures of federal awards and other supplementary information listed in the table of contents have 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 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 schedule of expenditures of federal awards and the remaining supplemental and statistical information are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Anderson, Satuloff,
Machado & Mendelsohn*

ANDERSON, SATULOFF,
MACHADO & MENDELSON
*Certified Public Accountants
An Accountancy Corporation*

December 7, 2015
Woodland Hills, California

VAUGHN NEXT CENTURY LEARNING CENTER

(A California Non-Profit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

As of June 30, 2015

	K-12			PRE-SCHOOL	
	Unrestricted	Temporarily Restricted	Total K-12	Unrestricted	Total Vaughn
ASSETS:					
Current assets:					
Cash in County Treasury (Notes 1, 2, and 9)	\$ 12,892,265	\$ -	\$ 12,892,265	\$ -	\$ 12,892,265
Cash in banks (Notes 1, 2, and 9)	1,108,870	(224,477)	884,393	(83,383)	801,010
Accounts receivable (Note 4)	460,162	735,521	1,195,683	165,325	1,361,008
Accrued interest receivable	218,056	-	218,056	-	218,056
Other receivable (Note 14)	16,000	-	16,000	-	16,000
Deposits and prepaid expenses	137,467	-	137,467	-	137,467
Total current assets	14,832,820	511,044	15,343,864	81,942	15,425,806
Non-current assets:					
Long-term investments (Notes 1, 2, and 3)	35,080,639	-	35,080,639	-	35,080,639
Capital assets, net (Note 6)	74,323,804	467,067	74,790,871	-	74,790,871
Total non-current assets	109,404,443	467,067	109,871,510	-	109,871,510
Other assets:					
Cash and investments for bond obligations (Notes 1 and 2)	586,375	4,026,316	4,612,691	-	4,612,691
Total other assets	586,375	4,026,316	4,612,691	-	4,612,691
TOTAL ASSETS	\$ 124,823,638	\$ 5,004,427	\$ 129,828,065	\$ 81,942	\$ 129,910,007
LIABILITIES:					
Current liabilities:					
Accounts payable (Note 5)	\$ 1,380,646	\$ 76,189	\$ 1,456,835	\$ -	\$ 1,456,835
Accrued payroll	2,507,698	99,837	2,607,535	81,942	2,689,477
Lease payable (Note 11)	8,136	-	8,136	-	8,136
Due to government grantor	82,918	-	82,918	-	82,918
Total current liabilities	3,979,398	176,026	4,155,424	81,942	4,237,366
Long-term liabilities:					
OPEB payable (Notes 7 and 15)	367,037	-	367,037	-	367,037
Lease payable (Note 11)	8,974	-	8,974	-	8,974
Bonds payable (Notes 2, 10, and 11)	8,500,000	-	8,500,000	-	8,500,000
Total long-term liabilities	8,876,011	-	8,876,011	-	8,876,011
TOTAL LIABILITIES	\$ 12,855,409	\$ 176,026	\$ 13,031,435	\$ 81,942	\$ 13,113,377
NET ASSETS (Note 12):					
Invested in capital assets, net of debt	\$ 69,850,120	\$ 467,067	\$ 70,317,187	\$ -	\$ 70,317,187
Restricted net assets	-	4,361,334	4,361,334	-	4,361,334
Unrestricted net assets:					
Designated	35,748,838	-	35,748,838	-	35,748,838
Undesignated	6,369,271	-	6,369,271	-	6,369,271
TOTAL NET ASSETS	\$ 111,968,229	\$ 4,828,401	\$ 116,796,630	\$ -	\$ 116,796,630
TOTAL LIABILITIES AND NET ASSETS	\$ 124,823,638	\$ 5,004,427	\$ 129,828,065	\$ 81,942	\$ 129,910,007

See accompanying independent auditors' report.

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

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)
STATEMENT OF ACTIVITIES
For The Fiscal Year Ended June 30, 2015

	K - 12			PRE-SCHOOL		
	Unrestricted	Temporarily Restricted	Total K-12	Unrestricted	Elimination	Total Vaughn
Revenue:						
General funding sources	\$ 21,650,004	\$ -	\$ 21,650,004	\$ -	-	\$ 21,650,004
Federal support	4,387,451	-	4,387,451	-	-	4,387,451
Other state revenue	2,864,985	-	2,864,985	1,393,066	-	4,258,051
Other local support:						
Interest income	888,017	-	888,017	-	-	888,017
Other local income	1,405,888	-	1,405,888	-	(57,996)	1,347,892
Interest reimbursements	348,747	-	348,747	-	-	348,747
Net assets released from restrictions	266,752	(266,752)	-	-	-	-
TOTAL REVENUES	31,811,844	(266,752)	31,545,092	1,393,066	(57,996)	32,880,162
Expenses:						
Program expenses	23,216,461	-	23,216,461	1,336,990	(57,996)	24,495,455
Management and general expenses	1,586,856	-	1,586,856	56,076	-	1,642,932
TOTAL EXPENSES	24,803,317	-	24,803,317	1,393,066	(57,996)	26,138,387
Change in net assets from operation	7,008,527	(266,752)	6,741,775	-	-	6,741,775
Transfer to QSCB sinking fund	(894,737)	894,737	-	-	-	-
Non-operating gains (losses):						
Gains (losses) on investments (Note 3)	423,609	-	423,609	-	-	423,609
Total change in net assets	6,537,399	627,985	7,165,384	-	-	7,165,384
Net assets, beginning of the year	105,430,830	4,200,416	109,631,246	-	-	109,631,246
Net assets, end of the year	<u>\$111,968,229</u>	<u>\$4,828,401</u>	<u>\$ 116,796,630</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,796,630</u>

See accompanying independent auditors' report.
The accompanying notes are an integral part of these financial statements.

