

**CITIZENS OF THE WORLD
CHARTER SCHOOL – KANSAS CITY**

AUDITED FINANCIAL STATEMENTS

For The Inception Period Ended June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Citizens of the World Charter School - Kansas City
Kansas City, Missouri

We have audited the accompanying financial statements of Citizens of the World Charter School - Kansas City (a non-profit organization), which comprise the cash basis statement of financial position as of June 30, 2016, and the related statements of support, receipts and disbursements and cash flows – cash basis from the date of inception, May 12, 2015, to June 30, 2016, (the period ended June 30, 2016) 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 the cash basis of accounting described in Note B; this includes determining that the cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of 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.

To the Board of Directors
Citizens of the World Charter School - Kansas City
Kansas City, Missouri

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Citizens of the World Charter School - Kansas City'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 School'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of Citizens of the World Charter School - Kansas City, as of June 30, 2016, and the results of its operations and its cash flows – cash basis for the inception period then ended in conformity with the basis of accounting described in Note B.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of Citizens of the World Charter School - Kansas City'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* in considering Citizens of the World Charter School - Kansas City's internal control over financial reporting and compliance.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
December 15, 2016

**CITIZENS OF THE WORLD CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION -
CASH BASIS
JUNE 30, 2016**

ASSETS

Cash and cash equivalents	<u>\$ 245,018</u>
Total Assets	<u><u>\$ 245,018</u></u>

NET ASSETS

Unrestricted	<u>\$ 245,018</u>
Total Net Assets	<u><u>\$ 245,018</u></u>

See accompanying notes.

**CITIZENS OF THE WORLD CHARTER SCHOOL
STATEMENT OF SUPPORT, RECEIPTS AND DISBURSEMENTS -
CASH BASIS
FOR THE PERIOD ENDED JUNE 30, 2016**

	Unrestricted
SUPPORT AND RECEIPTS	
Contributions and loans	\$ 1,162,458
Governmental grants and contracts	125,000
Total support and receipts	1,287,458
 DISBURSEMENTS	
Instruction	68,558
Student services	9,198
Instructional staff support	43,580
General administration and central services	916,186
Operation of plant	4,918
Total disbursements	1,042,440
Change in net assets	245,018
Net assets, beginning of period	-
Net assets, end of period	\$ 245,018

See accompanying notes.

**CITIZENS OF THE WORLD CHARTER SCHOOL
STATEMENT OF CASH FLOWS -
CASH BASIS
FOR THE PERIOD ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 245,018
Adjustments to reconcile change in net assets to net cash provided by operating activities:	-
Net cash provided by operating activities	<u>245,018</u>
NET INCREASE IN CASH	245,018
CASH AND CASH EQUIVALENTS, beginning of period	-
CASH AND CASH EQUIVALENTS, end of period	<u><u>\$ 245,018</u></u>

See accompanying notes.

CITIZENS OF THE WORLD CHARTER SCHOOL - KANSAS CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE A – ORGANIZATION

Citizens of the World Charter School - Kansas City (the “School”) is a Missouri not-for-profit corporation. Their purpose is to operate a Charter School established within the boundaries of the Kansas City, Missouri School District. The School is legally separate from the Kansas City, Missouri School District and is not financially accountable to it.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation: The financial statements are presented in accordance with ASC 958-205 (formerly Statement of Financial Accounting Standards (SFAS) No. 117, “Financial Statements of Not-For-Profit Organization”). Under ASC 958-205, the School is required to report information regarding its assets and net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The School does not have any temporarily or permanently restricted net assets as of June 30, 2016.

Basis of Accounting: The School has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing receipts, disbursements, and their related assets and liabilities. Under the cash basis of accounting, receipts and disbursements and the related assets are recorded when they result from cash transactions.

Cash and Cash Equivalents: The School considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

Property and Equipment: Property and equipment are recorded as expenses at the time the goods are purchased.

Compensated Absences: Vacation time, personal business days, and sick leave are considered as expenses in the year paid. Such amounts unused that are vested in the employee are payable upon termination at varying rates depending on length of service.

