

**CHARTER SCHOOL FACILITIES PROGRAM  
PROPOSITION 55 FUNDING ROUND  
STAFF SUMMARY REPORT – MARCH 2011**

<b>Applicant/Obligor:</b>	Vaughn Next Century Learning Center
<b>Project School:</b>	Vaughn Elementary Language Academy
<b>CDS (County – District – School) Code:</b>	19-64733-6019715
<b>[Proposed] Project Location:</b>	11200 Herrick Ave., Pacoima
<b>Type of Construction:</b>	New Construction
<b>County:</b>	Los Angeles
<b>District in which Project is Located:</b>	Los Angeles Unified School District
<b>Charter Authorizer:</b>	Los Angeles Unified School District
<b>Total OPSC Project Cost:</b>	\$14,132,742
<b>State Apportionment (50% Project Cost):</b>	\$7,066,371
<b>Lump Sum Contribution:</b>	\$7,066,371
<b>Total CSFP Financed Amount:</b>	\$0
<b>Length of CSFP Funding Agreement:</b>	n/a
<b>Assumed Interest Rate:</b>	n/a
<b>Estimated Annual CSFP Payment:</b>	n/a
<b>First Year of Occupancy of New Project:</b>	2012-13

**Staff Recommendation:** Staff recommends that the California School Finance Authority (Authority) Board determine that Vaughn Next Century Learning Center (Vaughn) is financially sound for the purposes of the Charter School Facilities Program (“Program” or “CSFP”) Final Apportionment. This determination as it relates to a Final Apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. Staff recommends that the CSFA Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination. ***Despite having cash on hand to satisfy the local matching share, staff conducts an analysis of the school to ensure the financial solvency of the school once the project school is operational.***

**Background:** On December 22, 2004, under Proposition 55, the Authority determined that Vaughn was financially sound for purposes of a Preliminary Apportionment for Program projects for Vaughn Elementary Language Academy and Phase I of Vaughn High School Academy. On February 23, 2005, the State Allocation Board awarded Vaughn Preliminary Apportionments of \$11,344,418 and \$19,689,664 for Vaughn Elementary Language Academy and Vaughn High School Academy, respectively. On August 25, 2005, the Authority found Vaughn financially sound for a Final Apportionment for Vaughn High School Academy (also known as Panda Academy High School) in the amount of \$9,844,822, which represents the State’s grant portion of the total project cost.

In order to augment the capacity of Panda Academy High School with an additional 189 12<sup>th</sup> grade seats, in 2008, Vaughn requested funds for Phase 2 of new construction under Proposition 1D. On May 14, 2008, the Authority determined that Vaughn was financially sound for Preliminary Apportionment for Phase 2 of Panda Academy High School, and the State Allocation awarded the Panda project a Preliminary Apportionment of \$12,439,850. On July 14, 2010, the Authority found Vaughn financially sound for purposes of Final Apportionment for Phase 2 of Panda Academy High School's project in an amount of \$8,777,464, representing the State's grant portion of the total project cost; however, no disbursement was issued pursuant to the Authority's determination as no funds were available to make the fund release. All of the Authority's determinations of financial soundness were based on Vaughn's commitment to cover the local matching share through a lump sum payment, and requires Vaughn to demonstrate sufficient designated cash reserves on hand for each project's lump sum payment.

In addition to its participation in the CSFP, during 2010, the Authority allocated and issued bonds in the amount of \$8.5 million to Vaughn under the Qualified School Construction Bonds (QSCB) program.

Currently, Vaughn is requesting a Final Apportionment for Vaughn Elementary Language Academy (Proposition 55). To assess Vaughn's financial soundness status for purposes of Final Apportionment for Vaughn Elementary Language Academy, Authority staff requested Vaughn to provide additional information, including, but not limited to: updated financial, enrollment and project information; current bank statements to show designated funds to cover the local matching share; copy of the current charter, or notification of changes to the charter or memorandum of understanding with the chartering authority; an updated Legal Status Questionnaire; information about the school's recent issuance of QSCB's and the projected net annual sinking fund payments and other annual fees associated with bond transactions; updated management and Board of Directors information; and disclosure of additional material changes that may have an impact on Vaughn's financial condition.