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2015

Cash Flows from Operating Activities:

Change in net assets	\$ 7,165,384
Adjustments to reconcile change in net assets to cash used by operating activities:	
Depreciation expense	\$ 1,820,221
Change in:	
Accounts receivable	2,320,409
Other receivables	(169,708)
Investments	(1,878,676)
Deposits and prepaid expenses	72,741
Accounts payable	732,958
Accrued payroll & related	37,440
Other liabilities	(59,734)
Total adjustments	<u>2,875,651</u>
Total cash flows provided (used) for operating activities	10,041,035
Cash flows from investing activities	
Purchase of capital assets	<u>(11,758,120)</u>
Total cash flows provided (used) for investing activities	(11,758,120)
Total cash flows provided (used) for financing activities	<u>-</u>
Net increase (decrease) in cash	(1,717,085)
Beginning cash & cash equivalents	<u>15,410,360</u>
Ending cash & cash equivalents	<u><u>\$ 13,693,275</u></u>

Supplemental disclosure for:

Cash paid during the year for interest expense	\$ 376,210
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See the accompanying independent auditors' report.
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VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
For The Fiscal Year Ended June 30, 2015

	GRADES K-12			PRE-SCHOOL			VAUGHN TOTAL	
	Program Services	Management & General	Total K-12	Program Services	Management & General	Total Pre-School	Elimination	Total
Salaries and Related Expenses:								
Salaries and wages	\$ 13,404,150	\$ 367,143	\$ 13,771,293	\$ 929,256	\$ -	\$ 929,256	\$ -	\$ 14,700,549
Employee benefits and payroll taxes	2,467,741	99,002	2,566,743	232,106	-	232,106	-	2,798,849
Total Salaries and Related Expenses	15,871,891	466,145	16,338,036	1,161,362	-	1,161,362	-	17,499,398
Other Expenses:								
Bad debt expense	221	-	221	-	-	-	-	221
Food services and supplies	1,330,605	-	1,330,605	-	-	-	-	1,330,605
Insurance	-	115,446	115,446	-	-	-	-	115,446
Interest expense	376,210	-	376,210	-	-	-	-	376,210
Legal and accounting	-	248,830	248,830	-	-	-	-	248,830
LAUSD administrative	398,305	216,503	614,808	-	56,076	56,076	-	670,884
Maintenance and repairs	166,439	39,282	205,721	-	-	-	-	205,721
Professional fees and contract services	1,036,584	166,450	1,203,034	102,082	-	102,082	-	1,305,116
Rent and leases	107,827	22,411	130,238	57,996	-	57,996	(57,996)	130,238
Supplies - instructional	798,493	-	798,493	15,550	-	15,550	-	814,043
Supplies - other	466,144	23,378	489,522	-	-	-	-	489,522
Taxes, licenses, fees	764	36,199	36,963	-	-	-	-	36,963
Travel and conference	100,463	-	100,463	-	-	-	-	100,463
Utilities	778,698	194,674	973,372	-	-	-	-	973,372
Other expenses	-	21,134	21,134	-	-	-	-	21,134
Total Other Expenses	5,560,753	1,084,307	6,645,060	175,628	56,076	231,704	(57,996)	6,818,768
Total Expenses Before Depreciation	21,432,644	1,550,452	22,983,096	1,336,990	56,076	1,393,066	(57,996)	24,318,166
Depreciation	1,783,817	36,404	1,820,221	-	-	-	-	1,820,221
Total Expenses	\$ 23,216,461	\$ 1,586,856	\$ 24,803,317	\$ 1,336,990	\$ 56,076	\$ 1,393,066	\$ (57,996)	\$ 26,138,387

See accompanying independent auditors' report.
The accompanying notes are an integral part of these financial statements.

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)
Notes to These Audited Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Vaughn Next Century Learning Center (Vaughn) provides preschool and grades K-12 education that offer 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.

This report presents financial activities of the following two segments of Vaughn and a column for total activities of the entity as a whole.

- Grades K-12, and
- Pre-School.

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.

A. Reporting Entity – Vaughn Next Century Learning Center (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.

B. Date of Management Review – Vaughn has evaluated subsequent events through December 7, 2015, the date which the financial statements were available to be issued.

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)
Notes to These Audited Financial Statements
June 30, 2015

- C. Basis of Accounting** – The financial statements are reported using the accrual basis of accounting.
- D. Cash and Cash Equivalents** – For the purpose of the Statement of Cash Flows, Vaughn defines cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less. Cash and cash equivalents consist of cash of \$12,892,265 held in the Los Angeles County Treasury, \$801,010 held in various banks, and \$4,612,691, held by trustee for Qualified School Construction Bond (QSCB) requirements (see Note 2).
- E. 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.
- F. Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- G. 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.
- H. 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:

VAUGHN NEXT CENTURY LEARNING CENTER
 (A California Non-Profit Public Benefit Corporation)
 Notes to These Audited Financial Statements
 June 30, 2015

Assets	Years
Buildings	39
Improvements	7 to 15
Furniture & Equipment	5 to 7
Library Materials	5

- I. Compensated Absences** – Vaughn employees earn released days/sick days based on the amount of time worked annually. Unused release days/sick days for full-time employees is cumulative from year to year and can be accrued. Vaughn has a use-it-or-lose-it policy, which means that accrued hours cannot be cashed out and cannot be used as paid days for early retirement, acceptance of other jobs, student teaching, vacation, professional growth, nor for performance of duties not authorized by Vaughn.

Vaughn recognizes and reports in these financial statements accrued hours for classroom teachers only using teacher-substitute rate per day. Total compensated absence accrued at June 30, 2015 is \$312,766 which is included in payroll liabilities.

- J. Local Control Funding Formula** – Starting with the 2013-2014 fiscal year, the state of California changed from the K-12 finance system to a new Local Control Funding Formula (LCCF). The LCCF becomes the basic financial support for Vaughn's activities; replacing most previously existing K-12 funding systems that included revenue limits and most of state categorical programs.

