

**CITIZENS OF THE WORLD CHARTER SCHOOLS**

**Independent Auditors' Report  
and Financial Statements  
For the Year Ended  
June 30, 2018**



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CONSULTING

**CITIZENS OF THE WORLD CHARTER SCHOOLS**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Citizens of the World Charter Schools (the Organization), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows and functional expenses 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
Citizens of the World Charter Schools

**Opinion**

In our opinion, the financial statements referred to on page one present fairly, in all material respects, the financial position of the Organization as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CLIFTONLARSONALLEN LLP**

Glendora, CA

May 6, 2019

**CITIZENS OF THE WORLD CHARTER SCHOOLS**

**STATEMENT OF FINANCIAL POSITION**

**June 30, 2018**

**ASSETS**

**CURRENT ASSETS:**

Cash and cash equivalents	\$ 1,237,597
Accounts receivable	1,836
Accounts receivable - related party	120,360
Loans receivable from related parties - short term	240,000
Total current assets	<u>1,599,793</u>

**LONG-TERM ASSETS:**

Loans receivable from related parties - long term	500,000
Property, plant and equipment, net	5,480
Total long-term assets	<u>505,480</u>
Total assets	<u><u>\$ 2,105,273</u></u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES:**

Accounts payable and accrued liabilities	\$ 52,312
Notes payable, current portion	730,000
Total current liabilities	<u>782,312</u>

**LONG-TERM LIABILITIES:**

Notes payable, net of current portion	500,000
Total long-term liabilities	<u>500,000</u>

**NET ASSETS:**

Unrestricted	418,028
Temporarily restricted net assets	404,933
Total net assets	<u>822,961</u>
Total liabilities and net assets	<u><u>\$ 2,105,273</u></u>

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

**CITIZENS OF THE WORLD CHARTER SCHOOLS**

**STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018**

<b>REVENUES:</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Licensing fees	\$ 597,826	\$ -	\$ 597,826
Contributions	1,311,642	895,000	2,206,642
Interest income	39,213	-	39,213
Release of restricted revenues	490,067	(490,067)	-
Total revenues	<u>2,438,748</u>	<u>404,933</u>	<u>2,843,681</u>
 <b>EXPENSES:</b>			
Program services	1,875,991	-	1,875,991
Management and general	331,627	-	331,627
Fundraising	148,410	-	148,410
Total expenses	<u>2,356,028</u>	<u>-</u>	<u>2,356,028</u>
Change in net assets	82,720	404,933	487,653
Beginning net assets	<u>335,308</u>	<u>-</u>	<u>335,308</u>
Ending net assets	<u>\$ 418,028</u>	<u>\$ 404,933</u>	<u>\$ 822,961</u>

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

**CITIZENS OF THE WORLD CHARTER SCHOOLS**

**STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2018**

**CASH FLOWS from OPERATING ACTIVITIES:**

Change in net assets	\$ 487,653
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	2,932
Change in operating assets:	
Accounts receivable	4,464
Accounts receivable - related party	(105,434)
Change in operating liabilities:	
Accounts payable and accrued liabilities	<u>(21,218)</u>
Net cash flows from operating activities	<u>368,397</u>

**CASH FLOWS from INVESTING ACTIVITIES:**

Proceeds from notes receivable	<u>760,000</u>
Net cash flows from investing activities	<u>760,000</u>

**CASH FLOWS from FINANCING ACTIVITIES:**

Repayments of debt	<u>(430,000)</u>
Net cash flows from financing activities	<u>(430,000)</u>

Net change in cash and cash equivalents	698,397
Cash and cash equivalents at the beginning of the year	<u>539,200</u>
Cash and cash equivalents at the end of the year	<u>\$ 1,237,597</u>

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid for interest during the fiscal year	<u>\$ 53,415</u>
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*The accompanying notes are an integral part of these financial statements.*