**Application Highlights:** Below staff has highlighted key criteria that were evaluated when conducting our financial soundness review of Vaughn Next Century Learning Center. Detailed information is contained in the body of the report.

<b>Criteria</b>	<b>Comments</b>
<b>Eligibility Criteria</b>	Vaughn has met all eligibility criteria. The school is in good standing with its authorizer and in compliance with the terms of its charter, has a charter in place through 2013, and has operated as a charter school since 1993.
<b>Demographic Information</b>	Vaughn has shown a consistent increase in enrollment from 1,706 students serving grades K-12 in 2006-07 to the current 2,183 students serving grades K-12, representing an average annual increase of more than six percent. Vaughn anticipates an additional 16.1% increase in enrollment to 2,535 by the year of project occupancy, 2012-13, and an additional increase to a capacity of 2,575 students by 2013-14.
<b>Debt Service Coverage</b>	Not applicable. Vaughn will satisfy the 50% local match requirement by making an upfront payment of \$7,066,371

	from funds on hand.
<b>Other Financial Factors</b>	<ol style="list-style-type: none"> <li>1. Vaughn projects substantial operating margins during the first two years following project occupancy, with projected gains in net revenues of \$3,039,556 and \$4,583,214 in 2013-14 and 2014-15, respectively.</li> <li>2. As of January 2011, Vaughn had the following funds on hand to meet the local match requirement: \$1,801,066 with East West Bank; and \$6.0 million with the Vanguard Group.</li> <li>3. As of March 1, 2011, Vaughn had a cash fund of \$15,067,977 with the Los Angeles County Treasury.</li> <li>4. As of June 30, 2010, Vaughn had net working capital of \$31,886,734, representing to 183.4% of total expenses.</li> </ol>
<b>Student Performance</b>	For each of the past four years, Vaughn met its API growth target and exceeded the similar schools' median growth for API. However, Vaughn failed to meet all of its AYP criteria for each of the past four years, with the failure in three of the last four years due to not meeting "percent proficient" for English Language Arts. Statewide and similar schools rankings were "3" out of "10," and "10" out of "10" in 2009-10, respectively.

**Program Eligibility:** Verification was received from Los Angeles Unified School District, Innovations and Charter School Division, on January 28, 2011, confirming that Vaughn Next Century Learning Center is in compliance with the terms of its charter agreement, and is in good standing with its chartering authority, Los Angeles Unified School District (District). The Charters and Innovation Committee of LAUSD approved the renewal of Vaughn's charter to July 1, 2013 on March 6, 2008.

**Legal Status Questionnaire:** Staff reviewed Vaughn's responses to the questions contained in the Legal Status Questionnaire (LSQ). Vaughn answered "No" to all LSQ questions.

**Project Description:** Vaughn Next Century Learning Center has requested funding for new construction for Vaughn Elementary Language Academy, which serves grades 2 to 5. Vaughn proposes to acquire a new site and construct a two-story "green" building with 25 classrooms, a multipurpose room, media room/library, cafeteria, two special education resource rooms, and two language labs. Vaughn anticipates that the new facility will have a capacity of 500 students as well as project occupancy in 2012-13. The proposed project is intended to supplement Vaughn's current elementary school facility, which has 794 students for the current 2010-11 academic year.

Vaughn does not require a lease payment to meet the local match, as it currently has demonstrated funds of \$7,066,371 on hand to meet the required local match.

