



COMPASS ROSE

COMPASS ROSE EDUCATION, INC.

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

AUGUST 31, 2019

TABLE OF CONTENTS

CERTIFICATE OF THE BOARD	1
INDEPENDENT AUDITOR’S REPORT	2
GENERAL-PURPOSE FINANCIAL STATEMENTS	4
STATEMENTS OF FINANCIAL POSITION	5
STATEMENTS OF ACTIVITIES	6
STATEMENTS OF FUNCTIONAL EXPENSES	8
STATEMENTS OF CASH FLOWS	10
NOTES TO FINANCIAL STATEMENTS	11
SUPPLEMENTARY INFORMATION	18
SCHEDULE OF EXPENSES	19
SCHEDULE OF CAPITAL ASSETS	20
BUDGETARY COMPARISON SCHEDULE.....	21
NOTES TO BUDGETARY COMPARISON SCHEDULE	22
COMPLIANCE AND INTERNAL CONTROL.....	23
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	24

COMPASS ROSE EDUCATION, INC.
FEDERAL EMPLOYER IDENTIFICATION NUMBER: 47-5328736
BEXAR COUNTY DISTRICT NUMBER 015-838

CERTIFICATE OF THE BOARD

We, the undersigned, certify that the attached Financial and Compliance Report of Compass Rose Education, Inc. was reviewed and (check one) approved disapproved for the year ended August 31, 2019, at a meeting of the governing body of the charter holder on the 15th day of January, 2020.



Signature of Board Secretary



Signature of Board President



Armstrong, Vaughan & Associates, P. C.

Deborah F. Fraser Phil S. Vaughan Nancy L. Vaughan

Certified Public Accountants

Kimberly J. Roach

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Compass Rose Education, Inc.
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying statement of financial position of Compass Rose Education, Inc. as of August 31, 2019 and 2018, and the related statements of activities, and cash flows for the years 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Compass Rose Education, Inc. as of August 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 of the financial statements, Compass Rose Education, Inc. adopted new accounting guidance from the Financial Accounting Standards Board Update 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. This did not require a restatement of prior year balances. Our opinion is not modified with respect to this matter.

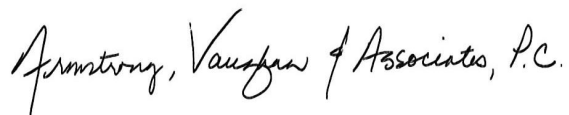
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information (consisting of the schedule of expenses, schedule of capital assets and budgetary comparison schedule and notes) is presented for the purposes of additional analysis and is not a required part of the financial statements. The Supplementary 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 other 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 Supplementary Information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2020 on our consideration of Compass Rose Education, Inc.'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 Compass Rose Education, Inc.'s internal control over financial reporting and compliance.



Armstrong, Vaughan & Associates, P.C.

January 6, 2020

**GENERAL-PURPOSE
FINANCIAL STATEMENTS**

COMPASS ROSE EDUCATION, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2019 AND 2018

	2019	2018
ASSETS		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 65,452	\$ 98,806
Accounts Receivable:		
Texas Education Agency	291,255	119,140
Promises to Give	500,000	-
Other	766	-
Prepaid Expenses	20,743	11,045
<i>Total Current Assets</i>	878,216	228,991
<i>Property and Equipment, net</i>	481,662	403,046
TOTAL ASSETS	\$ 1,359,878	\$ 632,037
LIABILITIES AND NET ASSETS		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 116,536	\$ 60,329
Payroll Deductions and Withholdings	19,162	-
Accrued Wages	352,939	-
Line of Credit	210,000	-
<i>Current Liabilities</i>	698,637	60,329
<i>Other Liabilities:</i>		
Deferred Rent	465,848	382,032
<i>Total Liabilities</i>	1,164,485	442,361
<i>Net Assets:</i>		
With Donor Restrictions	82,023	-
Without Donor Restrictions	113,370	189,676
<i>Total Net Assets</i>	195,393	189,676
TOTAL LIABILITIES AND NET ASSETS	\$ 1,359,878	\$ 632,037

