



COMPASS ROSE

*COMPASS ROSE EDUCATION, INC.*

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED*

*AUGUST 31, 2020*

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**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, 2020, at a meeting of the governing body of the charter holder on the 15<sup>th</sup> day of January, 2021.



\_\_\_\_\_  
Signature of Board Secretary



\_\_\_\_\_  
Signature of Board President



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

## 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, 2020 and 2019, 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, 2020 and 2019, 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.

## ***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 11, 2021 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 11, 2021

**GENERAL-PURPOSE  
FINANCIAL STATEMENTS**

COMPASS ROSE EDUCATION, INC.  
STATEMENTS OF FINANCIAL POSITION  
AUGUST 31, 2020 AND 2019

	2020	2019
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash and Cash Equivalents	\$ 2,418,573	\$ 65,452
Accounts Receivable:		
Texas Education Agency	109,444	291,255
Promises to Give - Current	300,000	500,000
Other	365	766
Prepaid Expenses	148,586	20,743
<i>Total Current Assets</i>	2,976,968	878,216
<i>Other Assets:</i>		
Promises to Give (Net of Current Portion)	200,000	-
Property and Equipment, net	6,497,317	481,662
<i>Total Other Assets</i>	6,697,317	481,662
 <b>TOTAL ASSETS</b>	 <b>\$ 9,674,285</b>	 <b>\$ 1,359,878</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<i>Current Liabilities:</i>		
Accounts Payable	\$ 3,987,845	\$ 116,536
Payroll Deductions and Withholdings	-	19,162
Accrued Wages	644,432	352,939
Due to State	142,139	-
Line of Credit	100,000	210,000
Current Portion of Notes Payable	100,678	-
<i>Current Liabilities</i>	4,975,094	698,637
<i>Other Liabilities:</i>		
Notes Payable - Net of Current Portion	3,800,726	-
Deferred Rent	583,560	465,848
<i>Total Other Liabilities</i>	4,384,286	465,848
<i>Total Liabilities</i>	9,359,380	1,164,485
<i>Net Assets:</i>		
With Donor Restrictions	-	82,023
Without Donor Restrictions	314,905	113,370
<i>Total Net Assets</i>	314,905	195,393
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b>\$ 9,674,285</b>	 <b>\$ 1,359,878</b>

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

COMPASS ROSE EDUCATION, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Totals
<b>REVENUE</b>			
<i>Local Revenue</i>			
5740 Other Local Revenues	\$ 2,549,918	\$ -	\$ 2,549,918
5750 Enterprising Revenues	7,156	-	7,156
<i>State Program Revenues</i>			
5810 Foundation School Program	-	3,361,013	3,361,013
5820 Other State Programs	-	132,479	132,479
<i>Federal Program Revenues</i>			
5920 Passed Through Texas Education Agency	-	649,155	649,155
5940 Other Federal Sources	-	586,189	586,189
	<u>2,557,074</u>	<u>4,728,836</u>	<u>7,285,910</u>
Net Assets Released from Restrictions	<u>4,810,859</u>	<u>(4,810,859)</u>	<u>-</u>
<b>TOTAL REVENUE</b>	<u><u>7,367,933</u></u>	<u><u>(82,023)</u></u>	<u><u>7,285,910</u></u>
<b>EXPENSES</b>			
11 Instruction	2,682,817	-	2,682,817
13 Curriculum Development and Instructional Student Development	286,838	-	286,838
23 School Leadership	1,327,545	-	1,327,545
31 Guidance and Counseling	97,422	-	97,422
32 Social Work Services	921	-	921
33 Health Services	60,452	-	60,452
34 Student Transportation	111,640	-	111,640
35 Food Services	229,599	-	229,599
36 Extracurricular Activities	48,071	-	48,071
41 General Administration	871,866	-	871,866
51 Plant Maintenance	1,100,118	-	1,100,118
52 Security and Monitoring	10,585	-	10,585
53 Data Processing	100,038	-	100,038
61 Community Service	171,358	-	171,358
71 Debt Service	67,128	-	67,128
<b>TOTAL EXPENSES</b>	<u><u>7,166,398</u></u>	<u><u>-</u></u>	<u><u>7,166,398</u></u>
<b>CHANGE IN NET ASSETS</b>	201,535	(82,023)	119,512
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>113,370</u>	<u>82,023</u>	<u>195,393</u>
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 314,905</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 314,905</u></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, 2019