**Organizational Information:** Vaughn was established in 1980 and converted to charter status in 1993. Vaughn is a nonprofit, public-benefit corporation with 501(c)(3) status. Vaughn received its charter from Los Angeles Unified School District on July 1, 1993. The Charters and Innovation Committee of LAUSD approved the renewal of Vaughn's charter to July 1, 2013 on March 6, 2008. It has expanded from its original K-5 elementary school

format to its current format, which includes the elementary school with 794 students in grades 2 through 5, a middle school on the same site with 430 students in grades 6-8, a primary center one block away with 458 students in Pre-K through 1<sup>st</sup> grade, and a separate high school and international studies center with 501 students in grades 9-12.

Vaughn was named the 1995 California Distinguished School and the 1996 National Blue Ribbon School by the United States Department of Education. The school is located in Pacoima in the northeast San Fernando Valley, in a neighborhood that includes low-income housing projects and older single family dwellings often occupied now by multiple families. The student population at Vaughn is 98% Hispanic/Latino, with 72% English Language Learners in the elementary school, and almost 100% qualifying for federal free or reduced price meals.

**Educational Management Organization:** This section is not applicable, as Vaughn is not run by an EMO.

**Management Experience:** The management of Vaughn Next Century Learning Center demonstrates many years of education, management and bicultural experiences. Dr. Yvonne Chan, the Principal of Vaughn since its inception in 1993, holds a B.A. in foreign languages from UCLA, a Masters Degree in special education from California State University (Northridge), a doctorate in education from UCLA, and post-doctoral in computer science. In addition to being the Principal, she is an adjunct professor at UCLA. Dr. Chan is a member of the California State Board of Education, and among other things, a Commissioner of the Los Angeles City Commission for Children Youth and Families. She was awarded the National Educator Award by the California State Department of Education. The Executive Director of Vaughn, Ms. Anita Zepeda, has served in her position since 2004. Ms. Zepeda has more than 20 years of experience in the field of education, and holds a Masters degree in Education from Alliant International University as well as California Multiple Subjects Credential and Specialist Credential in Special Education from California State University, Northridge.

**Board Experience:** The Vaughn Board of Directors is represented by the following chart.

NAME	OCCUPATION	RESIDENCE	TERM OF OFFICE (years)
Beck, Noemi, MSW	Executive Director, Hathaway Social Services	Los Angeles	2010-12
Brown, Brenda	Parent, Homemaker	Los Angeles	2010-12
Holle, Stephen	University Professor, Cal. State University, Northridge	Los Angeles	2010-13
Tang, Leland	Sheriff, California Highway Patrol	Los Angeles	2010-13
Muehlberger, Karent	Intervention Specialist	Los Angeles	2010-11
Mirkani, Pargol	Science Teacher	Los Angeles	2010-11
Madrid, Imelda	Foster Parent	Los Angeles	2010-11

**Management Experience for Schools Open Less than Two Years:** Not applicable. Vaughn has been existence since 1980, and has been operating as a converted charter school since 1993.

**Student Performance:** Because of its implications for student enrollment stability and growth, staff views student performance as a leading indicator of a charter school’s financial position. Schools with improving student performance trends are viewed favorably, especially if these trends exceed threshold goals set by the school or the California Department of Education (CDE). In order to measure student performance, staff utilizes Academic Performance Index (API) and Adequate Yearly Progress (AYP) trend data generated by the CDE. The API is also used as an indicator for measuring AYP per the No Child Left Behind Act of 2001. Any school not meeting AYP targets would face additional mandates and corrective actions if the school is a recipient of federal Title I funds.

Vaughn has multiple years of AYP and API results, allowing a review of progress and comparison to similar schools. The table below reflects academic performance data for Vaughn.