Recognition of Donor Restrictions: Contributions are recognized when they are unconditionally received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. If a restriction is fulfilled in the same time period in which the contribution is received, the School reports the support as unrestricted.

Estimates: The preparation of financial statements in conformity with the cash basis described above requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITIZENS OF THE WORLD CHARTER SCHOOL - KANSAS CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes: The School is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The School complies with the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income taxes* [“FIN 48”]). Under FIN 48, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of FIN 48 had no impact on the School’s financial statements. The School does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. For the year ended June 30, 2016, there were no interest or penalties recorded in its financial statements.

Fair Value:

The FASB Fair Value Measurement Standard (ASC 820-10) clarifies the definition of fair value reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Fair values can be determined using a fair value hierarchy consisting of three levels ranging from the most objective determination of fair value to the most subjective. The levels vary depending on the objectivity of the information used in valuation techniques to determine fair value. These levels are classified as follows:

- a. *Level 1 inputs* are quoted prices in active markets for identical assets or liabilities.
- b. *Level 2 inputs* generally are available indirect information, such as quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active.
- c. *Level 3 inputs* are the most subjective, are generally based on the entity’s own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances.

NOTE C – CASH AND CASH EQUIVALENTS

The School maintains cash and cash equivalents at various financial institutions. At June 30, 2016, the cash held with Missouri Bank in the checking account was not fully insured by FDIC. The School had an excess of \$21,042 deposited in their checking account on June 30, 2016. This scenario creates a concentration of credit risk for the school.

CITIZENS OF THE WORLD CHARTER SCHOOL - KANSAS CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE D – OPERATING LEASE

On June 13, 2016, the School entered into a ten-year lease with IFF Quality Seats – Broadway, LLC. As part of the lease agreement, the School pays a base rent each month plus operating expenses of the leased facility, including all costs associated with the use, maintenance, financing, or repair of the property, all utilities and insurance. The lease payments are contingent on cost of construction and are undeterminable at June 30, 2016.

NOTE E – LOAN PAYABLE

During the period ended June 30, 2016, the School entered into a loan agreement with the Citizens of the World national network (a related party) for an interest-free loan to support launch of the school in the amount of \$800,000. The outstanding payments at June 30, 2016, are due as follows:

Year Ended June 30,	Principal
2017	\$ 80,000
2018	80,000
2019	80,000
2020	80,000
2021	80,000
2022	80,000
2023	80,000
2024	80,000
2025	80,000
2026	80,000
	\$ 800,000

NOTE F – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 15, 2016, the date on which the financial statements were available to be issued.

NOTE G – CLAIMS AND ADJUSTMENTS

The School will participate in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Disbursements financed by grants are subject to audit by the appropriate grantor government. As of June 30, 2016, significant amounts of grant disbursements have not been audited by grantor governments, but the School believes that disallowed disbursements, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

CITIZENS OF THE WORLD CHARTER SCHOOL - KANSAS CITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE H – FUNCTIONAL EXPENSES

The School has only one program of service, which is the operation of a charter school district. For the period ended June 30, 2016, \$916,186 of the expenses were considered management expense and \$126,254 in expenses were considered program costs associated with preparing the School for education.

NOTE I – OPEN TAX YEARS

The School’s informational and tax returns are subject to examination by taxing authorities for a period of 3 years from the date they are filed. As of June 30, 2016, the following tax years are subject to examination:

Jurisdiction	Open Years for Filed Returns	Return to be filed in 2016
Federal	-	2015
Missouri	-	2015

INTERNAL CONTROL AND COMPLIANCE



**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**

Board of Directors
Citizens of the World Charter School - Kansas City
Kansas City, Missouri

We have audited, in accordance with the 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, the financial statements of Citizens of the World Charter School - Kansas City as of and for the period ended June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Citizens of the World Charter School - Kansas City's basic financial statements and have issued our report thereon dated December 15, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Citizens of the World Charter School - Kansas City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Board of Directors
Citizens of the World Charter School - Kansas City
Kansas City, Missouri

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Citizens of the World Charter School - Kansas City's financial statements are free from 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 *Government Auditing Standards*.

Purpose of Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
December 15, 2016