

CITIZENS OF THE WORLD CHARTER SCHOOL



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JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

Governing Board
Citizens of the World Charter School
(A California Non-Profit Public Benefit Corporation)
Los Angeles, California

We have audited the accompanying statement of financial position of Citizens of the World Charter School (A California Non-Profit Public Benefit Corporation) (the Charter School) as of June 30, 2012, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Citizens of the World Charter Schools' management. 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-12*, issued by the California Education Audit Appeals Panel as regulations. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Charter School as of June 30, 2012, and the changes in its net assets, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2012, on our consideration of the Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Rancho Cucamonga, California
September 21, 2012

CITIZENS OF THE WORLD CHARTER SCHOOL

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012**

ASSETS

Current Assets

Cash	\$ 200,238	
Accounts receivable	336,131	
Prepaid expenses	<u>9,620</u>	
Total Current Assets		\$ 545,989

Non-Current Assets

Fixed assets	10,401	
Less: accumulated depreciation	<u>9,076</u>	
Total Non-Current Assets		<u>1,325</u>

Total Assets		<u><u>\$ 547,314</u></u>
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LIABILITIES

Current Liabilities

Accounts payable	<u>\$ 88,395</u>	
Total Liabilities		<u>\$ 88,395</u>

NET ASSETS

Unrestricted

Unrestricted	<u>458,919</u>	
Total Net Assets		<u>458,919</u>
Total Liabilities and Net Assets		<u><u>\$ 547,314</u></u>

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

CITIZENS OF THE WORLD CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2012

REVENUES

Revenue limit sources	
State apportionment	\$ 659,461
In-lieu property taxes	240,032
Federal revenue	318,372
State revenue	245,975
Local revenues	595,650
Total Revenue	<u>2,059,490</u>

EXPENSES

Program services	
Teacher salaries and benefits	1,070,536
Other student services	182,388
Educational programs	3,503
Student supplies	36,517
Student nutrition	50,642
Special education fee	55,453
Depreciation	6,002
Capital outlay	20,170
Subtotal	<u>1,425,211</u>
Management and general	
Clerical salaries and benefits	166,090
District supervisory fee	9,904
Occupancy	53,941
Insurance	11,091
Operating expenses	153,187
Subtotal	<u>394,213</u>
Total Expenses	<u>1,819,424</u>

INCREASE IN UNRESTRICTED NET ASSETS	240,066
NET ASSETS, BEGINNING OF YEAR	<u>218,853</u>
NET ASSETS, END OF YEAR	<u><u>\$ 458,919</u></u>

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

CITIZENS OF THE WORLD CHARTER SCHOOL

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in unrestricted net assets	\$ 240,066
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Loss from the disposals of capital assets	2,917
Depreciation expense	6,002
Changes in operating assets and liabilities	
Increase in accounts receivable	(157,890)
Decrease in prepaid expenditures	3,301
Decrease in deferred revenue	(105,719)
Increase in accounts payable	46,459
Net Cash Provided by Operating Activities	<u>35,136</u>
NET INCREASE IN CASH	35,136
CASH, BEGINNING OF YEAR	<u>165,102</u>
CASH, END OF YEAR	<u><u>\$ 200,238</u></u>

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

CITIZENS OF THE WORLD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 - ORGANIZATION AND MISSION

The Citizens of the World Charter School (the Charter School) is a Non-Profit Public Benefit Corporation. The Charter School petitioned for a charter through Los Angeles Unified School District and was approved in March 2010, for a period of five year period ending in 2015.

Charter school number authorized by the State: 1200

The Charter School located on 1316 N. Bronson Avenue, Los Angeles, California, opened on September 13, 2010, and currently serves 190 students in grades Kindergarten through second. The mission of the Charter School is to provide a socio-economically, culturally, and racially diverse community of students in the heart of Hollywood with an intellectually challenging, experiential learning environment that develops each individual student's confidence, potential, and individual responsibility as citizens of the world in which we live.

Other Related Entities

Joint Powers Agency and Risk Management Pools - The Charter School is associated with the California Charter Schools Association Joint Powers Authority (CCSA-JPA). The CCSA-JPA does not meet the criteria for inclusion as a component unit of the Charter School. Additional information is presented in Note 10 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies followed by the Charter School are described below to enhance the financial statements.