- K. Net Assets** – Vaughn's net assets and changes therein are classified and reported as follows:

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

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by the action of Vaughn and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Vaughn. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

All grants/contributions are considered to be unrestricted unless specifically restricted by the donor. All donor-restricted grant/contributions made in the

VAUGHN NEXT CENTURY LEARNING CENTER
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Notes to These Audited Financial Statements
June 30, 2015

year ended June 30, 2015, 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.

- L. Income Taxes** – Vaughn is an exempt organization (see Note 1 A) that files informational returns in the U.S. federal jurisdiction, and the state of California. Vaughn has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The tax positions evaluated are possible unrelated business income activities that could be taxable and the ability of the entity to continue qualifying as a tax-exempt organization.

No disclosures of uncertain income tax positions are required since management has determined that all income tax positions are more likely than not (more than fifty percent) of being sustained upon potential audit or examination.

Vaughn's Form 990, Return of Organization Exempt from Income Tax, for the years ending June 30, 2015, 2014, and 2013 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Furthermore, Vaughn's Form 199, California Exempt Organization Annual Information Return, for tax years ended June 30, 2015, 2014, 2013, and 2012 are subject to examination by California Franchise Tax Board, generally for four years after they were filed.

NOTE 2: CASH AND INVESTMENTS

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

Cash in county treasury	\$ 12,892,265
Cash with financial institution	801,010
Cash and investments held for bond requirement	4,612,691
Long term investments	35,080,639

VAUGHN NEXT CENTURY LEARNING CENTER
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Notes to These Audited Financial Statements
June 30, 2015

Cash and Investments – 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, 2015 as provided by the pool sponsor was \$12,892,265. 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.

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, 2015 consisted of the following (see Note 18 B for change in value of investments):

	Program	Employee Incentive	Capital Project	Self-Directed Growth	Total
U.S. Equities	\$ 9,449,128	\$ 1,394,449	\$ 5,869,862	\$ 521,257	\$ 17,234,696
International Equities	3,488,233	514,852	2,262,643	273,869	6,539,597
U.S. Bonds	3,791,220	882,972	4,022,166	153,797	8,850,155
International Bonds	984,392	225,966	1,036,414	54,155	2,300,927
Alternative *	-	-	-	146,647	146,647
Money Market Funds	-	-	-	8,617	8,617
Total Investments	\$ 17,712,973	\$ 3,018,239	\$ 13,191,085	\$ 1,158,342	\$ 35,080,639

* (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.

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Notes to These Audited Financial Statements

June 30, 2015

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).

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, 2015. 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,

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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, 2015 consisted of the following:

Investments:

Absolute Return Bond Fund	\$ 397,852
Core Bond Fund	690,272
High Income Fund	196,736
Low Duration Fund	1,894,685
Strategic Income Fund	<u>790,592</u>
Total investments	3,970,137
Cash held by trustee/bank	<u>642,554</u>
Total cash and investments for bond obligations	<u>\$ 4,612,691</u>

During the second quarter of the fiscal year 2014-2015, Payden reallocated a portion of Vaughn's bond portfolio account (to its new Absolute Return Fund) to provide more diversification while reducing interest rate risk and overall volatility.

The Payden Absolute Return Bond Fund invests in a diversified, multi-sector portfolio of government, corporate, securitized and emerging-market debt. The fund can move dynamically among sectors and individual securities to add value while aiming to achieve its LIBOR + 3 percent return objective. Vaughn benefits from Payden's broad investment resources by incorporating the most compelling risk-adjusted opportunities from each sector team. A special emphasis is placed on risk management seeking to mitigating potential downside.

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

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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 the 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.

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 the Vaughn at June 30, 2015:

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	Level 1	Level 2	Level 3	Total
U.S. Equities	\$ 17,234,696	\$ -	\$ -	\$ 17,234,696
International Equities	6,539,597	-	-	6,539,597
U.S. Bonds	8,850,155	-	-	8,850,155
International Bonds	2,300,927	-	-	2,300,927
Alternative*	146,647	-	-	146,647
Money Market Funds	8,617	-	-	8,617
TOTAL VANGUARD	\$ 35,080,639	\$ -	\$ -	\$ 35,080,639
Absolute Return Bond Fund	\$ 397,852	-	-	\$ 397,852
Core Bond Fund	690,272	-	-	690,272
High Income Fund	196,736	-	-	196,736
Low Duration Fund	1,894,685	-	-	1,894,685
Strategic Income Fund	790,592	-	-	790,592
TOTAL PAYDEN	\$ 3,970,137	\$ -	\$ -	\$ 3,970,137

* (Vanguard Real Estate Funds, Permanent Portfolio Fund)

The following schedule summarizes the composition of investment return for the years ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends & interest	\$ 888,017	\$ -	\$ -	\$ 888,017
Investment income available for operations	888,017	-	-	888,017
Non-operating investment gains (losses)	423,609	-	-	423,609
Total return on investments	\$ 1,311,626	\$ -	\$ -	\$ 1,311,626

NOTE 4: RECEIVABLES

All Vaughn's receivables are from grants and entitlements. Total grants receivables at June 30, 2015 are as follows:

Grants receivable	\$ 1,383,361
Allowance for uncollectible	(22,353)
Net grant receivable	\$ 1,361,008

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NOTE 5: ACCOUNTS PAYABLES

Accounts payables at June 30, 2015 are as follows:

Payable to vendors	\$ 1,227,175
Interest payable to bond holders	188,105
Bond fees payable	5,485
Due to LAUSD	<u>36,070</u>
Total accounts payable	<u>\$ 1,456,835</u>

NOTE 6: CAPITAL ASSETS

A summary of changes in fixed assets for the fiscal year ended June 30, 2015 is as follows:

	Balance at 6/30/2014	Additions	Disposal / Reclassified	Balance at 6/30/2015
Depreciable assets:				
Building & improvements	\$ 58,872,488	\$ 495,231	\$ 1,597,253	\$ 60,964,972
Library materials	152,984	-	-	152,984
Equipment	2,257,088	130,205	(278,597)	2,108,696
Equipment under capital lease	206,003	-	-	206,003
Total depreciable assets	<u>61,488,563</u>	<u>625,436</u>	<u>1,318,656</u>	<u>63,432,655</u>
Less: accum. depreciation	<u>(12,435,726)</u>	<u>(1,820,221)</u>	<u>278,597</u>	<u>(13,977,350)</u>
Net depreciable assets	<u>\$ 49,052,837</u>	<u>\$ (1,194,785)</u>	<u>\$ 1,597,253</u>	<u>\$ 49,455,305</u>
Non-depreciable assets:				
Sites	\$ 13,284,424	\$ 336,780	\$ -	\$ 13,621,204
Construction in progress	2,515,711	10,795,904	(1,597,253)	11,714,362
Total non-depreciable assets	<u>\$ 15,800,135</u>	<u>\$ 11,132,684</u>	<u>\$ (1,597,253)</u>	<u>\$ 25,335,566</u>
Grand total capital assets	<u>\$ 64,852,972</u>	<u>\$ 9,937,899</u>	<u>\$ -</u>	<u>\$ 74,790,871</u>

Equipment under capital lease includes four solar energy systems on four different buildings – the two elementary schools, the middle school, and the high school. The total of six year lease payments for 1 elementary school and G3 were paid in full while the lease payments of the other 3 leases are paid as they become due. The solar panels started operating during the fiscal year 2012-2013.

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The construction in progress relates to the new learning pods, labs, and multi-purpose space (see Note 16 A).

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 with every charter renewal.

NOTE 7: RETIREMENT PLANS AND POST - EMPLOYMENT BENEFITS

Qualified employees of Vaughn are covered by the multiple-employer defined benefit retirement plans maintained by agencies of the State of California. The retirement plan maintained by Vaughn is the California State Teachers' Retirement System (CalSTRS). In general, certificated employees are members of CalSTRS and classified employees, part-time, seasonal, temporary, and other employees who are not members of CalSTRS are contributing to social security.

- 1) **California State Teachers' Retirement System (CalSTRS)** – Vaughn contributes to the CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan and a tax deferred supplemental program established and administered by the State Teachers' Retirement Law (Section 22000 et. seq.) of the California Education Code.

A unique characteristic of a multi-employer plan is that assets contributed by one employer may be used to provide benefits to employees of other participating employers. This is because the assets contributed by an employer are not specifically earmarked only for its employees. If a participating employer fails to make its required contributions, the unfunded obligations of the plan may be borne by the remaining participating employers. Similarly, in some cases, if an employer chooses to stop participating in a multiemployer plan, the withdrawing company may be required to pay to the plan the withdrawal liability.

At June 30, 2015, there were approximately 1,727 contributing employers (school districts, community college districts, county offices of education and regional occupational programs). Based on the most recent available actuary data, at June 30, 2014, CalSTRS is estimated to have over 879,300 total members, retirees and beneficiaries with a portfolio value of over \$179 billion. Membership is mandatory for all employees meeting certain statutory requirements, and optional for all other employees performing creditable service.

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The State of California is a non-employer contributor to the Defined Benefit (DB) Program of the CalSTRS. The Plan provides defined retirement benefits based on members' highest compensation, age, and years of credited service. In addition, the retirement program provides benefits to members upon disability, and to survivors upon the death of eligible members. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from the California State Teachers' Retirement System, P.O. Box 15275, Sacramento, CA 95851-0275.

Active plan members are required to contribute 8.15% of their salary and Vaughn is required to contribute based on an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2014-2015 was 8.88% of annual payroll.

The contribution requirements of the plan members are established by state statute.

Vaughn's contributions to CalSTRS for the fiscal years ended June 30, 2015, 2014, and 2013 were equal to the required contributions at statutory rates. The contribution amounts were:

	Percentage of applicable member earnings	2015	2014	2013
Vaughn's contributions *	8.88%	\$ 911,707	\$ 790,369	\$ 591,812
Employee contributions *	8.15%	836,758	766,418	581,272
Total CalSTRS Contribution	17.03%	\$ 1,748,465	\$ 1,556,787	\$ 1,173,084
Percentage of required contributions made		100%	100%	100%

* Including adjustments

Vaughn's contributions to CalSTRS do not represent more than 5 percent of the total contributions made to the plan by all contributing Employers. The plan does not impose surcharges on member contributions.

Beginning July 1, 2003, the State's contribution to the system is 2.017% of the previous calendar year's teachers' payroll. Subsequent to achieving a fully funded System, the State expects to contribute only the amount necessary to

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help fund the normal cost of the current benefit program unless a subsequent unfunded obligation occurs.

In addition to contributions from state's general fund and other sources, California State law requires CalSTRS members and employers to contribute a set percentage of members' earnings as presented above. These rates cannot be changed by the governing board; only the Legislature and the Governor have the authority to change the rates since the percentages are set in statute. CalSTRS uses investment earnings to pay for administration costs and contributions required to fund the benefits.

Historically, about 60 percent of retirement benefits are funded by investment returns. For the fiscal year ended June 30, 2015, CalSTRS earned an approximate 4.8 percent rate of return based on the time-weighted return methodology as compared to the current actuarial assumed rate of return is 7.5 percent. Per the most recent available actuarial valuation, the funding gap is estimated to be \$72.72 billion as of June 30, 2014 as compared to 73.7 billion as of June 30, 2013. The projected funding shortfall was mainly caused by a decade of significantly lower investment return than the long-term actuarial assumptions of 7.5 percent.

The California Public Employee's Pension Reform Act of 2013 (PEPRA), signed by Governor Brown in September 2012, provides significant changes to California public pension plans. PEPRA changed the benefit formula to requiring new members to work longer years or receive a reduced service retirement benefit.