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

COMPASS ROSE EDUCATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
REVENUE			
5700 Local Revenues	\$ 1,053,141	\$ 108,487	\$ 1,161,628
5800 State Revenues	-	1,873,012	1,873,012
5900 Federal Revenues	-	652,532	652,532
	<u>1,053,141</u>	<u>2,634,031</u>	<u>3,687,172</u>
Net Assets Released from Restrictions	<u>2,552,008</u>	<u>(2,552,008)</u>	<u>-</u>
TOTAL REVENUE	<u>3,605,149</u>	<u>82,023</u>	<u>3,687,172</u>
EXPENSES			
11 Instruction	1,479,781	-	1,479,781
13 Curriculum Development and Instructional Student Development	205,379	-	205,379
21 Instructional Leadership	15,143	-	15,143
23 School Leadership	614,029	-	614,029
31 Guidance and Counseling	8,092	-	8,092
33 Health Services	7,901	-	7,901
34 Student Transportation	44,691	-	44,691
35 Food Services	95,273	-	95,273
36 Extracurricular Activities	26,043	-	26,043
41 General Administration	538,149	-	538,149
51 Plant Maintenance	536,749	-	536,749
53 Data Processing	29,275	-	29,275
61 Community Service	79,659	-	79,659
71 Debt Service	1,291	-	1,291
TOTAL EXPENSES	<u>3,681,455</u>	<u>-</u>	<u>3,681,455</u>
CHANGE IN NET ASSETS	(76,306)	82,023	5,717
NET ASSETS - BEGINNING OF YEAR	<u>189,676</u>	<u>-</u>	<u>189,676</u>
NET ASSETS - END OF YEAR	<u>\$ 113,370</u>	<u>\$ 82,023</u>	<u>\$ 195,393</u>

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

COMPASS ROSE EDUCATION, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Totals
REVENUE			
5700 Local Revenues	\$ 552,230	\$ 3,272	\$ 555,502
5800 State Revenues	-	960,657	960,657
5900 Federal Revenues	-	221,033	221,033
	<u>552,230</u>	<u>1,184,962</u>	<u>1,737,192</u>
Net Assets Released from Restrictions	<u>1,184,962</u>	<u>(1,184,962)</u>	<u>-</u>
TOTAL REVENUE	<u>1,737,192</u>	<u>-</u>	<u>1,737,192</u>
EXPENSES			
11 Instruction	511,411	-	511,411
13 Curriculum Development and Instructional Student Development	100,678	-	100,678
23 School Leadership	229,620	-	229,620
33 Health Services	4,754	-	4,754
34 Student Transportation	47,079	-	47,079
35 Food Services	62,921	-	62,921
36 Extracurricular Activities	321	-	321
41 General Administration	294,392	-	294,392
51 Plant Maintenance	527,524	-	527,524
53 Data Processing	2,406	-	2,406
61 Community Service	364	-	364
TOTAL EXPENSES	<u>1,781,470</u>	<u>-</u>	<u>1,781,470</u>
CHANGE IN NET ASSETS	(44,278)	-	(44,278)
NET ASSETS - BEGINNING OF YEAR	<u>233,954</u>	<u>-</u>	<u>233,954</u>
NET ASSETS - END OF YEAR	<u>\$ 189,676</u>	<u>\$ -</u>	<u>\$ 189,676</u>

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

COMPASS ROSE EDUCATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019

EXPENSES	Payroll and Benefits	Professional and Contract Services	Supplies and Materials	Other Operating Costs	Debt Service	Totals
11 Instruction	\$ 994,802	\$ 50,988	\$ 428,899	\$ 5,092	\$ -	\$ 1,479,781
13 Curriculum and Instructional						
Student Development	166,339	16,710	10,791	11,539	-	205,379
21 Instructional Leadership	15,143	-	-	-	-	15,143
23 School Leadership	560,917	11,272	41,448	392	-	614,029
31 Guidance and Counseling	8,092	-	-	-	-	8,092
33 Health Services	-	7,853	48	-	-	7,901
34 Student Transportation	-	43,640	511	540	-	44,691
35 Food Services	-	8,509	86,517	247	-	95,273
36 Extracurricular Activities	2,072	3,075	17,262	3,634	-	26,043
41 General Administration	362,665	143,545	15,873	16,066	-	538,149
51 Plant Maintenance	-	442,157	35,560	59,032	-	536,749
53 Data Processing	-	29,244	31	-	-	29,275
61 Community Service	66,973	3,885	8,801	-	-	79,659
71 Debt Service	-	-	-	-	1,291	1,291
TOTAL EXPENSES	<u>\$2,177,003</u>	<u>\$ 760,878</u>	<u>\$ 645,741</u>	<u>\$ 96,542</u>	<u>\$ 1,291</u>	<u>\$ 3,681,455</u>