Financial Statement Presentation

The Charter School is required to report information about its financial position and activities in three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Charter School had no temporarily or permanently restricted net assets, as of June 30, 2012. In addition, the Charter School is required to present a Statement of Cash Flows.

Accounting Method - Basis of Accounting

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied. The Charter School uses the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized in the accounting period in which the liability is incurred.

CITIZENS OF THE WORLD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending upon the existence and/or nature of any donor restrictions.

All donor-restricted contributions are recorded as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, either by the passage of time or the purpose is satisfied, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as "net assets released from restrictions." During 2011-2012, the Charter School did not receive any donor-restricted contributions.

Income Taxes

The Charter School is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements. Income tax returns for 2009 and forward may be audited by regulatory agencies, however, the Charter School is not aware of any such actions at this time.

The Charter School has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

Cash

For purposes of the Statement of Cash Flows, the Charter School considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balance. Management provides an analysis of the probable collection of the accounts through a provision for bad debt expense and an adjustment to a valuation allowance. At June 30, 2012, management had determined that all accounts receivable are fully collectible, and no allowance for bad debts has been established.

Prepaid Expenses

Prepaid expenses represent amounts paid in advance of receiving goods or services. The Charter School has reported prepaid items either when purchased or during the benefiting period.

CITIZENS OF THE WORLD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Fixed Assets

It is the Charter School's policy to capitalize individual property and equipment purchases over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Furniture and equipment are depreciated using the straight-line method, over 3 to 5 years. As of June 30, 2012, depreciation expense was \$6,002.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the Charter School prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Charter School has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized. Certain grants received before the eligibility requirements are met are recorded as deferred revenue.

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated their time and experience to the Charter School's program services and fundraising campaigns during the year. However, these donated services are not reflected in the financial statements since there is no readily determined method of valuing the services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the value of the beneficial interest in a charitable remainder trust.

Unrestricted/Designated Net Assets

Designations of the ending net assets indicated tentative plans for financial resource utilization in a future period. As of June 30, 2012, the Charter School has no designations.

CITIZENS OF THE WORLD CHARTER SCHOOL

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 - CASH

Cash at June 30, 2012, consisted of the following:

	<u>Reported Amount</u>	<u>Bank Balance</u>
Deposits		
Cash on hand and in banks	<u>\$ 200,238</u>	<u>\$ 220,826</u>

Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). The Charter School maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Charter School has not experienced any losses in such accounts. At June 30, 2012, the Charter School did not have a balance in excess of FDIC insured limits. Management believes the Charter School is not exposed to any significant risk related to cash.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012, consisted of the following:

Revenue limit sources		
General purpose		\$ 245,909
Categorical block grant		39,812
In-lieu property taxes		7,912
Total Revenue Limit Sources		<u>293,633</u>
Federal receivable		9,167
State receivable		14,508
Lottery		18,823
Total Accounts Receivable		<u>\$ 336,131</u>

NOTE 5 - PREPAID EXPENSES

Prepaid expenses at June 30, 2012, consist of the following:

Prepaid rent, insurance, and other miscellaneous vendors	<u>\$ 9,620</u>
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CITIZENS OF THE WORLD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

NOTE 6 - FIXED ASSETS

Fixed assets at June 30, 2012, consisted of the following:

Site improvements	\$	6,476
Computer equipment		1,219
Furniture		2,706
		<u>10,401</u>
Less: accumulated depreciation		(9,076)
Total Fixed Assets	\$	<u><u>1,325</u></u>

During the year ended June 30, 2012, \$6,002 was charged to depreciation expense.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

Salaries and benefits	\$	7,520
Vendor payables		75,926
Due to Los Angeles Unified School District		164
Due to grantor		4,785
Total Accounts Payable	\$	<u><u>88,395</u></u>

NOTE 8 - OPERATING LEASE

The Charter School entered into a lease agreement on April 1, 2011, with Los Angeles Unified School District in which the Charter School would occupy Le Conte Middle School for its main campus location for the amount of \$53,941. The term of this agreement expired on June 30, 2012.

CITIZENS OF THE WORLD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 9 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of a 403(b) Tax Deferred Annuity Plan (TDA).

CalSTRS

Plan Description

The Charter School contributes to CalSTRS through the Los Angeles County Office of Education, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. 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 CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the Charter School is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The Charter School's contribution to CalSTRS for the fiscal years ending June 30, 2012, was \$59,136 and equals 100 percent of the required contributions for that year.