	Without Donor Restrictions	With Donor Restrictions	Totals
<b>REVENUE</b>			
<i>Local Revenue</i>			
5740 Other Local Revenues	\$ 1,053,141	\$ 108,487	\$ 1,161,628
<i>State Program Revenues</i>			
5810 Foundation School Program	-	1,821,592	1,821,592
5820 Other State Programs	-	51,420	51,420
<i>Federal Program Revenues</i>			
5920 Passed Through Texas Education Agency	-	652,532	652,532
	1,053,141	2,634,031	3,687,172
Net Assets Released from Restrictions	2,552,008	(2,552,008)	-
<b>TOTAL REVENUE</b>	<b>3,605,149</b>	<b>82,023</b>	<b>3,687,172</b>
<b>EXPENSES</b>			
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
<b>TOTAL EXPENSES</b>	<b>3,681,455</b>	<b>-</b>	<b>3,681,455</b>
<b>CHANGE IN NET ASSETS</b>	<b>(76,306)</b>	<b>82,023</b>	<b>5,717</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>189,676</b>	<b>-</b>	<b>189,676</b>
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 113,370</b>	<b>\$ 82,023</b>	<b>\$ 195,393</b>

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, 2020

<b>EXPENSES</b>	Payroll and Benefits	Professional and Contract Services	Supplies and Materials	Other Operating Costs	Debt Service	Totals
11 Instruction	\$1,578,317	\$ 162,024	\$ 938,238	\$ 4,238	\$ -	\$2,682,817
13 Curriculum and Instructional						
Student Development	167,104	26,295	76,543	16,896	-	286,838
23 School Leadership	1,299,545	28,000	-	-	-	1,327,545
31 Guidance and Counseling	96,397	1,025	-	-	-	97,422
32 Social Work Services	-	921	-	-	-	921
33 Health Services	26,122	11,251	23,079	-	-	60,452
34 Student Transportation	5,512	101,781	247	4,100	-	111,640
35 Food Services	38,168	-	190,458	973	-	229,599
36 Extracurricular Activities	12,737	1,515	19,485	14,334	-	48,071
41 General Administration	626,510	215,814	12,941	16,601	-	871,866
51 Plant Maintenance	111,086	860,548	30,147	98,337	-	1,100,118
52 Security and Monitoring	-	10,585	-	-	-	10,585
53 Data Processing	-	90,098	-	9,940	-	100,038
61 Community Service	94,330	14,586	62,442	-	-	171,358
71 Debt Service	-	-	-	-	67,128	67,128
<b>TOTAL EXPENSES</b>	<u>\$4,055,828</u>	<u>\$1,524,443</u>	<u>\$1,353,580</u>	<u>\$ 165,419</u>	<u>\$ 67,128</u>	<u>\$7,166,398</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

<b>EXPENSES</b>	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
<b>TOTAL EXPENSES</b>	<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.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	2020	2019
<b>CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Cash Received from State and Federal Grantors	\$ 5,052,786	\$ 2,353,429
Cash Received from Others	2,557,475	660,862
Cash Paid to Employees for Services	(3,783,497)	(1,804,902)
Payments to Vendors for Goods and Services	(2,712,722)	(1,323,533)
Interest Paid	(50,480)	(1,291)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>1,063,562</b>	<b>(115,435)</b>
<b>CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(2,485,197)	(127,919)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(2,485,197)</b>	<b>(127,919)</b>
<b>CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES</b>		
Issuance of Promissory Notes	4,310,279	-
Debt Issuance Costs Paid	(425,523)	-
Advances (Repayments) on Line of Credit	(110,000)	210,000
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>3,774,756</b>	<b>210,000</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>2,353,121</b>	<b>(33,354)</b>
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<b>65,452</b>	<b>98,806</b>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$ 2,418,573</b>	<b>\$ 65,452</b>

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

COMPASS ROSE EDUCATION, INC.  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

	2020	2019
<b>RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Increase (Decrease) in Net Assets	\$ 119,512	\$ 5,717
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	91,873	49,303
Amortization of Debt Issuance Costs	16,648	-
(Increase) Decrease in Current Assets:		
Accounts Receivable:		
Texas Education Agency	181,811	(172,115)
Promises to Give	-	(500,000)
Other	401	(766)
Prepaid Expenses	(127,843)	(9,698)
Increase (Decrease) in Liabilities:		
Accounts Payable	248,978	56,207
Payroll Deductions and Withholdings	(19,162)	19,162
Accrued Wages	291,493	352,939
Due to State	142,139	-
Deferred Rent	117,712	83,816
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>\$ 1,063,562</b>	<b>\$ (115,435)</b>

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

COMPASS ROSE EDUCATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2020

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 kindergarten 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, 2020

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, 2017.