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

COMPASS ROSE EDUCATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2018

EXPENSES	Payroll and Benefits	Professional and Contract Services	Supplies and Materials	Other Operating Costs	Debt Service	Totals
11 Instruction	\$ 339,228	\$ 68,027	\$ 99,013	\$ 5,143	\$ -	\$ 511,411
13 Curriculum and Instructional						
Student Development	94,232	3,375	278	2,793	-	100,678
23 School Leadership	188,458	40,599	95	468	-	229,620
33 Health Services	-	4,754	-	-	-	4,754
34 Student Transportation	-	47,079	-	-	-	47,079
35 Food Services	-	-	62,914	7	-	62,921
36 Extracurricular Activities	-	-	-	321	-	321
41 General Administration	199,547	58,484	5,431	30,930	-	294,392
51 Plant Maintenance	-	437,391	32,295	57,838	-	527,524
53 Data Processing	-	2,271	135	-	-	2,406
61 Community Service	-	-	364	-	-	364
TOTAL EXPENSES	<u>\$ 821,465</u>	<u>\$ 661,980</u>	<u>\$ 200,525</u>	<u>\$ 97,500</u>	<u>\$ -</u>	<u>\$1,781,470</u>

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

COMPASS ROSE EDUCATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

	2019	2018
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash Received from State and Federal Grantors	\$ 2,353,429	\$ 1,262,818
Cash Received from Others	660,862	555,502
Cash Paid to Employees for Services	(1,804,902)	(821,465)
Payments to Vendors for Goods and Services	(1,323,533)	(502,077)
Interest Paid	(1,291)	-
NET CASH FROM OPERATING ACTIVITIES	(115,435)	494,778
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Purchase of Property and Equipment	(127,919)	(448,248)
NET CASH FROM INVESTING ACTIVITIES	(127,919)	(448,248)
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES		
Advances from Line of Credit	210,000	-
NET CASH FROM FINANCING ACTIVITIES	210,000	-
NET INCREASE (DECREASE) IN CASH	(33,354)	46,530
BEGINNING CASH AND CASH EQUIVALENTS	98,806	52,276
ENDING CASH AND CASH EQUIVALENTS	\$ 65,452	\$ 98,806
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 5,717	\$ (44,278)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	49,303	45,201
(Increase) Decrease in Current Assets:		
Accounts Receivable:		
Texas Education Agency	(172,115)	81,128
Promises to Give	(500,000)	-
Other	(766)	-
Prepaid Expenses	(9,698)	(565)
Increase (Decrease) in Liabilities:		
Accounts Payable	56,207	47,920
Payroll Deductions and Withholdings	19,162	-
Accrued Wages	352,939	-
Deferred Rent	83,816	365,372
NET CASH FROM OPERATING ACTIVITIES	\$ (115,435)	\$ 494,778

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

COMPASS ROSE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2019

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Compass Rose Education, Inc. (“Compass Rose”) is a Texas nonprofit corporation that operates an open-enrollment charter school (Compass Rose Academy), serving grades six through twelve in San Antonio, Texas. The State Board of Education of the State of Texas approved the open-enrollment charter, pursuant to Chapter 12 of the Texas Education Code (“TEC”). Compass Rose is governed by a Board of Directors comprised of three members. The Board of Directors has the authority to make decisions, appoint the chief executive officer, and has the primary accountability for the fiscal affairs of the Academy.