Under PEPRA, the CalSTRS Defined Benefit Program has two benefit formulas:

1. CalSTRS 2% at 60: Members first hired on or before December 31, 2012, to perform service that could be creditable to CalSTRS.
2. CalSTRS 2% at 62: Members first hired on or after January 1, 2013, to perform service that could be creditable to CalSTRS

On June 24, 2014, Governor Brown signed AB (Assembly Bill) 1469 into law, which was enacted as part of the 2014-15 budget. AB 1469 addresses the CalSTRS DB Program unfunded liability and incorporates a detailed funding plan, recognizing the need to ensure the viability of the program. The legislation emphasizes the necessity for shared responsibility among the state, school districts and members to eliminate the unfunded liability by 2046. Specifically, the following contribution increases have applied to compensation that is creditable to the DB Program effective July 1, 2014:

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- Member contributions for those under the 2% at 60 benefit structure will increase from 8 percent to a total of 10.25 percent of pay, phased in over the three years started July 1, 2014.
- For members under the 2% at 62 benefit structure, the rate will increase from 8 percent to a projected 9.205 percent, phased in over the three years started July 1, 2014.
- Employer contributions will increase from 8.25 percent to a total of 19.1 percent of payroll, phased in over seven years, started July 1, 2014.
- The state's total contribution to the DB Program as a non-employer contributing entity increases incrementally from 3.041 percent beginning in fiscal year 2013-14 to a total of 6.328 percent of payroll in fiscal year 2016-17.

The funded status of the DB Program as of June 30, 2014 and 2013, the most recent actuarial valuation date (June 30, 2015 report is not yet available), are as follows:

(dollars in millions)	6/30/2014 Valuation	6/30/2013 Valuation
Actuarial Obligation	\$ 231,213	\$ 222,281
Actuarial Value of Assets	158,495	148,614
Unfunded Actuarial Obligation	\$ 72,718	\$ 73,667
Funded Ratio	68.55%	66.86%

Overall, the DB Program funded status has slightly improved compared to one year ago as measured by the Funded Ratio. The recognition of asset losses for the current and prior years, as well as insufficient funding, had the most significant effect on the Funded Ratio.

Based on the valuation assumptions and the valuation policy adopted by the CalSTRS Board at their February, 2015 meeting, the future revenue from contributions and appropriations for the DB Program is projected to be sufficient to finance its obligations by the year 2046. This finding reflects the scheduled contribution increases specified in AB 1469.

2) 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,

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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 15 – 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 at June 30, 2015, Vaughn has a liability of \$367,037.

NOTE 8: 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.

NOTE 9: CONCENTRATIONS OF CREDIT RISK

Vaughn maintains virtually all of its cash balances in the Los Angeles County Treasury and at East West Bank. The funds maintained by the County are either secured by federal depository insurance or are collateralized. The balances in East West Bank are insured up to \$250,000 by the FDIC. East West Bank has entered into a contract of deposit with Vaughn. The contract requires the bank to maintain security for Vaughn deposits above the FDIC limit with a Federal Reserve Bank or the Federal Home Loan Bank of San Francisco in accordance with California Government Code 53659.

NOTE 10: QUALIFIED SCHOOL CONSTRUCTION BOND (QSCB)

In October 2010, The California School Finance Authority issued Educational Facilities Revenue Bonds (Vaughn Next Century Learning Center) Series 2010A Qualified School Construction Bonds (QSCB) in the principal amount of

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\$8,500,000. The bond proceeds could be used for construction, rehabilitation, or repair of public school facility. The terms required Vaughn to provide equity contribution in the amount of \$122,629. Vaughn received net proceedings in the amount \$8,330,000 – net of \$127,500 (1.5% underwriter's discount) and \$165,129 cost of issuance. Therefore, total proceeds used for bond issuance costs (including underwriter's discount) were \$170,000.

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 Pandaland 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, 2015 by 7.3%. Vaughn paid \$376,210 in interest to the bond holders and received \$348,747 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 QSCB to finance the acquisition, construction, improvements, and equipping the Infrastructure Academy, the VISA Extension

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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.

Based on the last trade activity completed on June 17, 2015, the estimated fair value of QSCB at June 30, 2015 is \$9,283,190.

NOTE 11: LONG - TERM OBLIGATIONS

The following is a summary of long-term obligations for the year ended June 30, 2015:

	<u>Balance at June 30, 2015</u>
QSCB (interest rate 4.426%)	\$ 8,500,000
Obligation under capital leases	<u>17,110</u>
Total Debt	8,517,110
Less current portion	<u>8,136</u>
Debt, noncurrent portion	<u>\$ 8,508,974</u>

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

	<u>QSCB</u>	<u>Capital Leases</u>
2016	\$ 894,737	\$ 8,136
2017	894,737	4,376
2018	894,737	4,595
2019	894,737	3
2020	894,737	-
Thereafter	<u>4,026,315</u>	<u>-</u>
Total	<u>\$ 8,500,000</u>	<u>\$ 17,110</u>

NOTE 12: NET ASSETS

Restricted net assets represent those funds not currently available for expenditure or those portions specifically directed by the donor for a specific purpose. At June 30, 2015, Vaughn did not have any permanently restricted net assets.

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Temporarily restricted net assets at June 30, 2015 are as follows:

Food program	\$ 335,018
Repayment of bonds (Note 10)	4,026,316
Invested in capital assets, net of debt	<u>467,067</u>
Total temporarily restricted net assets	<u><u>\$ 4,828,401</u></u>

Unrestricted net assets represent the net asset portion that is available for all expenses in the next fiscal year. Part of unrestricted net assets is designated by the board for specific purposes. The following are the designated and undesignated unrestricted net assets at June 30, 2015:

Unrestricted net assets:	
Invested in capital assets, net of debt	\$ 69,850,120
Designated net assets:	
Programs and staff retention	17,712,973
Economic uncertainty	1,240,166
Employee incentives and other benefits	3,018,239
Bonds obligations	586,375
Buildings and improvements	<u>13,191,085</u>
Total designated net assets	35,748,838
Undesignated net assets	<u>6,369,271</u>
Total unrestricted net assets	<u><u>\$ 111,968,229</u></u>

NOTE 13: 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.