Vaughn Next Century Learning Center	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
<b>ADEQUATE YEARLY PROGRESS (AYP)</b>				
Met All AYP Criteria?	No	No	No	No
Criteria Met / Required Criteria	17 / 18	14 / 18	14 / 18	13 / 17
Met API Indicator for AYP?	Yes	Yes	Yes	Yes
Met Graduation Rate?	Yes	Yes	Yes	N/A
<b>ACADEMIC PERFORMANCE INDEX (API)</b>				
Met Schoolwide Growth Target?	Yes	Yes	Yes	Yes
Met Comparable Improvement Growth Target?	Yes	Yes	Yes	Yes
Met Both Schoolwide & CI Growth Targets?	Yes	Yes	Yes	Yes
API Base Statewide Rank (10 = best)	3	3	3	4
API Base Similar Schools Rank (10 = best)	10	8	10	10
School's Actual Growth	12	16	18	22
Similar Schools Median of Actual Growth	19	14	10	17
Did School's Growth Exceed Median?	No	Yes	Yes	Yes

Vaughn did not meet all of its AYP criteria for each of the past four years, 2006-07 through 2009-10. In three of these years, including 2009-10, this result was due to Vaughn’s failure to meet the required “percent proficient” in English Language Arts. Vaughn is currently in its fifth year on “Program Improvement” (PI) status per the No Child Left Behind Act of 2001. Notwithstanding Vaughn’s shortcoming with AYP, Vaughn met its API growth targets for each of the past four years and achieved API growth scores of 715, 734, 753, and 774 for 2006-07, 2007-08, 2008-09, and 2009-10, respectively. In addition, for the past three years, Vaughn’s API growth exceeded the Similar Schools’ median growth. For the most recent reported year, 2009-10, Vaughn achieved a statewide rank of “4” and similar schools rank of “10” (“10” = best).

**Student Enrollment and Retention Rates:** Vaughn has shown a consistent increase in enrollment over the past four years from 1,706 students in 2006-07 to 2,183 students for the current 2010-11 academic year, representing an average increase in enrollment of more

than six percent per year. Vaughn anticipates an additional 16.1% increase in enrollment to 2,535 by the year of project occupancy, 2012-13, and reaching its expected capacity of 2,575 students in grades K through 12 by 2013-14.

Vaughn has achieved an average daily attendance (ADA) of 97% to 98% for each of the past three years, 2007-08 through 2009-10, and based on the current P1 report, has an ADA of 99% for the current academic year. Vaughn's year-to-year retention rate for the current year is greater than 96%, with a retention rate of 99% for the elementary grades. Vaughn has 300-400 students on its current wait list.

**Financial Analysis:** *Despite having cash on hand to satisfy the local matching share, staff conducts an analysis of the school to ensure the financial solvency of the school once the project school is operational.* Highlighted below are selected financial data and credit indicators used to evaluate Vaughn's ability to sustain itself as an ongoing financially solvent concern.

Staff's review of Vaughn Next Century Learning Center's financial performance is based on three years of audited financial statements (2007-08 through 2009-10), 2010-11 second interim budget projections, and financial projections from 2011-23 through 2014-15 as provided by Vaughn. The school expects to occupy the project in 2012-13, by which time their enrollment will have increased to 2,535 students (grades K-12) from the 2,183 students for the current 2010-11 academic year.