Compass Rose receives the majority of its funding from the Texas Education Agency based on average daily attendance in the school it operates. Since the Charter receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Compass Rose does not conduct any non-charter activities.

Basis of Accounting and Presentation

The general-purpose financial statements of Compass Rose were prepared in conformity with accounting principles generally accepted in the United States. The *Financial Accounting Standards Board* is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenues are recognized when earned and expenses are recognized when they are incurred.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Without Donor Restrictions – net assets that are not subject to grantor or donor-imposed stipulations.

With Donor Restrictions – net assets subject to grantor or donor-imposed stipulations or passage of time.

Cash and Cash Equivalents

For financial statement purposes, Compass Rose considers all highly liquid investment instruments with an original maturity of three months or less to be cash.

Contributions

Compass Rose accounts for contributions as with or without donor restrictions, depending on the existence and/or nature of any stipulations as to the use of the contributions. Contributions that are restricted by the donor are reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to without donor restrictions and reported in the statement of activities as net assets released from restrictions. Compass Rose records qualifying expenses to the most restrictive resources before consuming net assets without donor restrictions.

COMPASS ROSE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
AUGUST 31, 2019

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Promises to Give

Unconditional promises to give are recorded as receivables and contributions when the promise received. Conditional promises to give are not recorded until the conditions are met. The contribution revenue is reported in with or without donor restrictions based on the donor's stipulations for the use of the promise.

Capital Assets

Capital assets are defined by Compass Rose as assets with a useful life greater than one year and an individual cost of more than \$5,000. Such assets are recorded at historical cost (or fair value if donated) and are depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Useful lives are estimated to be 3-to-5 years for vehicles, furniture and equipment. Leasehold improvements are amortized over the lesser of the life of the lease or the expected useful life.

Operating Leases

Leases with significant landlord incentives or escalating rent payments are expensed on the statement of activities on the straight-line basis over the life of the lease. Differences between the payments and incentives received to the straight-line expense are recorded on the statement of financial position as deferred rent.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

Compass Rose Education, Inc. is a not-for-profit organization exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code, except to the extent that it has unrelated business income. As such, no provision for income taxes has been made in the financial statements. The organizations generally are no longer subject to income tax examination by Federal authorities for years prior to August 31, 2016.

Subsequent Events

Subsequent events were considered through January 6, 2020, which is the date the financial statements were available to be issued.

Functional Expenses

Compass Rose records expenses in accordance with the Texas Education Agency's chart of accounts outlined in the Financial Accountability System Resource Guide. Indirect expenses are generally recorded as administrative expenses. Administrative expenses include the office of the superintendent, legal and accounting fees. Payroll is allocated based on job descriptions and estimates of time spent on various functions.

COMPASS ROSE EDUCATION, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 AUGUST 31, 2019

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Change in Accounting Principle

Compass Rose implemented Accounting Standards Update 2016-14, "Presentation of Financial Statements of Not-for-Profit Entities" (Topic 958) as of September 1, 2018. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes related to Compass Rose include: (a) presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (c) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, and (d) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources. Amounts reported for the year ending August 31, 2018 were reclassified to meet the new reporting requirements.

NOTE 2 -- ACCOUNTS RECEIVABLE

Accounts Receivable Texas Education Agency at August 31, 2019 consisted of the following:

	2019	2018
Texas Education Agency		
Foundation School Program	\$ 222,215	\$ 113,571
Federal Reimbursement Grants	57,405	-
National School Breakfast and Lunch	11,635	5,569
Total Accounts Receivable	\$ 291,255	\$ 119,140

Promises to give at August 31, 2019 consisted of two unconditional promises from charitable foundations of \$250,000 each to be received in the 2020 fiscal year.

In addition, Compass Rose received a conditional promise of \$1,000,000 to be received and recognized over the next four fiscal years as the conditions are met.