NOTE 14: OTHER RELATED PARTIES

Vaughn has established the Vaughn Next Century Foundation (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

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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. Unreimbursed amount at June 30, 2015, was estimated at \$16,000, reported in the financial as other receivables.

NOTE 15: OPEB ACCOUNTING & ACTUARIAL INFORMATION

Vaughn provides post-employment benefits other than pensions (OPEB) to employees who meet certain criteria (discussed in NOTE 7). 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 continued to use Pay-As-You-Go method for current retirees' 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").

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Actuarial Assumptions

The rate used to discount liabilities is 4.44% and 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 30, 2015.

The trend assumption is used to project the growth of the expected claims over the lifetime of the healthcare recipients. The Financial Accounting Standards Board ASC 715 does not require a particular source for information to determine healthcare trends, but it does recommend selecting a source that is "publicly available, objective and unbiased."

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 6.50% medical cost increase for the 2015-2016 fiscal year, trending down to an ultimate 5.00% increase for 2018-2019 and later fiscal years. The dental and vision costs are assumed to increase 5.00% per fiscal year.

<u>Fiscal Year</u>	<u>Medical Trend</u>	<u>Dental and Vision Trend</u>
2015-2016	6.50%	5.00%
2016-2017	6.00%	5.00%
2017-2018	5.50%	5.00%
2018 and beyond	5.00%	5.00%

Funded Status and Funding Progress

As of June 30, 2015, Vaughn's plan has an Accumulated Postretirement Benefit Obligation of \$380,107, and is unfunded. The plan had zero assets and the net amount of actuarial accrued liability recognized is \$367,037.

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.

Following is a summary of the actuarial valuation results of the OPEB Plan as of June 30, 2015.

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Expected postretirement benefit obligation (EPBO)	\$ 999,854
Fair value of plan assets	-
Accumulated postretirement benefit obligation (APBO)	
Actives	380,107
Retirees	-
Total APBO	<u>380,107</u>
Accrued postretirement benefit cost at June 30, 2015	367,037
Service cost (beginning of year)	32,577
Net periodic postretirement benefit cost	
July 1, 2014 - June 30, 2015	58,759
July 1, 2015 - June 30, 2016	54,053
Discount rate	4.44%

The following table presents the net periodic postretirement benefit cost and reconciliation of the funded status as of June 30, 2015.

<u>Net Periodic Postretirement Benefits Cost</u>	<u>7/1/2015</u>
Service cost	\$ 34,023
Interest cost	16,853
Expected return on plan assets	-
Amortization of net (gain)/loss	(1,972)
Amortization of prior service cost	-
Amortization of transition obligation	5,149
Net periodic postretirement benefits cost	<u>\$ 54,053</u>
 <u>Reconciliation of Funded Status</u>	 <u>6/30/2015</u>
Accumulated postretirement benefit obligation	\$ 380,107
Fair value of plan assets	-
Unfunded status	<u>380,107</u>
Unrecognized amounts:	
Actuarial (gain)/loss	79,616
Prior service cost	-
Transition (obligation)/asset	(92,686)
Accrued postretirement benefit cost	<u>\$ 367,037</u>

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)
Notes to These Audited Financial Statements
June 30, 2015

The following table presents the reconciliation of accrued benefit cost for the year ended June 30, 2015:

Accrued postretirement benefit cost as of July 1, 2014	\$ 308,278
Net periodic postretirement benefit cost for the fiscal year	58,759
Estimated employer contributions for the fiscal year	<u>-</u>
Accrued postretirement benefit cost as of June 30, 2015	<u>\$ 367,037</u>

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:

	<u>Change in Medical Trend Rate</u>	
Effect on health care component of the:	<u>1% Increase</u>	<u>1% Decrease</u>
Accumulated post-retirement benefit obligation	Increase of \$8,966	Decrease of \$10,857
Service cost plus interest cost	Increase of \$1,213	Decrease of \$1,475

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 of June 30,

<u>Fiscal Year Beginning</u>	<u>Amount</u>
7/1/2015	\$ -
7/1/2016	4,347
7/1/2017	8,274
7/1/2018	7,565
7/1/2019 - 6/30/2023	50,865

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

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)
Notes to These Audited Financial Statements
June 30, 2015

NOTE 16: FUTURE COMMITMENTS

A. Construction Contracts

Vaughn has constructions in progress at the following properties.

- 13215 Daventry,
- 13331 Eustace,
- 13072 & 13074 Filmore, and
- 13486 Del Sur

This is for construction of 12 Science, Technology, Engineering, Arts, and Mathematics (STEAM) learning pods/labs and 1 multi-purpose space. The unbilled and unpaid balance under contract at June 30, 2015 is \$3,398,922. As of financial statement date, the projects were completed and put in service.

B. 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 end of, at least, the five-year lease contract on each 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.

The following is a schedule of minimum payments under these operating lease contracts:

<u>Year Ending</u>	<u>Amount</u>
June 30, 2016	\$ 110,115
June 30, 2017	110,115
June 30, 2018	110,115
June 30, 2019	105,315
June 30, 2020	49,733
Total	<u>\$ 485,393</u>

Total operating cost of equipment lease and rental for fiscal year 2014-2015 was \$109,507.

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)
Notes to These Audited Financial Statements
June 30, 2015

NOTE 17: CONTINGENCIES

Vaughn is named as a defendant in the following civil suit.

1. 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 of \$594,340. 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 between the two parties took place on December 29, 2014. Pueblo demanded \$400,000 but Vaughn did not agree to settle for that amount. Additionally, Vaughn claims that the property in question has a roof leak and the contractor has not provided the closing warranties. The two parties will renegotiate the settlement after Pueblo agrees to fix the roof.