Vaughn Next Century Learning Center	Actual FY 2007-08	Actual FY 2008-09	Actual FY 2009-10	Budgeted FY 2010-11	Projected FY 2011-12	Projected FY 2012-13	Projected FY 2013-14	Projected FY 2014-15
<b>ENROLLMENT PROJECTIONS</b>								
Enrollment	1,856	1,949	2,137	2,183	2,330	2,535	2,575	2,575
Average Daily Attendance	1,823	1,917	2,064	2,154	2,260	2,459	2,498	2,498
Average Daily Attendance (%)	98%	98%	97%	99%	97%	97%	97%	97%
<b>FINANCIAL PROJECTIONS</b>								
Total Revenues Available for CSFP Payment	\$ 22,807,542	\$ 24,020,913	\$ 19,568,738	\$ 27,286,530	\$ 23,892,083	\$ 24,815,437	\$ 25,281,702	\$ 25,326,445
Total Expenses Paid Before CSFP Payment	21,069,830	20,847,691	17,383,832	24,607,691	27,435,583	26,730,724	22,242,146	20,743,231
Accounting Adjustments	5,008,500	4,673,097	3,838,668	6,249,751	5,310,000	7,310,000	2,310,000	310,000
Net Revenues Available for CSFP Payment	\$ 6,746,212	\$ 7,846,319	\$ 6,023,574	\$ 8,928,590	\$ 1,766,500	\$ 5,394,713	\$ 5,349,556	\$ 4,893,214
CSFP Payment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Revenues After CSFP Payment	\$ 6,746,212	\$ 7,846,319	\$ 6,023,574	\$ 8,928,590	\$ 1,766,500	\$ 5,394,713	\$ 5,349,556	\$ 4,893,214
<b>FINANCIAL INDICATORS</b>								
Net Revenues Available for CSFP Payment	\$ 6,746,212	\$ 7,846,319	\$ 6,023,574	\$ 8,928,590	\$ 1,766,500	\$ 5,394,713	\$ 5,349,556	\$ 4,893,214
Debt Service Coverage by Net Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage by Net Revenues (w/out Contributions)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CSFP Lease Payment / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Contributions / Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Revenues After CSFP Payment / Revenues	29.6%	32.7%	30.8%	32.7%	7.4%	21.7%	21.2%	19.3%
Revenues / ADA	\$ 12,511	\$ 12,530	\$ 9,481	\$ 12,668	\$ 10,571	\$ 10,092	\$ 10,122	\$ 10,140
Expenses / ADA	\$ 11,558	\$ 10,875	\$ 8,422	\$ 11,424	\$ 12,139	\$ 10,871	\$ 8,905	\$ 8,305
Surplus (Deficit) / ADA	\$ 953	\$ 1,655	\$ 1,059	\$ 1,244	\$ (1,568)	\$ (779)	\$ 1,217	\$ 1,835
Net Working Capital	\$ 24,133,676	\$ 28,674,678	\$ 31,886,734	\$ -	\$ -	\$ -	\$ -	\$ -
Net Working Capital / Expenses	114.5%	137.5%	183.4%	N/A	N/A	N/A	N/A	N/A

Vaughn's financial projections are based upon the following assumptions: (1) project occupancy in 2012-13; (2) increases in enrollment from the current 1,821 students to 2,535 for 2012-13 (year of occupancy), and to a capacity of 2,575 for all subsequent years; (3) projected ADA rates of 97% for 2011-12 through 2014-15; (4) general purpose block grant funding rates for 2010-11 of \$5,030, \$5106, \$5,272, and \$6,119 for grades K-3, 4-6, 7-8, and 9-12, respectively; (5) 0% cost of living adjustment (COLA) to the general purpose

block grant funding rates; and (6) 3% COLA to certificated and classified salaries through the projected years; increases in fixed costs based on numbers of classrooms/buildings, and increases in other expenses (i.e. supplies) based on increases in student enrollment.

Long Term Debt: As of June 30, 2010, Vaughn had total long term debt of \$3,800,000 resulting from the District's issuance of Qualified Zone Academy Bonds (QZABs) for which Vaughn's payments in the amounts of \$316,667 and \$3,483,333 are required during 2010-11 and 2011-12, respectively. In addition, as a result of the Authority's approval for the allocation of \$8.5 million in QSCBs in August 2010, Vaughn will be required to make sinking fund payments in the amount of \$850,000 per year beginning in 2011-12.