**CITIZENS OF THE WORLD CHARTER SCHOOLS**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2018**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Salaries and wages	\$ 995,581	\$ 104,402	\$ 104,402	\$ 1,204,385
Other employee benefits	71,793	7,880	7,880	87,553
Payroll taxes and fees	75,336	8,268	8,268	91,872
Legal expenses	71,297	7,922	-	79,219
Accounting expenses	18,388	98,067	6,129	122,584
Other fees for services	275,239	-	-	275,239
Advertising and promotion expenses	70,922	-	-	70,922
Office expenses	27,363	3,004	3,004	33,371
Information technology expenses	12,020	1,319	1,319	14,658
Occupancy expenses	37,437	4,109	4,109	45,655
Travel expenses	100,625	-	9,887	110,512
Conference and meeting expenses	3,972	38,319	303	42,594
Interest expense	-	55,228	-	55,228
Depreciation expense	2,404	264	264	2,932
Insurance expense	17,097	1,876	1,876	20,849
Grants	85,676	-	-	85,676
Other expenses	10,841	969	969	12,779
	<u>\$ 1,875,991</u>	<u>\$ 331,627</u>	<u>\$ 148,410</u>	<u>\$ 2,356,028</u>

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

# CITIZENS OF THE WORLD CHARTER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2018

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Activities*** – Citizens of the World Charter Schools (the Organization) was organized on July 22, 2011 as a California nonprofit benefit corporation. The specific purpose of the organization is to facilitate the creation, opening, and operation of new nonprofit public charter schools. Since 2012, the Organization has facilitated the opening of public charter schools, and currently supports the operations of these schools.

***Cash and Cash Equivalents*** – The Organization defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

***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, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

***Basis of Accounting*** – The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

***Functional Allocation of Expenses*** – Costs of providing the Organization's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

***Basis of Presentation*** – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

***Net Asset Classes*** – The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of the Organization are defined as:

- **Unrestricted:** All resources over which the governing board has discretionary control to use in carrying on the general operations of the Organization.
- **Temporarily restricted:** These net assets are restricted by donors to be used for specific purposes. As of June 30, 2018, the Organization had \$404,933 in temporarily restricted net assets related to donor restrictions.
- **Permanently restricted:** These net assets are permanently restricted by donors and cannot be used by the Organization. The Organization does not currently have any permanently restricted net assets.

***Accounts Receivable*** – Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

# CITIZENS OF THE WORLD CHARTER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2018

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Notes Receivable** – All notes receivable are carried at their unpaid balances. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded. The Organization has not incurred losses related to their notes receivable and all notes are current.

**Property, Plant and Equipment** – Property, plant and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset.

**Contributed Assets and Services** – Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair values in the period received.

**Compensated Absences** – Accumulated unpaid employee vacation benefits are recognized as a liability of the Organization. The entire compensated absences liability is reported on the statement of financial position. Vacation days and sick leave with pay are accrued at rates set by board approved schedules. Sick leave with pay is provided when employees are absent for health reasons.

**Contributions** – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unrestricted revenue. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

**Advertising Expenses** – Advertising costs are expensed as incurred. There are no capitalized advertising costs.

**Income Taxes** – The Organization is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The Organization files informational returns in the U.S. federal jurisdiction, and the state of California.

**Evaluation of Subsequent Events** – The Organization has evaluated subsequent events through May 6, 2019, the date these financial statements were available to be issued.

# CITIZENS OF THE WORLD CHARTER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2018

### NOTE 2: CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances held in banks which are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC). At times, cash in these accounts exceeds the insured amounts. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

### NOTE 3: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment in the accompanying financial statements is presented net of accumulated depreciation. Depreciation expense was \$2,932 as of June 30, 2018.