*Subsequent Events*

Subsequent events were considered through January 11, 2021, 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, 2020

NOTE 2 -- CASH

As of August 31, 2020, the Organizations cash deposits exceeded the coverage provided by FDIC by \$2,168,573. These deposits would be at risk should the Organization's depository become insolvent.

NOTE 3 -- ACCOUNTS RECEIVABLE

Accounts Receivable Texas Education Agency at August 31, 2020 consisted of the following:

	<u>2020</u>	<u>2019</u>
Texas Education Agency		
Foundation School Program	\$ -	\$ 222,215
Federal Reimbursement Grants	19,055	57,405
National School Breakfast and Lunch	90,389	11,635
Total Accounts Receivable	<u>\$ 109,444</u>	<u>\$ 291,255</u>

As of August 31, 2020, the Organization received Foundation School Programs payments in excess of the calculated funding based on enrollment and other factors. This excess is reported as Due to State on the statement of financial position in the amount of \$142,139.

NOTE 4 -- PROMISES TO GIVE

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. Promises to give at August 31, 2020 consisted of one conditional promise to give from a charitable foundation to be paid in two installments: \$300,000 June 2021 and \$200,000 June 2022.

In addition, Compass Rose received conditional promises to give of \$1,250,000 and \$1,000,000 as of August 31, 2020 and 2019, respectively. These grants will be received and recognized over the next four fiscal years as the conditions are met.

NOTE 5 -- CAPITAL ASSETS

Capital assets at August 31, 2020 were as follows:

	<u>2020</u>	<u>2019</u>
Leasehold Improvements	\$ 6,399,949	\$ 540,097
Vehicles and Equipment	263,868	36,069
Total Property and Equipment	6,663,817	576,166
Less: Accumulated Depreciation	<u>(166,500)</u>	<u>(94,504)</u>
Property and Equipment - Net	<u>\$ 6,497,317</u>	<u>\$ 481,662</u>

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 \$91,873 and \$49,303 for the years ended August 31, 2020 and 2019, respectively. These capital assets have been pledged as security for the Organization's promissory notes.



COMPASS ROSE EDUCATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
AUGUST 31, 2020

NOTE 6 -- 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 was amended in February 2020 to reduce the amount available to \$150,000 and to make it unsecured. The agreement matures February 28, 2021 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, 2020 and 2019).

NOTE 7 -- NOTES PAYABLE

The following summarizes the Organization's outstanding promissory notes:

	<u>Interest Rate</u>	<u>Original Principal</u>	<u>Outstanding August 31, 2020</u>	<u>Due in One Year</u>
Loan Secured by Technology. Monthly Payments of \$7,622 until maturity November 2022.	6.0%	\$ 181,015	\$ 181,015	\$ 75,758
Loan Secured by Leasehold Improvements. Semi-annual interest only Payments until maturity October 2021.	6.0%	152,979	152,979	-
Loan Secured by Leasehold Improvements. Interest only payments through May 2021 then monthly payments of \$11,474 to maturity June 2025 with a balloon payment.	6.50%	1,539,000	1,539,000	9,466
Loan Secured by Leasehold Improvements. Interest only payments through May 2021 then monthly payments of \$12,123 to maturity November 2024 with a balloon payment.	3.4%	2,437,285	2,437,285	15,454
Unamortized Debt Issuance Costs		(425,523)	(408,875)	-
			<u>\$ 3,901,404</u>	<u>\$ 100,678</u>

In addition, as of August 31, 2020, the Organization has access to additional principal on the notes above in the amount of \$4.8 million that is expected to be drawn upon in the year ending August 31, 2021.

Future debt service on these notes is as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 100,678	\$ 201,042	\$ 301,720
2022	343,098	187,191	530,289
2023	125,172	175,884	301,056
2024	112,542	170,630	283,172
2025	3,628,789	94,136	3,722,925
	<u>\$ 4,310,279</u>	<u>\$ 828,883</u>	<u>\$ 5,139,162</u>

COMPASS ROSE EDUCATION, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONT.)  
 AUGUST 31, 2020

NOTE 8 -- PAYCHECK PROTECTION PROGRAM

The Organization obtained a forgivable loan through the Paycheck Protection Program in the amount of \$495,800. The Organization elected to account for this as a conditional grant and record this as federal grant revenue. The requirements were met for forgiveness, which was officially received November 2, 2020.