COMPASS ROSE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
AUGUST 31, 2019

NOTE 3 -- CAPITAL ASSETS

Capital assets at August 31, 2019 were as follows:

	2019	2018
Leasehold Improvements	\$ 540,097	\$ 448,247
Vehicles and Equipment	36,069	-
Total Property and Equipment	576,166	448,247
Less: Accumulated Depreciation	(94,504)	(45,201)
Property and Equipment - Net	\$ 481,662	\$ 403,046

Capital assets acquired with public funds received by Compass Rose for the operation of the open-enrollment charter schools constitute public property pursuant to Charter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets. Depreciation expense was \$49,303 and \$45,201 for the years ended August 31, 2019 and 2018, respectively.

NOTE 4 -- LINE OF CREDIT

In May 2019, Compass Rose signed a line of credit agreement with a local bank for a total credit line of \$250,000. The agreement matures May 30, 2020 and requires interest only payments at the greater of 7% or the Wall Street Journal Prime Rate plus 1.5% (set to 7% as of August 31, 2019). The debt is collateralized by all personal property and deposit accounts.

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following stipulations or program requirements as of year end:

	8/31/19	8/31/18
National School Breakfast and Lunch Program	\$ 3,805	\$ -
Compensation for Innovative School Fellows	78,218	-
Total Net Assets with Donor Restrictions	\$ 82,023	\$ -

NOTE 6 -- PENSION PLAN OBLIGATION

The charter school contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the charter school, but are the liability of the State of Texas. Charters are legally separate entities from the State and there is no withdrawal penalty for leaving TRS. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas State Legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS website, www.trs.state.tx.us, under the TRS Publications Heading.

COMPASS ROSE EDUCATION, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 AUGUST 31, 2019

NOTE 6 -- PENSION PLAN OBLIGATION (CONT.)

The plan financial statements for the year ending August 31, 2018 reported a plan net position of \$155 billion with a total pension liability of \$210 billion. Net position of the plan represented 74% of the total pension liability.

Contribution requirements are not actuarially determined but are established and amended by the Texas State Legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 year, the period would be increased by such action. The following table presents contribution rates and amounts:

<u>Year Ending August 31,</u>	<u>Member</u>	<u>State</u>	<u>Employer</u>
<i>Rates</i>			
2019	7.70%	6.80%	1.50%
2018	7.70%	6.80%	1.50%
<i>Amounts</i>			
2019	\$123,813	\$109,341	\$ 45,618
2018	\$ 55,515	\$ 49,026	\$ 12,955

The employer is also required to contribute in certain circumstances such as salaries funded through certain private and federal grants, new members, and 1.5% of all covered salaries to TRS if the Charter does not participate in social security.

NOTE 7 -- RETIREE HEALTH PLAN

TRS also offers retiree health insurance, called TRS-Care, a cost-sharing multiple-employer defined benefit postemployment health care plan. Qualified retirees (and their dependents) receive health insurance paid for by the plan. The statutory authority for the program is Texas Insurance Code, Chapter 1575. The State, employees and employers contribute a portion of covered payroll.

Contribution requirements are not actuarially determined but are established each biennium by the Texas State Legislature. Contribution rates and amounts were as follows:

<u>Year Ending August 31,</u>	<u>Member</u>	<u>State</u>	<u>Employer</u>
<i>Rates</i>			
2019	0.65%	1.25%	0.75%
2018	0.65%	1.00%	0.75%
<i>Amounts</i>			
2019	\$ 10,452	\$ 20,100	\$ 14,782
2018	\$ 4,686	\$ 7,209	\$ 5,408

COMPASS ROSE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
AUGUST 31, 2019

NOTE 8 -- HEALTH CARE COVERAGE

During the year ended August 31, 2019, the employees of Compass Rose Education, Inc. were covered by a Health Insurance Plan (the Plan). The Charter contributes an amount per month per employee. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurers.

