

CITIZENS OF THE WORLD CHARTER SCHOOLS

**Independent Auditor's Report
and Financial Statements
For the Year Ended
June 30, 2015**

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, 2015, 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, 2015, 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.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
April 22, 2016

CITIZENS OF THE WORLD CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION

June 30, 2015

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 1,522,319
Accounts receivable - related party	20,471
Prepaid expenses and other assets	4,638
Loans receivable from related parties - short term	180,000
Total current assets	<u>1,727,428</u>

LONG-TERM ASSETS:

Loans receivable from related parties - long term	950,000
Property, plant and equipment, net	10,827
Total long-term assets	<u>960,827</u>
Total assets	<u><u>\$ 2,688,255</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 113,218
Notes payable, current portion	90,000
Notes payable to related parties, current portion	90,000
Total current liabilities	<u>293,218</u>

LONG-TERM LIABILITIES:

Notes payable	770,000
Notes payable to related parties	180,000
Total long-term liabilities	<u>950,000</u>

NET ASSETS:

Unrestricted	1,445,037
Total net assets	<u>1,445,037</u>
Total liabilities and net assets	<u><u>\$ 2,688,255</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, 2015**

REVENUES:

Licensing fees	\$ 514,129
Contributions	2,384,346
Other revenue	<u>1,489</u>
Total revenues	<u>2,899,964</u>

EXPENSES:

Program services	1,970,633
Management and general	235,497
Fundraising	<u>67,816</u>
Total expenses	<u>2,273,946</u>

Change in unrestricted net assets	626,018
Beginning unrestricted net assets	<u>819,019</u>
Ending unrestricted net assets	<u>\$ 1,445,037</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, 2015**

CASH FLOWS from OPERATING ACTIVITIES:

Change in net assets	\$ 626,018
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	6,231
Change in operating assets:	
Accounts receivable - related party	(1,673)
Prepaid expenses and other assets	4,171
Loans receivable	180,000
Change in operating liabilities:	
Accounts payable and accrued liabilities	<u>26,295</u>
Net cash flows from operating activities	<u>841,042</u>

CASH FLOWS from FINANCING ACTIVITIES:

Repayments of debt	<u>(180,000)</u>
Net cash flows from financing activities	<u>(180,000)</u>
Net change in cash and cash equivalents	661,042
Cash and cash equivalents at the beginning of the year	<u>861,277</u>
Cash and cash equivalents at the end of the year	<u><u>\$ 1,522,319</u></u>

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for interest during the fiscal year	<u><u>\$ 31,218</u></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, 2015**

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 955,723	\$ 87,883	\$ 54,927	\$ 1,098,533
Other employee benefits	63,102	5,802	3,627	72,531
Payroll taxes and fees	67,340	6,192	3,870	77,402
Legal expenses	100,844	-	-	100,844
Accounting expenses	-	92,183	-	92,183
Other fees for services	177,215	-	-	177,215
Advertising and promotion expenses	147,242	-	-	147,242
Office expenses	31,837	2,928	1,830	36,595
Printing and postage expenses	3,719	342	214	4,275
Information technology expenses	12,348	1,135	710	14,193
Occupancy expenses	33,472	3,078	1,924	38,474
Travel expenses	190,356	89	714	191,159
Conference and meeting expenses	38,503	-	-	38,503
Interest expense	-	33,791	-	33,791
Depreciation expense	5,795	436	-	6,231
Insurance expense	21,756	1,638	-	23,394
Grants	104,750	-	-	104,750
Other expenses	16,631	-	-	16,631
	<u>\$ 1,970,633</u>	<u>\$ 235,497</u>	<u>\$ 67,816</u>	<u>\$ 2,273,946</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, 2015

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 school. From 2012 to 2015, the Organization has facilitated the opening of five 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. The Organization does not currently have any temporarily restricted net assets.
- 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, 2015

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 – The Organization does not allow employees to carryover unused vacation. Accordingly, there were no accumulated compensated absence benefits at June 30, 2015.

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. There were \$550,000 in conditional promises to give outstanding as of June 30, 2015.

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. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Evaluation of Subsequent Events – The Organization has evaluated subsequent events through April 22, 2016, 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, 2015

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 \$6,231 as of June 30, 2015.

The components of property, plant and equipment as of June 30, 2015 are as follows:

Furniture, fixtures, equipment	\$ 23,216
Leasehold improvements	6,519
	<u>29,735</u>
Less accumulated depreciation	(18,908)
Property, plant and equipment, net	<u>\$ 10,827</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. The outstanding balance at June 30, 2015 was \$860,000. This loan is guaranteed by a director.

The Organization obtained two interest-free loans of \$225,000 each from two directors. Payments are due in scheduled installments commencing June 30, 2014 through June 30, 2018. The outstanding balance for each loan at June 30, 2015 was \$135,000.

The annual notes payable payments outstanding for are as follows:

Year Ended	
<u>June 30,</u>	
2016	\$ 180,000
2017	430,000
2018	430,000
2019	90,000
	<u>90,000</u>
Total	<u>\$ 1,130,000</u>

CITIZENS OF THE WORLD CHARTER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

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 Silverlake school. The loan is interest-free and requires \$90,000 annual principal payments from May 2014 through 2018. The outstanding balance receivable for this loan at June 30, 2015 is \$270,000.

The Organization lent \$500,000 to Citizens of the World – New York (CWC-NY) for the start-up operations of the Williamsburg and Crown Heights schools. The loan is interest-free and requires \$250,000 annual principal payments in May 2017 and 2018.

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, 2015 is \$360,000.

Future maturities of these loans are as follows:

Year Ended <u>June 30,</u>	
2016	\$ 180,000
2017	430,000
2018	430,000
2019	<u>90,000</u>
Total	<u>\$ 1,130,000</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, 2015.

NOTE 7: PLEDGES RECEIVABLE

The Organization has conditional pledges not recorded in these financial statements amounting to \$1,700,000 expected to be paid over the next year.

CITIZENS OF THE WORLD CHARTER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

NOTE 8: PROMISES TO GIVE

The Organization has conditional promises to give, not recorded in these financial statements, amounting to \$550,000 expected to be paid over the next two years, for the opening of the Kansas City Citizens of the World Charter School.

NOTE 9: 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, 2015 was \$31,072.

Future minimum lease payments are as follows:

Year Ended <u>June 30,</u>	
2016	\$ 35,141
2017	36,197
2018	37,278
2019	38,397
2020	39,553
Thereafter	<u>20,069</u>
Total	<u>\$ 206,635</u>

NOTE 10: RELATED PARTY TRANSACTIONS

The Organization 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, 2015 were \$514,129. Amounts due from these entities as of June 30, 2015 totaled \$20,471.

In the year ended June 30, 2015, approximately half of all contribution income was received from board members and organizations affiliated with members of the board of the directors. In addition, two members of the board have either guaranteed or directly lent the borrowings of the Organization. Amount due to these directors totaled \$270,000 as of June 30, 2015.