The Charter Schools also contributes to a classified employee 403(b) Tax Deferred Annuity Plan (TDA), which is a defined contribution pension plan. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the Charter School. These payments consist of State General Fund contributions to CalSTRS calculated as 4.855 percent of the Charter School's 2009-2010 creditable compensation subject to CalSTRS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, for the 2011-2012 year no amounts have been recorded in these financial statements due to the charter not existing in the 2009-2010 year.

CITIZENS OF THE WORLD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 10 - PARTICIPATION IN JOINT POWERS AUTHORITY

The Charter School is a participant in the California Charter Schools Association Joint Powers Authority (CCSA-JPA) for risk management services for workers' compensation insurance and charter school liability insurance. The relationship between the Charter School and the CCSA-JPA is such that the CCSA-JPA is not considered a component unit of the Charter School for financial reporting purposes.

The CCSA-JPA has budgeting and financial reporting requirements independent of member units and the CCSA-JPA's financial statements are not presented in these financial statements; however, transactions between the CCSA-JPA and the Charter School are included in these statements. Audited financial statements for the CCSA-JPA were not available for fiscal year 2011-2012 at the time this report was issued. However, financial statements should be available from the respective agency.

During the year ended June 30, 2012, the Charter School made payments of \$41,176 to CCSA-JPA for services received. At June 30, 2012, the Charter School had no recorded accounts receivable or accounts payable to the CCSA-JPA.

NOTE 11 - CONTINGENCIES

The Charter School has received State and Federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any reimbursement, if required, would not be material.

Litigation

The Charter School has no outstanding claims or litigation.

NOTE 12 - SUBSEQUENT EVENTS

The Charter School's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through September 21, 2012, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions (except noted below) that would have a material impact on the current year financial statements.

In the 2011-2012 fiscal year, the Charter School renewed its lease agreement with Los Angeles Unified School District for the use of Le Conte Middle School for the main campus location.

CITIZENS OF THE WORLD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Los Angeles Unified School District approved the charters for Citizens of the World Charter School - Silver Lake and Citizens of the World Charter School - Mar Vista on February 7, 2012. Citizens of the World Charter School - Silver Lake will open kindergarten through third grade in the fall of 2012 and Citizens of the World Charter School - Mar Vista will open kindergarten through second grade in the fall of 2013. They will grow to serve grades kindergarten through seventh and kindergarten through fifth, respectively (with the eventual goal of serving students in kindergarten through twelfth grade).

On June 28, 2012, the Governing Board of Citizens of the World Charter Co. Hollywood approved to finalize the merger with Citizens of the World Charter Schools - Los Angeles, a California nonprofit public benefit corporation (the Surviving Corporation). Citizens of the World Charter Co. will be the "Disappearing Corporation". The expected date for completion of the merger is prior to October 1, 2012.

SUPPLEMENTARY INFORMATION

CITIZENS OF THE WORLD CHARTER SCHOOL

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2012

ORGANIZATION

The Citizens of the World Charter School was granted in March 2010, by the Los Angeles Unified School District. The Charter School operates one elementary school.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Josh McLaughlin	Chair/Parent Board Representative	June 30, 2012
Craig Tessler, CPA	Treasurer	June 30, 2012
Deborah Lee	Member	June 30, 2012
Dan Nieman	Member	June 30, 2012
Kate Sobel	Member	June 30, 2012

ADMINISTRATION

Amy Dresser Held	Executive Director
Marissa Berman	Principal

See accompanying note to supplementary information.

CITIZENS OF THE WORLD CHARTER SCHOOL

**SCHEDULE OF APPORTIONMENT DAYS OF ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2012**

	Final Report	
	Second Period Report	Annual Report
ELEMENTARY SCHOOL - Total		
Kindergarten	59.42	59.59
First through second	118.31	118.61
Total Elementary School - Total	<u>177.73</u>	<u>178.20</u>
ELEMENTARY SCHOOL - Classroom Based Instruction		
Kindergarten	59.23	59.44
First through second	118.11	118.38
Total Elementary School - Classroom Based Instruction	<u>177.34</u>	<u>177.82</u>
ELEMENTARY SCHOOL - Non-Classroom Based Instruction		
Kindergarten	0.19	0.15
First through second	0.20	0.23
Total Elementary School - Non-Classroom Based Instruction	<u>0.39</u>	<u>0.38</u>

The Charter School offered a short-term Non-Classroom Based Independent Study program.