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

NOTE 18: SUBSEQUENT EVENTS

The following events happened after June 30, 2015:

A. Construction Contracts

Vaughn executed contracts to purchase 4 new modules for classroom buildings, including architectural, engineering and design services costing \$1,150,872. The total project cost is estimated to be \$2,000,000.

B. Change in Value of Investments

As of December 3, 2015, the fair market value of the Vanguard investment accounts decreased to \$34,393,679 – a change of \$686,960 from June 30, 2015 reported value of \$35,080,639.

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Fiscal Year Ended June 30, 2015

	FEDERAL CATALOG NUMBER	PASS- THROUGH ENTITY ID NUMBER	PROGRAM EXPENDITURES
FEDERAL			
<u>U.S. Department of Education:</u>			
<u>Passed through California Department of Education (CDE):</u>			
ESEA TITLE I	84.010	14329	\$ 1,109,212
TITLE I, PART G, ADVANCED PLACEMENT AND INTERNATIONAL BACCALAUREATE TEST FEE PAYMENT PROGRAM	84.330B	14831	14,520
TITLE II PART A - TEACHER QUALITY	84.367	14341	83,462
TITLE III - LIMITED ENGLISH PROFICIENCY (LEP)	84.365	14346	71,223
SPECIAL EDUCATION: IDEA BASIC LOCAL ASSISTANCE	84.027	13379	<u>507,659</u>
Total U.S. Department of Education			<u>1,786,076</u>
<u>U.S. Department of Agriculture:</u>			
<u>Passed through California Department of Education (CDE):</u>			
FEDERAL CHILD NUTRITION: SCHOOL PROGRAM	10.555	13755	2,519,855
NATIONAL SCHOOL LUNCH PROGRAM EQUIPMENT ASSISTANCE	10.579	N/A	<u>13,428</u>
Total U.S. Department of Agriculture			<u>2,533,283</u>
<u>U.S. Department of Defense:</u>			
<u>Passed through California Department of Education (CDE):</u>			
DOD FRESH FRUIT & VEGETABLE PROGRAM	10.582	14968	<u>68,092</u>
Total U.S. Department of Agriculture			<u>68,092</u>
TOTAL FEDERAL			<u>\$ 4,387,451</u>

See accompanying independent auditors' report.

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)

Note to Schedule of Expenditures of Federal Awards
For The Fiscal Year Ended June 30, 2015

General

The accompanying schedule of expenditures of federal awards presents the expenditures of all federal financial assistance programs for Vaughn Next Century Learning Center (Vaughn) reporting entity is defined in the notes to Vaughn's basic financial statements.

Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, as described in Note 1 of the notes to Vaughn's basic financial statements. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of Vaughn's basic financial statements but agrees in all material respects.

See accompanying independent auditors' report.

VAUGHN NEXT CENTURY LEARNING CENTER
 (A California Non-Profit Public Benefit Corporation)
SCHEDULE TO RECONCILE THE UNAUDITED ACTUALS REPORT
WITH AUDITED FINANCIAL STATEMENTS
 For The Fiscal Year Ended June 30, 2015

June 30, 2015 unaudited actuals report net assets	\$ 116,324,139
Restatements:	
Increasing (Decreasing) in net assets:	
Cash and investments	6
Accounts receivable and due from grantor	(118,732)
Other current assets	(3,819)
Capital assets	2,105
Accounts payable and accrued expenses	(7,396)
Total Restatements	<u>\$ (127,836)</u>
Audit Adjustments:	
Increasing (Decreasing) the Fund Balances:	
Accounts receivable	18,469
Capital assets	(326)
Accounts payable and accrued expenses	582,184
Total Adjustments	<u>600,327</u>
June 30, 2015, audited financial statements' total net assets	<u><u>\$ 116,796,630</u></u>

See accompanying independent auditors' report.

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

To The Board of Directors
Vaughn Next Century Learning Center

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 (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2015.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement 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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING
Page Two

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 Vaughn'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Anderson, Satuloff,
Machado & Mendelsohn*

ANDERSON, SATULOFF,
MACHADO & MENDELSON
Certified Public Accountants
An Accountancy Corporation

December 7, 2015
Woodland Hills, California

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR
A-133

To The Board of Directors
Vaughn Next Century Learning Center

Report on Compliance for Each Major Federal Program

We have audited Vaughn Next Century Learning Center (Vaughn)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Vaughn's major federal programs for the year ended June 30, 2015. 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 the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 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.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR
A-133

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, 2015.

Report Internal Control Over Compliance

Management of Vaughn is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, rules, and provisions of contracts or grant agreements applicable to federal programs. 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 OMB Circular A-133, 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 in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR
A-133

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Anderson, Satuloff,
Machado & Mendelsohn*

**ANDERSON, SATULOFF,
MACHADO & MENDELSON**
Certified Public Accountants
An Accountancy Corporation

December 7, 2015
Woodland Hills, California

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Vaughn Next Century Learning Center
13330 Vaughn Street
San Fernando, California 91340

Report on Compliance

We have audited the Vaughn Next Century Learning Center (Vaughn)'s compliance with the compliance requirements described in the audit guide, *2014-2015 Guide for Annual Audits K-12 Local Agencies and State Compliance Reporting (K-12 Audit Guide)* that could have a direct and material effect on each of Vaughn's state awards for the year ended June 30, 2015. Vaughn's state programs and awards tested are identified below.

Management Responsibility

Vaughn's management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to each of the state program.

Auditors' Responsibility

Our responsibility is to express an opinion on Vaughn's compliance with the applicable compliance requirements described in the Guide. 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 Comptroller General of the United States of America; and Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, *prescribed in the California Code of Regulations (CCR), Title 5, Section 19810 and following*. Those standards and the Guide require that we plan and perform the compliance audit to obtain reasonable assurance about whether Vaughn is in conformity with the applicable compliance requirements referred to above. The compliance 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 compliance audit provides a reasonable basis for our opinion; however, our audit does not provide a legal determination of Vaughn's compliance with those requirements.