NOTE 9 -- LEASES

Compass Rose leases three school sites from third parties. The lease agreements vary in length from 10 to 31 years, with the longest one terminating in 2051. The leases include improvement incentives and rent abatements in the early years. Rental expense for the years ending August 31, 2020 and 2019 were \$390,705 and \$328,844, respectively. Future minimum lease payments and rent expense as of August 31, 2020 are as follows:

Year Ending August 31,	Future Minimum Lease Payments	Rent Expense
2021	\$ 1,241,233	\$ 2,593,356
2022	2,073,692	2,593,356
2023	2,407,519	2,593,356
2024	2,455,956	2,593,356
2025	2,495,918	2,593,356
2026-2030	11,838,037	11,983,574
2031-2035	11,830,394	11,292,167
2036-2040	6,826,430	6,558,853
2041-2045	7,354,004	6,558,853
2046-2050	7,922,351	6,558,853
2051	275,735	218,628

NOTE 10 -- NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of August 31, 2019 consisted of \$3,805 for the National School Breakfast and Lunch Program and \$78,218 for compensation for Innovative School Fellows. Both of these restrictions were released during the year ending August 31, 2020 as expenses were incurred to satisfy these restrictions.

COMPASS ROSE EDUCATION, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONT.)  
 AUGUST 31, 2020

NOTE 11 -- 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](http://www.trs.state.tx.us), under the TRS Publications Heading.

The plan financial statements for the year ending August 31, 2019 reported a plan net position of \$158 billion with a total pension liability of \$210 billion. Net position of the plan represented 75% 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>			
2020	7.70%	7.50%	1.50%
2019	7.70%	6.80%	1.50%
<i>Amounts</i>			
2020	\$254,568	\$247,956	\$193,497
2019	\$123,813	\$109,341	\$ 45,618

The employer is also required to contribute in certain circumstances such as salaries funded through certain private and federal grants, new members, and salaries above the statutory minimums.

NOTE 12 -- 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.

COMPASS ROSE EDUCATION, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONT.)  
 AUGUST 31, 2020

NOTE 12 -- RETIREE HEALTH PLAN (CONT.)

The plan financial statements for the year ending August 31, 2019 reported a plan net position of \$1.3 billion with a total pension liability of \$49 billion. Net position of the plan represented 3% of the total pension liability.

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>			
2020	0.65%	1.25%	0.75%
2019	0.65%	1.25%	0.75%
<i>Amounts</i>			
2020	\$ 21,489	\$ 41,325	\$ 33,731
2019	\$ 10,452	\$ 20,100	\$ 14,782

NOTE 13 -- HEALTH CARE COVERAGE

During the year ended August 31, 2020, 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 14 -- 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 net assets reported on the Statement of Financial Position (\$315 thousand) are available to fund the operations of the Organization. The Organization has access to capital on promissory notes that have not been drawn in the amount of \$4.8 million. These notes will be used to reimburse the Organization for capital costs for facilities. In addition, an initial FSP allotment of \$12.3 million will be available to fund the 2021 fiscal year.

NOTE 15 -- 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.

COMPASS ROSE EDUCATION, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONT.)  
 AUGUST 31, 2020

NOTE 15 -- COMMITMENTS AND CONTINGENCIES (CONT.)

*Commitments*

Compass Rose contracted for leasehold improvements for one school site for an estimated total of \$7.35 million. As of August 31, 2020, \$5.14 million has been incurred, leaving an estimated commitment of \$2.21 million.

*Concentrations*

All state and federal grant resources for the years ending August 31, 2020 and 2019 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, 2020		August 31, 2019	
	Share of Local Revenues	Share of Promises to Give	Share of Local Revenues	Share of Promises to Give
Foundation 1	0%	0%	52%	50%
Foundation 2	39%	100%	43%	50%
Foundation 3	20%	0%	0%	0%
Foundation 4	13%	0%	0%	0%

NOTE 16 -- LITIGATION

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

NOTE 17 -- SUBSEQUENT EVENTS

In September 2020, the Organization signed a lease for a fourth school site. The lease has an initial term of 25 years with optional renewals and purchase options. The lease will commence July 1, 2021. First year rent is expected to be \$1.6 million and grow annually by the consumer price index.

