

CITIZENS OF THE WORLD

CHARTER SCHOOLS

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

June 30, 2014

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CERTIFIED
PUBLIC ACCOUNTANTS
& ADVISORS

PARTNERS

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- James M. Good, CPA†
- Brian J. Gray, CPA

Independent Auditor’s Report

Board of Directors
Citizens of the World Charter Schools
Los Angeles, California

We have audited the accompanying financial statements of Citizens of the World Charter Schools (a California nonprofit public benefit corporation) which comprise the statement of financial position as of June 30, 2014, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

DIRECTORS

- Stacey S. Summers, CPA

FOUNDERS

- Donald L. Gursey, (1936-2007)
- Stanley B. Schneider, CPA



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Citizens of the World Charter Schools as of June 30, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Gursey | Schneider LLP

December 19, 2014
Los Angeles, California

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
June 30, 2014

ASSETS

CURRENT ASSETS

Cash	\$	861,277
Accounts receivable		18,798
Prepaid expenses and other assets		8,809
Loans receivable, current		180,000

<i>Total Current Assets</i>		1,068,884
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OTHER ASSETS

Property and equipment, net		17,058
Loans receivable		1,130,000

<i>Total Other Assets</i>		1,147,058
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TOTAL ASSETS	\$	2,215,942
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	27,183
Accrued liabilities		59,740
Current portion of long-term debt		180,000

<i>Total Current Liabilities</i>		266,923
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LONG TERM DEBT, NET OF CURRENT PORTION		1,130,000
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TOTAL LIABILITIES		1,396,923
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NET ASSETS

Unrestricted		819,019
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TOTAL LIABILITIES AND NET ASSETS	\$	2,215,942
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See Independent Auditor's Report and Notes to Financial Statements

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Statement of Activities
For the Year Ended June 30, 2014

SUPPORT AND REVENUES	
Contributions	\$ 2,088,853
Management fees	292,931
Interest	<u>39</u>
 TOTAL SUPPORT AND REVENUES	 <u>2,381,823</u>
 EXPENSES	
Program services	1,780,510
Supporting services:	
Management and general	187,280
Fundraising	<u>66,520</u>
 TOTAL EXPENSES	 <u>2,034,309</u>
 <i>INCREASE IN NET ASSETS</i>	 <i>347,514</i>
 NET ASSETS, June 30, 2013	 <u>471,505</u>
 NET ASSETS, June 30, 2014	 <u><u>\$ 819,019</u></u>

See Independent Auditor's Report and Notes to Financial Statements

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Statement of Functional Expenses
For the Year Ended June 30, 2014

	<u>Program Expenses</u>	<u>Support Services</u>	<u>Fundraising Expenses</u>	<u>Total Expenses</u>
Salaries and Expenses				
Salaries and wages	\$ 899,055	\$ 80,289	\$ 55,925	\$ 1,035,076
Payroll taxes	49,699	10,871	7,216	67,786
Pension administration	-	2,850	-	2,850
Employee benefits	38,194	2,904	1,860	42,958
Total Salaries and Expenses	<u>986,948</u>	<u>96,914</u>	<u>65,001</u>	<u>1,148,670</u>
Other Expenses				
Accounting	-	37,547	-	37,547
Business taxes and licenses	-	2,064	-	2,064
Consultants	194,523	-	-	194,523
Depreciation	5,810	421	-	6,231
Information technology	25,697	1,863	-	27,560
Insurance	30,656	2,222	-	32,878
Interest	-	31,833	-	32,025
Legal	78,608	-	-	78,608
Occupancy	41,633	3,018	-	44,651
Office and Other	44,643	9,782	-	54,425
Professional Development	25,815	-	-	25,815
Outreach	1,022	-	-	1,022
Personnel search firm	64,000	-	-	64,000
Public relations	116,925	-	-	116,925
Meals	2,987	181	1,519	4,687
Travel	141,457	-	-	141,457
Utilities	19,786	1,435	-	21,221
Total Other Expenses	<u>793,562</u>	<u>90,366</u>	<u>1,519</u>	<u>885,639</u>
TOTAL EXPENSES	<u>\$ 1,780,510</u>	<u>\$ 187,280</u>	<u>\$ 66,520</u>	<u>\$ 2,034,309</u>