NOTE 9 -- OPERATING LEASES

In 2017, Compass Rose leased a school site. The lease agreement is for 10 years through July 31, 2027. The lease included improvement incentives and reduced payments in the early years. Rental expense for the year ending August 31, 2019 related to the lease was \$328,844 and scheduled payments were \$313,705. Future minimum lease payments and rent expense as of August 31, 2019 are as follows:

Year Ending August 31,	Future Minimum Lease Payments	Rent Expense
2020	\$ 360,976	\$ 320,169
2021	361,878	320,169
2022	371,805	320,169
2023	382,959	320,169
2024	382,959	320,169
2025	383,917	320,169
2026	394,448	320,169
2027	361,578	293,489

NOTE 10 -- LIQUIDITY AND AVAILABILITY

Compass Rose is substantially supported by the State of Texas Foundation School Program (FSP) which is based on student enrollment. Most of the private philanthropy received is without restriction or may be used for planned operating costs in the next fiscal year. Thus, all of the current assets reported on the Statement of Financial Position (\$878 thousand) are available to fund the operations of the Organization. After subtracting current liabilities, \$180 thousand net is available at August 31, 2019. In addition, an initial FSP allotment of \$4.2 million will be available to fund the 2020 fiscal year. The Organization's goal is to build up over 60 days of cash. While this was not achieved in the second school year, management anticipates reaching this goal by the end of 2020 with economies of scale from increased enrollment and collections on promises to give (both conditional and unconditional in the amount of \$800 thousand).

COMPASS ROSE EDUCATION, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 AUGUST 31, 2019

NOTE 11 -- COMMITMENTS AND CONTINGENCIES

Grantors

Compass Rose receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. Should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

Commitments

Compass Rose signed a lease in December 2018 for a new school site to be constructed. The lease is expected to commence in conjunction with the 2020/2021 school year with an initial term of 15 years with 4 5 year tenant options to extend. Rent will be calculated based on the development costs but is expected to be \$356,750 in year 1 and \$850,369 in year 2 with 2.5% increases annually thereafter. Additional charges and credits may be applicable based on performance metrics.

Concentrations

All state and federal grant resources for the years ending August 31, 2019 and 2018 were received because of the open enrollment charter school authorized by the State of Texas. These revenues would cease should the charter be revoked. In addition local resources were concentrated in three foundations as follows:

	August 31, 2019		August 31, 2018	
	Share of Local Revenues	Share of Promises to Give	Share of Local Revenues	Share of Promises to Give
Foundation 1	52%	50%	1%	N/A
Foundation 2	43%	50%	18%	N/A
Foundation 3	0%	0%	59%	N/A

NOTE 12 -- LITIGATION

Management is unaware of any pending or threatened litigation that would result in any significant financial impact.

NOTE 13 -- SUBSEQUENT EVENT

In October 2019, a promissory note in the amount of \$200,000 was executed for the purchase of portable classrooms. The note bears interest at 6% and matures October 2021. Interest only payments are required semi-annually until maturity at which point the principal will be due. The note is secured by the portable buildings.

SUPPLEMENTARY INFORMATION

COMPASS ROSE EDUCATION, INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019

EXPENSES

6100 Payroll	\$ 2,177,003
6200 Professional and Contracted Services	760,878
6300 Supplies and Materials	645,741
6400 Other Operating Costs	96,542
6500 Debt Service	<u>1,291</u>
Total Expenses	<u>\$ 3,681,455</u>

COMPASS ROSE EDUCATION, INC.
 SCHEDULE OF CAPITAL ASSETS
 AUGUST 31, 2019

	<u>Local</u>	<u>State</u>	<u>Federal</u>
1110 Cash	\$ (263,236)	\$ 383,786	\$ (55,098)
1510 Land and Improvements	-	-	-
1520 Buildings and Improvements	-	540,097	-
1531 Vehicles	-	16,191	-
1539 Furniture and Equipment	-	-	19,878
Total Property and Equipment	<u>\$ (263,236)</u>	<u>\$ 940,074</u>	<u>\$ (35,220)</u>

Note: Compass Rose utilizes a pooled cash system. Negative cash amounts reflected above represent short-term borrowings that will be repaid upon the collection of receivables from granting agency reimbursements and promises to give.

