

**CITIZENS OF THE WORLD
CHARTER SCHOOLS**

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

June 30, 2013



Gurseley | Schneider LLP
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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Report of Independent Auditors

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, 2013, 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.

*Accredited in Business Valuation
†Certified in Financial Forensics

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, 2013, 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.

Lursey | Schneider LLP

September 24, 2013
Los Angeles, California

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Statement of Financial Position
June 30, 2013

ASSETS

CURRENT ASSETS

Cash	\$ 861,702
Prepaid expenses and other assets	1,399
Loans receivable, current	<u>90,000</u>

Total Current Assets	<u>953,101</u>
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OTHER ASSETS

Property and equipment, net	23,289
Loans receivable	<u>980,000</u>

Total Other Assets	<u>1,003,289</u>
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TOTAL ASSETS	<u><u>\$ 1,956,390</u></u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 40,708
Accrued liabilities	44,177
Current portion of long-term debt	<u>90,000</u>

TOTAL CURRENT LIABILITIES	174,885
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LONG TERM DEBT, NET OF CURRENT PORTION	<u>1,310,000</u>
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TOTAL LIABILITIES	1,484,885
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NET ASSETS

Unrestricted	<u>471,505</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,956,390</u></u>
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See Report of Independent Auditors 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, 2013

SUPPORT AND REVENUES	
Contributions	\$ 2,167,203
Interest	490
	<hr/>
TOTAL SUPPORT AND REVENUES	2,167,693
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EXPENSES	
Program services	1,641,524
Supporting services:	
Management and general	130,806
Fundraising	56,522
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TOTAL EXPENSES	1,828,852
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<i>INCREASE IN NET ASSETS</i>	338,841
NET ASSETS, June 30, 2012	132,664
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NET ASSETS, June 30, 2013	\$ 471,505
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See Report of Independent Auditors 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, 2013

	<u>Program Expenses</u>	<u>Support Services</u>	<u>Fundraising Expenses</u>	<u>Total Expenses</u>
Salaries and Expenses				
Salaries and wages	\$ 934,666	\$ 64,850	\$ 41,250	\$ 1,040,766
Payroll taxes	48,474	9,304	6,187	63,965
Pension contributions	-	295	-	295
Employee benefits	24,044	4,932	4,932	33,908
Total Salaries and Expenses	<u>1,007,184</u>	<u>79,381</u>	<u>52,369</u>	<u>1,138,934</u>
Other Expenses				
Accounting	-	6,991	-	6,991
Advertising	1,750	-	-	1,750
Business taxes and licenses	-	400	-	400
Consultants	88,745	-	-	88,745
Depreciation	4,193	714	-	4,907
Information technology	18,534	1,232	-	19,766
Insurance	16,397	2,791	-	19,188
Interest	-	12,581	-	12,581
Legal	128,738	-	-	128,738
Occupancy	53,489	3,553	-	57,042
Office	32,822	18,299	1,530	52,651
Other	14,495	-	2,623	17,118
Outreach	32,246	3,000	-	35,246
Public relations	65,066	-	-	65,066
Travel	149,812	-	-	149,812
Utilities	28,053	1,864	-	29,917
Total Other Expenses	<u>634,340</u>	<u>51,425</u>	<u>4,153</u>	<u>689,918</u>
TOTAL EXPENSES	<u>\$ 1,641,524</u>	<u>\$ 130,806</u>	<u>\$ 56,522</u>	<u>\$ 1,828,852</u>

See Report of Independent Auditors 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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 338,841
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	4,907
(Increase) decrease in assets:	
Prepaid expenses and other current assets	(1,023)
Increase (decrease) in liabilities:	
Accounts payable	27,040
Accrued liabilities	44,177
	413,942
CASH PROVIDED BY OPERATING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Loans to new schools for start-up	(1,070,000)
Purchases of fixed assets	(12,082)
	(1,082,082)
CASH USED FOR INVESTING ACTIVITIES	
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from term loans	1,400,000
	1,400,000
CASH PROVIDED BY FINANCING ACTIVITIES	
NET INCREASE IN CASH	731,860
CASH AT BEGINNING OF YEAR	129,842
CASH AT END OF YEAR	\$ 861,702
<u>CASH PAID DURING THE YEAR FOR:</u>	
INTEREST	\$ 12,581

See Report of Independent Auditors 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, 2013

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).

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, 2013.
- *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, 2013, 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 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.

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.

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Year Ended June 30, 2013

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

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.

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, 2013 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.

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.

Cash in Excess of FDIC Insured Limits – Through December 31, 2012, the Federal Deposit Insurance Corporation (“FDIC”) provided unlimited insurance coverage on non-interest-bearing accounts. This coverage was reduced to its former level of \$250,000 starting January 1, 2013. The organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Year Ended June 30, 2013

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

Subsequent Events – Subsequent events have been evaluated through September 24, 2013, 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, 2013:

Computer equipment	\$ 23,216
Leasehold improvements	<u>6,519</u>
	29,735
Less accumulated depreciation	<u>(6,446)</u>
	<u>\$ 23,289</u>

Depreciation expense was \$4,907 for the year ended June 30, 2013.

NOTE 4 – LOANS RECEIVABLE

CWC 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 annual principal repayments commencing May 31, 2014.
- \$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 principal repayments commencing May 31, 2017.
- \$120,000 interest-free bridge loan to CWC-Los Angeles for the start-up of the Mar Vista school. In July 2013, CWC-Los Angeles borrowed an additional \$330,000 for this school. The bridge loan and additional borrowings were converted into an interest-free, term loan. The term loan requires annual principal repayments commencing May 31, 2015.

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Year Ended June 30, 2013

NOTE 4 – LOANS RECEIVABLE – (CONTINUED)

The following are contractual maturities of these loans to the start-up school locations as of June 30, 2013:

<u>Year ending June 30,</u>	
2014	\$ 210,000
2015	90,000
2016	90,000
2017	340,000
2018	<u>340,000</u>
	<u>\$ 1,070,000</u>

CWCS has excluded from current assets the \$120,000 bridge loan at June 30, 2013 as this amount was refinanced subsequent to year-end into a term loan with principal maturities commencing in 2015.

NOTE 5 – LOANS PAYABLE

Loan 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>	
2014	\$ 90,000
2015	180,000
2016	180,000
2017	430,000
2018	430,000
Thereafter	<u>90,000</u>
	<u>\$ 1,400,000</u>

CITIZENS OF THE WORLD CHARTER SCHOOLS
(A California Nonprofit Public Benefit Corporation)
Notes to Financial Statements
For the Year Ended June 30, 2013

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, 2013 are summarized as follows:

<u>Year ending June 30,</u>	
2014	\$ 32,651
2015	33,957
2016	<u>17,312</u>
	<u>\$ 83,920</u>

Rent expenses under the operating leases amounted to \$57,042 for the year ended June 30, 2013.

NOTE 7 – RELATED PARTY TRANSACTIONS

Sources of Funding – Through June 30, 2013, substantially all contribution income was received from 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.

Start-Up Schools – CWCS provides start-up funding and operational support for the CWC-Los Angeles and CWC-New York entities. No amounts were charged for these services during the year ended June 30, 2013.