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

Independent Auditors' Report on State Compliance
Vaughn Next Century Learning Center
Page 2

Procedures	Procedures Performed?
California Clean Energy Jobs Act	Yes
After School Educational and Safety Program	
General Requirements	Yes
After School	Yes
Before School	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Attendance	
For Charter Schools	Yes
Mode of Instruction	Yes
Nonclassroom-based Instruction/Independent	
Study for Charter Schools	Not Applicable
Determination of Funding for Nonclassroom-	
Based Instruction for Charter Schools	Not Applicable
Annual Instructional Minutes, Classroom	
Based for Charter Schools	Yes
Charter School Facility Grant Program	Not Applicable

Opinion

In our opinion, Vaughn complied, in all material respects, with the applicable compliance requirements referred to above that could have a direct and material effect on each of its state awards for the year ended June 30, 2015.

*Anderson, Satuloff,
Machado & Mendelsohn*

ANDERSON, SATULOFF,
MACHADO AND MENDELSON
Certified Public Accountants
An Accountancy Corporation

December 7, 2015
Woodland Hills, California

VAUGHN NEXT CENTURY LEARNING CENTER

(A California Non-Profit Public Benefit Corporation)

Organizational Structure

For the Fiscal Year Ended June 30, 2015

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.

Governing Board

Members

Rachael Allen
Leland Tang
Noemi Beck
Stephen Holle
Nicole Mohr
Fidel Ramirez
Elvia Teck
Jasmin Castellanos
Julie De La Torre

Term Expires

September 1, 2015
September 1, 2017
September 1, 2017
September 1, 2017
September 1, 2015
July 1, 2015
July 1, 2015
September 1, 2015
September 1, 2017

Business & Budget Committee

Rachel Allen

September 1, 2015

Curriculum & Instructions Committee

Nicole Mohr

September 1, 2015

Partnership Committee

Jasmin Castellanos

September 1, 2015

Administration

Principal/Founder

Yvonne Chan, Ed.D.

Executive Director

Anita Zepeda

VAUGHN NEXT CENTURY LEARNING CENTER
 (A California Non-Profit Public Benefit Corporation)
 Schedule of Average Daily Attendance/Hours of Attendance
 For the Fiscal Year Ended June 30, 2015

Classroom-Based Instruction

	Second Period Report	Annual Report
Transitional Kindergarten	47.00	47.00
Grades K-3	991.14	987.35
Grades 4-6	635.57	634.94
Grades 7-8	399.80	398.79
Grades 9-12	588.53	584.81
Total Average Daily Attendance	<u>2,662.04</u>	<u>2,652.89</u>
	Supplemental Hours Hours of Attendance	
	<u>-</u>	<u>-</u>

VAUGHN NEXT CENTURY LEARNING CENTER

(A California Non-Profit Public Benefit Corporation)

Schedule of Instructional Time Offered**For the Fiscal Year Ended June 30, 2015**

<u>Grade Level</u>	<u>Annual Minutes Requirements</u>	<u>2014-2015 Actual Minutes Offered</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multi-track Calendar</u>	<u>Status</u>
Kindergarten	34,971	52,830	180	N/A	Complied
Grade 1	48,960	57,680	180	N/A	Complied
Grade 2	48,960	58,440	180	N/A	Complied
Grade 3	48,960	58,440	180	N/A	Complied
Grade 4	52,457	58,780	180	N/A	Complied
Grade 5	52,457	58,780	180	N/A	Complied
Grade 6	52,457	64,381	180	N/A	Complied
Grade 7	52,457	64,381	180	N/A	Complied
Grade 8	52,457	64,381	180	N/A	Complied
Grade 9	62,949	68,035	180	N/A	Complied
Grade 10	62,949	68,035	180	N/A	Complied
Grade 11	62,949	68,035	180	N/A	Complied
Grade 12	62,949	68,035	180	N/A	Complied

VAUGHN NEXT CENTURY LEARNING CENTER

(A California Non-Profit Public Benefit Corporation)

Notes to Supplementary Information

For The Fiscal Year Ended June 30, 2015

NOTE 1: AVERAGE DAILY ATTENDANCE

Average daily attendance is a measurement of the number of pupil attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to Schools. This schedule provides information regarding the number of students in attendance during each of the reporting periods.

NOTE 2: SCHEDULE OF INSTRUCTIONAL TIME

Schools must maintain their instructional minutes at the required amount of instructional time as set forth in Education Code Section 46201.2.

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2015

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

- | | | |
|----|--|---------------|
| 1. | Type of auditors' report issued: | Unqualified |
| 2. | Internal control over financial reporting: | |
| | • Material weaknesses identified? | No |
| | • Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | |
|----|---|---------------|
| 4. | Type of auditors' report issued on compliance for the major federal award programs: | Unqualified |
| 5. | Internal control over major programs: | |
| | • Material weaknesses identified? | No |
| | • Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section 501(a) of OMB Circular A-133 | No |
| 7. | The programs tested as major programs were: Title I (84.010) and Special Education - IDEA (84.027) | |
| 8. | The threshold for distinguishing Types A and B programs was \$300,000. | |
| 9. | Vaughn Next Century Learning Center was determined to be a low risk auditee. | |

State Awards:

- | | | |
|-----|---|-------------|
| 10. | Type of auditors' report issued on compliance for the state award programs: | Unqualified |
|-----|---|-------------|

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2015

11. Internal control over state programs:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

D. FINDINGS – STATE AWARDS

None

VAUGHN NEXT CENTURY LEARNING CENTER
(A California Non-Profit Public Benefit Corporation)
Status of Prior Year Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2015

FINDINGS RELATING TO FINANCIAL REPORTING

For the Fiscal Year Ended June 30, 2014, Vaughn Next Century Learning Center had no audit findings.