See Independent Auditor's Report and Notes to Financial Statements

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Statement of Cash Flows
For the Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 347,514
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	6,231
Increase in assets:	
Accounts receivable	(18,798)
Prepaid expenses and other assets	(7,410)
Increase (decrease) in liabilities:	
Accounts payable	(13,525)
Accrued liabilities	<u>15,563</u>
CASH PROVIDED BY OPERATING ACTIVITIES	<u>329,575</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Repayment of loans from school	90,000
Disbursement of loan to school	<u>(330,000)</u>
CASH USED FOR INVESTING ACTIVITIES	<u>(240,000)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES	
Repayment of term loan	<u>(90,000)</u>
NET DECREASE IN CASH	(425)
CASH AT BEGINNING OF YEAR	<u>861,702</u>
CASH AT END OF YEAR	<u>\$ 861,277</u>
<u>CASH PAID DURING THE YEAR FOR:</u>	
Interest	<u>\$ 32,025</u>

See Independent Auditor's Report and Notes to Financial Statements

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 1 – GENERAL AND ORGANIZATION

Citizens of the World Charter Schools (“CWCS”) was organized on July 22, 2011 as a California nonprofit public benefit corporation. The specific purpose of the organization is to facilitate the creation, opening and operation of new nonprofit public charter schools. The following are the organization’s significant activities:

- 2012 / 2013 School Year – Supported the operations of one Los Angeles school (Hollywood) and the start-up of another Los Angeles school (Silverlake)
- 2013 / 2014 School Year – Facilitated the opening and start-up of three schools; one school in Los Angeles (Mar Vista) and two schools in New York (Williamsburg and Crown Heights).

CWCS currently supports the operations of these five public charter schools.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Presentation – The financial statements are presented utilizing the accrual basis of accounting. CWCS recognizes contributions, including unconditional promises to give, as revenue in the period in which they are received. Revenues, gains, expenses and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the board of directors, or may otherwise be limited by contractual agreements with outside parties.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of CWCS and / or the passage of time. As restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. There were no temporarily restricted net assets at June 30, 2014.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity by CWC. Investment income generated from these funds is available for general support of organization unless otherwise stipulated by the donor. As of June 30, 2014, the CWCS had no permanently restricted net assets.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Promises to Give – Contributions are recognized when the donor makes a promise to give CWCS that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated Services and Equipment – Donated services are recognized if the services received create or enhance long-lived assets, require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. CWCS did not receive any donated services during the current year.

Property and Equipment – Property and equipment are stated at cost or, if contributed, at fair value at the date of contribution. Depreciation and amortization are provided over the estimated useful life of each class of depreciable asset and are computed using the straight-line method. Depreciation expense is calculated on straight-line method over five years for computer hardware. Depreciation for leasehold improvements is computed over their lesser of the useful life or lease term.

Gifts are long-lived assets such as property and equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets – Long-lived assets to be held are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. Further, long-lived assets held for sale are to be stated at the lower cost or fair market value less costs to sell. CWCS has determined that no events occurred during the period ended June 30, 2014 that would give rise to impairment of its long-lived assets.

Functional Allocation of Expenses – Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on estimates determined by management. CWCS allocates salary, program administrative, general administrative and facilities expenses to programs based upon level of effort, time reporting and employee headcount.

Income Taxes – CWCS is exempt from federal income and excise taxes and California franchise taxes as an organization described under Section 501(c)(3) of the Internal Revenue Code and related state codes. However, the organization is subject to income taxes on any net income that is derived from a trade business, regularly carried on and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the combined financial statements taken as a whole.

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

The organization evaluates tax positions and recognizes a liability for any positions that would not be considered “more likely than not” to be upheld under a tax authority examination. If such issues exist, the organization’s policy will be to recognize any tax liability so recorded, including applicable interest and penalties, as a component of income tax expense. All of CWC’s’ income tax returns remain subject to examination with regard to all tax positions and the results.