Financial Performance/Change in Net Assets: For 2007-08, Vaughn recorded a gain in net revenues of \$1,429,138 on \$22,728,492 in revenues and \$20,990,780 in expenses, resulting in an ending fund balance of \$24,133,676. Vaughn recorded gains in net revenues of \$4,541,002 and \$3,077,681 for 2008-09 and 2009-10, respectively, resulting in ending fund balances of \$28,674,678 and \$31,752,359, respectively. For the current year, 2010-11, Vaughn anticipates a gain in net revenues of \$1,539,295 on \$27,286,530 in revenues and \$24,607,691 in expenses. During 2011-12, Vaughn projects a net loss of \$3,543,500, with the vast majority of the loss due to the required QZAB closing payment. During the first year of project occupancy, 2012-13, Vaughn projects a net loss of \$1,915,287 on \$24,815,437 in revenues and \$26,734,724 in expenses. However, Vaughn projects gains in net revenues of \$3,039,556 and \$4,583,214 in 2013-14 and 2014-15, respectively, resulting in fund balances of \$30,872,423 and \$35,455,637 for each of these years, respectively.

In order to assess Vaughn's ability to withstand unexpected reductions in revenues due to lower than expected enrollment, staff has stress tested the financial model. Vaughn can withstand a 29% reduction in expected enrollment for 2013-14 and 2014-15 and still show a positive operating margin. In addition, Vaughn has substantial cash reserves and net working capital (see "Liquidity" section below) to address additional temporary downturns in its revenues. Based on the financial information that Vaughn has provided, staff considers Vaughn as an ongoing financially solvent concern following Program project completion.

Debt Service Coverage/Local Matching Share – As Vaughn will satisfy its local match requirement with funds on hand, no debt service coverage is required for the Program project. Vaughn has provided staff with bank statements showing adequate funds on hand to meet the local match requirement of \$7,066,371. As of January 2011, Vaughn had the following funds available to meet the local match requirement: \$6,000,000 with Vanguard Prime Money Market Fund (as of January 7, 2011); and \$1,801,066 with EastWest Bank Money Market 6 Check Option (as of January 31, 2011).

Liquidity – Liquidity measured in terms of net working capital (NWC) is calculated by subtracting current liabilities from current assets. As of June 30, 2009, NWC was \$28,674,678, representing 137.5% of expenses. As of June 30, 2010 NWC was \$31,886,734, representing to 183.4% of total expenses. Staff considers NWC equivalent to at least 5.0% of total expenses to be sufficient. In addition to NWC, as of June 30, 2010, Vaughn had \$10,705,226 in cash funds with the Los Angeles County Treasury, \$3,909,949 in cash funds with banks, and \$3,166,666 in cash funds with a trustee for a total of

\$17,781,841 in cash and cash equivalents. As of March 1, 2011, Vaughn had \$15,067,977 in cash finds with the Los Angeles County Treasury.

**Strengths, Weaknesses and Mitigants**

- + Vaughn projects substantial operating margins during the first two years following project occupancy, with projected gains in net revenues of \$3,039,556 and \$4,583,214 in 2013-14 and 2014-15, respectively.
- + Vaughn has met its API growth targets for each of the past four years, 2006-07 through 2009-10.
- + Vaughn has demonstrated consistent enrollment growth over the past four years, with average growth of greater than six percent per year.
- + Vaughn's current principal has demonstrated leadership experience and has served in her position since the school's inception. In addition, Vaughn has achieved many local and national awards for being a school of excellence including the National Blue Ribbon Award.
- + Vaughn is able to meet the local match requirement with cash on hand. *Cash will need to be set aside and designated for purposes of meeting its local matching share.*
- + Vaughn has substantial available cash assets, including more than \$15 million with the Los Angeles County Treasury to address less than expected enrollment growth or revenues.
- Vaughn has failed to meet all applicable AYP requirements over the past several years, having failed to meet the English proficiency standard the last 3 out of 4 years.

**Staff Recommendation:** Staff recommends that the Authority Board determine that Vaughn Next Century Learning Center is financially sound for the purposes of a Final Apportionment. This determination as it relates to a final apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. *Staff's financial soundness recommendation is based on Vaughn having cash on hand to meeting its local matching share, and designated for purposes of meeting its matching obligation.* Staff recommends that the Board direct staff to notify the Office of Public School Construction and the State Allocation Board regarding this determination.