The components of property, plant and equipment as of June 30, 2018 are as follows:

Furniture, fixtures, equipment	\$ 23,216
Leasehold improvements	16,279
	<u>39,495</u>
Less accumulated depreciation	(34,015)
Property, plant and equipment, net	<u>\$ 5,480</u>

### NOTE 4: LONG-TERM DEBT

The Organization obtained a loan from Comerica Bank for \$950,000, with interest at the bank's prime reference rate, which as of June 30, 2018 was five percent. The loan matures in June 2019. The outstanding balance at June 30, 2018 was \$430,000. This loan is guaranteed by a director.

The Organization obtained a second loan from Comerica bank for \$800,000, with interest at the bank's prime reference rate, which as of June 30, 2018 was five percent. The loan matures in June 2021. The outstanding balance of this loan at June 30, 2018 was \$800,000. This loan is guaranteed by a director.

The annual notes payable payments outstanding for these loans are as follows:

Year Ended	Unrelated
<u>June 30,</u>	
2019	\$ 730,000
2020	250,000
2021	250,000
Total	<u>\$ 1,230,000</u>

**CITIZENS OF THE WORLD CHARTER SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2018**

**NOTE 5: LOANS RECEIVABLE**

The Organization lent \$450,000 to Citizens of the World – Los Angeles (CWC-LA) for the start-up operations of the Mar Vista school. The loan is interest-free and requires \$90,000 annual principal payments from May 2015 through 2019. The outstanding balance receivable for this loan at June 30, 2018 is \$90,000.

The Organization lent \$800,000 to Citizens of the World – Kansas City (CWC-KS) for the start-up operations of the Kansas City school. The loan is interest-free and requires \$150,000 annual principal payments in May 2018 and 2019, and \$250,000 annual principal payments in May 2020 and 2021. The outstanding balance receivable for this loan at June 30, 2018 is \$650,000.

Using a 3.5% interest rate comparable to the Organization’s outside loans payable, interest income and contribution expense of \$39,200 was recorded for the year ended June 30, 2018.

Future maturities of these loans receivable are as follows:

Year Ended	
<u>June 30,</u>	
2019	\$ 240,000
2020	250,000
2021	<u>250,000</u>
Total	<u>\$ 740,000</u>

**NOTE 6: EMPLOYEE RETIREMENT**

**Defined Contribution Plan**

The Organization sponsors a defined contribution plan covering substantially all of its employees. To be eligible for elective contributions, an employee must be twenty-one years of age or older and have completed six months of service. The Organization did not contribute to the plan during the year ended June 30, 2018.

**NOTE 7: PLEDGES RECEIVABLE**

The Organization has conditional pledges not recorded in these financial statements amounting to \$16,000, which was received by July 2018.

# CITIZENS OF THE WORLD CHARTER SCHOOLS

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

### NOTE 8: OPERATING LEASES

The Organization leases its facilities under a lease agreement expiring in December 2020. Lease expense under this agreement for the year ended June 30, 2018 was \$37,375. Future minimum lease payments are as follows:

Year Ended <u>June 30,</u>	
2019	\$ 38,397
2020	39,553
2021	<u>20,069</u>
Total	<u>\$ 98,019</u>

### NOTE 9: RELATED PARTY TRANSACTIONS

The Organization provides start-up funding and operational support for the CWC – Los Angeles, CWC – New York, and CWC – Kansas City entities. Management fees for the year ended June 30, 2018 were \$597,826. As of June 30, 2018, \$91,535 was due from these organizations.

In the year ended June 30, 2018, approximately 2.4 percent of all contribution income was received from board directors and organizations affiliated with members of the board of the directors. As of June 30, 2018, there was \$28,825 pledges receivable outstanding from directors.

### NOTE 10: CONTINGENCIES & COMMITMENTS

#### Litigation

The Organization is subject to asserted and unasserted claims encountered in the normal course of business. The Organization's management and legal counsel assess such contingent liabilities and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein. In the opinion of management, dispositions of these matters cannot be determined at this time but are expected to not have a material effect on the Organization's financial condition or results of operations for the year ended June 30, 2018.