Subsequent Events – Subsequent events have been evaluated through December 19, 2014, the date the financial statements were available to be issued.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as at June 30, 2014:

Computer Equipment	\$ 23,216
Leasehold Improvements	<u>6,519</u>
	29,735
Less Accumulated Depreciation	<u>(12,677)</u>
	<u>\$ 17,058</u>

Depreciation expense was \$6,231 for the year ended June 30, 2014.

NOTE 4 – LOANS RECEIVABLE

CWCS lent funds to Citizens of the World - Los Angeles (CWC-Los Angeles) and Citizens of the World – New York (CWC-New York) for the start-up operations of new schools. Loans receivable consist of the following:

- \$450,000 term loan to CWC-Los Angeles for the start-up of the Silverlake school. The loan is interest-free and requires \$90,000 annual principal repayments commencing May 31, 2014 through 2018. The current balance of the loan is \$360,000.
- \$500,000 term loan to CWC-New York for the start-up of two New York schools (Williamsburg and Crown Heights). The loans are interest-free and require \$250,000 principal repayments on May 31, 2017 and 2018.
- \$450,000 term loan to CWC-Los Angeles for the start-up of the Mar Vista school. The loan is interest-free and requires \$90,000 annual principal repayments commencing May 31, 2015 through 2019.

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 4 – LOANS RECEIVABLE - (CONTINUED)

The following are contractual maturities of these loans to the start-up school locations as of June 30, 2014:

<u>Year Ending June 30,</u>	
2015	\$ 180,000
2016	180,000
2017	430,000
2018	430,000
2019	<u>90,000</u>
	<u>\$ 1,310,000</u>

NOTE 5 – LOANS PAYABLE

Long term borrowings are summarized as follows:

- Term loan, bank, \$950,000, interest at the bank's prime reference rate (subject to a floor of 2.50%), due in scheduled installments commencing June 30, 2015 through June 30, 2019. The loan is guaranteed by a director.
- Term loans, \$450,000, interest-free, \$225,000 from each of two directors, due in scheduled installments commencing June 30, 2014 through June 30, 2018.

The following are the contractual maturities of these new borrowings:

<u>Year Ending June 30,</u>	
2015	\$ 180,000
2016	180,000
2017	430,000
2018	430,000
2019	<u>90,000</u>
	<u>\$ 1,310,000</u>

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Year Ended June 30, 2014

NOTE 6 – COMMITMENTS

Lease Obligations - CWCS leases office space and under an operating lease that expires on December 31, 2015. Minimum lease payments under non-cancelable operating leases at June 30, 2014 are summarized as follows:

<u>Year Ending June 30,</u>		
2015	\$	33,957
2016		<u>17,312</u>
	\$	<u>51,269</u>

Rent expense was \$44,651 for the year ended June 30, 2014.

NOTE 7 – RELATED PARTY TRANSACTIONS

Sources of Funding – Through June 30, 2014, substantially all contribution income was received from board members and organizations that are affiliated with members of the board of directors. In addition, two members of the board have either lent directly, or guaranteed the borrowings of CWCS. Amount due to these directors totaled \$360,000 as of June 30, 2014.

Start-Up Schools – CWCS provides start-up funding and operational support for the CWC - Los Angeles and CWC - New York entities. Management fees for the year ended June 30, 2014 amounted to \$292,931. Amount due from these entities totaled \$18,798 as of June 30, 2014.

NOTE 8 – CONCENTRATIONS

Cash in Excess of FDIC Insured Limits – CWCS places its cash with high-credit, quality financial institution. The Federal Deposit Insurance Corporation (“FDIC”) insures cash up to \$250,000 per institution. In the normal course of operations, such cash balances exceed FDIC insurance limits. However, CWCS has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

NOTE 9 – EMPLOYEE BENEFIT PLAN

CWCS sponsors a defined contribution plan covering substantially all of its employees. To be eligible for elective contributions, an employee must have completed six months of service and be twenty-one years of age or older. CWCS did not contribute to the plan during the year ended June 30, 2014. CWCS covered all of the administrative costs of the plan totaling \$2,850 for the year ended June 30, 2014.