COMPASS ROSE EDUCATION, INC.
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2019

	Budgeted Amounts		Actual	Variance from Final Budget
	Original	Final	Amounts (Budgetary)	
REVENUE				
5700 Local Support	\$ 850,000	\$ 1,170,000	\$ 1,161,628	\$ (8,372)
5800 State Funding	1,697,737	1,690,000	1,873,012	183,012
5900 Federal Funding	213,120	390,000	652,532	262,532
TOTAL REVENUE	<u>2,760,857</u>	<u>3,250,000</u>	<u>3,687,172</u>	<u>437,172</u>
EXPENSES				
11 Instruction	1,101,617	1,245,000	1,479,781	(234,781)
12 Instructional Resources	12,240	-	-	-
13 Curriculum Development and Instructional Student Development	100,000	180,000	205,379	(25,379)
21 Instructional Leadership	-	2,000	15,143	(13,143)
23 School Leadership	661,175	485,000	614,029	(129,029)
31 Guidance, Counseling and Evaluation Services	25,000	-	8,092	(8,092)
32 Social Work	5,000	-	-	-
33 Health Services	5,000	8,000	7,901	99
34 Student Transportation	68,544	50,000	44,691	5,309
35 Food Services	104,040	100,000	95,273	4,727
36 Extracurricular Activities	9,792	15,000	26,043	(11,043)
41 General Administration	288,825	510,000	538,149	(28,149)
51 Plant Maintenance	487,737	600,000	536,749	63,251
52 Security	13,412	-	-	-
53 Data Processing Services	25,118	30,000	29,275	725
61 Community Service	108,750	75,000	79,659	(4,659)
71 Debt Service	-	-	1,291	(1,291)
TOTAL EXPENSES	<u>3,016,250</u>	<u>3,300,000</u>	<u>3,681,455</u>	<u>(381,455)</u>
CHANGE IN NET ASSETS	<u>\$ (255,393)</u>	<u>\$ (50,000)</u>	<u>\$ 5,717</u>	<u>\$ 55,717</u>

See Independent Auditor's Report.

COMPASS ROSE EDUCATION, INC.
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2019

BUDGETARY DIFFERENCES

Texas Education Agency requires explanations and corrective actions for any functional expenses that exceed the budget by more than 10%. Several functions met this threshold for the fiscal year ending August 31, 2019.

The 2018-2019 school year represented significant enrollment growth from Compass Rose, with a greater than 100% increase. While still a fairly small campus, any increase in expenses (especially in personnel) make a drastic impact. Some needs for additional expense (again, especially in personnel) were responsive during the school year rather than projected expense.

More impactful to the budget versus actual difference, though, is the necessity for a school like Compass Rose to begin planning for the next year during the current year when enrollment is projected to more-than-double again. It is not possible for a school with 190 students to prepare to effectively educate almost 400 students the following year without a significant financial impact. Because many of these additional expenses (again, especially in personnel) are incurred leading up to the start of the following the school year, the costs (and their associated accruals) were not reflected in the 2018-2019 budget. Some of the costs incurred are moreso for future growth beyond the following school year (in both personnel and facilities) as Compass Rose prepares to become a multi-campus charter school network. Compass Rose is fortunate to have been awarded grants to cover these growth costs that are a part of the budget versus actual difference.

After seeing the costs incurred to prepare for growth, Compass Rose has a better gauge for the expense involved and anticipates being better able to amend budgets accordingly the following year and beyond. In addition, a Chief Financial Officer position was created and filled that will allow Compass Rose to better anticipate and plan for future expenditures, rather than relying on a third-party service provider.

**COMPLIANCE AND
INTERNAL CONTROL**



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

Deborah F. Fraser

Phil S. Vaughan

Nancy L. Vaughan

Kimberly J. Roach

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Compass Rose Education, Inc. (Compass Rose)
San Antonio, Texas

We have audited 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, the combined financial statements of Compass Rose, which comprise the statement of financial position as of August 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 6, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Compass Rose'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Compass Rose's internal control. Accordingly, we do not express an opinion on the effectiveness of Compass Rose'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.

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 material weaknesses. However, material weaknesses may exist that have not been identified.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether Compass Rose Education, Inc.'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*.

We noted certain matters that we have reported to management in a separate letter dated January 6, 2020.

Purpose of This 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.



Armstrong, Vaughan & Associates, P.C.

January 6, 2020