See accompanying note to supplementary information.

CITIZENS OF THE WORLD CHARTER SCHOOL

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2012**

Grade Level	1982-83	Reduced 1982-83	1986-87	Reduced 1986-87	2011-12	Number of Days		Status
	Actual Minutes	Actual Minutes	Minutes Requirement	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	*	*	36,000	33,531	54,420	177	N/A	Complied
Grade 1-2	*	*						
Grade 1	*	*	50,400	46,944	54,420	177	N/A	Complied
Grade 2	*	*	50,400	46,944	54,420	177	N/A	Complied

* The Charter Schools were not operating in 1982-83.

See accompanying note to supplementary information.

CITIZENS OF THE WORLD CHARTER SCHOOL

**RECONCILIATION OF ANNUAL FINANCIAL REPORT WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

CITIZENS OF THE WORLD CHARTER SCHOOL

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

NOTE 1 - PURPOSE OF SUPPLEMENTARY SCHEDULES

Local Education Agency Organization Structure

This schedule provides information about the school operated, members of the governing board, and members of the administration.

Schedule of Apportionment Days of Attendance

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with provisions of *Education Code* Sections 46200 and 46206. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made through the Los Angeles County Office of Education to Citizens of the World Charter School.

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Charter School and whether the Charter School complied with the provisions of *Education Code* Sections 46200 through 46206.

The Charter School must maintain their instructional minutes at either 1982-83 actual minutes or the 1986-87 requirements; whichever is greater, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

INDEPENDENT AUDITORS' REPORTS

**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***

Governing Board
Citizens of the World Charter School
(A California Non-Profit Public Benefit Corporation)
Los Angeles, California

We have audited the financial statements of Citizens of the World Charter School (A California Non-Profit Public Benefit Corporation) (the Charter School) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 21, 2012. 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.

Internal Control Over Financial Reporting

Management of the Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Charter Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter Schools' internal control over financial reporting.

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 statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

This report is intended solely for the information and use of the Governing Board, management, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rancho Cucamonga, California
September 21, 2012

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
 Citizens of the World Charter School
 (A California Non-Profit Public Benefit Corporation)
 Los Angeles, California

We have audited Citizens of the World Charter Schools' (A California Non-Profit Public Benefit Corporation) (the Charter School) compliance with the requirements as identified in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, applicable to the Charter Schools' government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of the Charter Schools' management. Our responsibility is to express an opinion on the Charter Schools' compliance based on our audit.

We conducted our audit 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the Charter Schools' 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 opinions. Our audit does not provide a legal determination of the Charter Schools' compliance with those requirements.

In our opinion, the Charter Schools complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012.

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

	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	6	Not Applicable
Teacher Certification and Misassignments	3	Not Applicable
Kindergarten continuance	3	Not Applicable
Independent study	23	Not Applicable
Continuation education	10	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional Time:		
School districts	6	Not Applicable
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Not Applicable
Ratios of Administrative Employees to Teachers	1	Not Applicable
Classroom Teacher Salaries	1	Not Applicable
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Not Applicable
School Accountability Report Card	3	Not Applicable
Public Hearing Requirement - Receipt of Funds	1	Not Applicable
Juvenile Court Schools	8	Not Applicable
Exclusion of Pupils - Pertussis Immunization	2	Not Applicable
Class Size Reduction Program (including in charter schools):		
General requirements	7	Not Applicable
Option one classes	3	Not Applicable
Option two classes	4	Not Applicable
Districts or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Not Applicable
After school	5	Not Applicable
Before school	6	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	3	Yes, see below
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	4	Yes

We did not perform procedures specific to the Exclusion of Pupils - Pertussis Immunization Program because the Charter School does not have pupils in grades seven through twelve. Additionally, we did not perform testing for independent study because ADA was below the threshold required for testing and the Charter School did not operate a full-time independent study program.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rancho Cucamonga, California
September 21, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITIZENS OF THE WORLD CHARTER SCHOOL

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

STATE AWARDS

Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>
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CITIZENS OF THE WORLD CHARTER SCHOOL

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

CITIZENS OF THE WORLD CHARTER SCHOOL

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

CITIZENS OF THE WORLD CHARTER SCHOOL

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no audit findings reported in the prior year's schedule of financial statement findings.