The Organization has drawn an additional \$4.15 million on the promissory notes.

**SUPPLEMENTARY INFORMATION**

COMPASS ROSE EDUCATION, INC.  
SCHEDULE OF EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2020

**EXPENSES**

6100 Payroll	\$ 4,055,828
6200 Professional and Contracted Services	1,524,443
6300 Supplies and Materials	1,353,580
6400 Other Operating Costs	165,419
6500 Debt Service	<u>67,128</u>
Total Expenses	<u>\$ 7,166,398</u>

COMPASS ROSE EDUCATION, INC.  
 SCHEDULE OF CAPITAL ASSETS  
 AUGUST 31, 2020

	<u>Local</u>	<u>State</u>	<u>Federal</u>
1110 Cash	\$ 1,218,770	\$ 1,199,803	\$ -
1510 Land and Improvements	-	-	-
1520 Leasehold Improvements	-	6,399,949	-
1531 Vehicles	-	20,501	-
1539 Furniture and Equipment	-	152,978	90,389
Total Property and Equipment	<u>\$ 1,218,770</u>	<u>\$ 7,773,231</u>	<u>\$ 90,389</u>

See Independent Auditor's Report.



COMPASS ROSE EDUCATION, INC.  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2020

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUE</b>				
<i>Local Revenues</i>				
5740 Other Local Revenues	\$ 850,000	\$ 1,750,000	\$ 2,549,918	\$ 799,918
5750 Enterprising Revenues	-	-	7,156	7,156
<i>State Program Revenues</i>				
5810 Foundation School Program	4,150,000	3,900,000	3,361,013	(538,987)
5820 Other State Programs	-	-	132,479	132,479
<i>Federal Program Revenues</i>				
5920 Passed Through Texas Education Agency	400,000	714,200	649,155	(65,045)
5940 Other Federal Sources	-	535,800	586,189	50,389
<b>TOTAL REVENUE</b>	<u>5,400,000</u>	<u>6,900,000</u>	<u>7,285,910</u>	<u>385,910</u>
<b>EXPENSES</b>				
11 Instruction	2,100,000	2,568,950	2,682,817	(113,867)
13 Curriculum Development and Instructional Student Development	250,000	263,100	286,838	(23,738)
21 Instructional Leadership	100,000	4,000	-	4,000
23 School Leadership	800,000	1,428,238	1,327,545	100,693
31 Guidance and Counseling	70,000	81,724	97,422	(15,698)
32 Social Work Services	10,000	1,000	921	79
33 Health Services	10,000	57,314	60,452	(3,138)
34 Student Transportation	110,000	80,000	111,640	(31,640)
35 Food Services	200,000	230,000	229,599	401
36 Extracurricular Activities	50,000	42,726	48,071	(5,345)
41 General Administration	850,000	837,676	871,866	(34,190)
51 Plant Maintenance	600,000	956,442	1,100,118	(143,676)
52 Security	20,000	5,000	10,585	(5,585)
53 Data Processing Services	30,000	105,000	100,038	4,962
61 Community Service	100,000	208,830	171,358	37,472
71 Debt Service	-	30,000	67,128	(37,128)
<b>TOTAL EXPENSES</b>	<u>5,300,000</u>	<u>6,900,000</u>	<u>7,166,398</u>	<u>(266,398)</u>
<b>CHANGE IN NET ASSETS</b>	100,000	-	119,512	119,512
<b>BEGINNING NET ASSETS</b>	195,393	195,393	195,393	-
<b>ENDING NET ASSETS</b>	<u>\$ 295,393</u>	<u>\$ 195,393</u>	<u>\$ 314,905</u>	<u>\$ 119,512</u>

See Independent Auditor's Report.

COMPASS ROSE EDUCATION, INC.  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2020

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, 2020.

The 2019-2020 school year represented significant enrollment growth for Compass Rose, with a greater than 90% increase (after seeing a greater than 100% increase the previous year). Expenses are being incurred for the second campus that opened in August 2020 and for the creation of two more campuses in the near future. These new campuses include new financing and creative lease agreements that are favorable to Compass Rose but create accounting complexity for which it is difficult to budget.

Compass Rose is committed to reviewing and improving its budget processes so that the budget-to-actual variances will be minimized in future years despite being in a stage of growth.

**COMPLIANCE AND  
INTERNAL CONTROL**



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

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, 2020, 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 11, 2021.

***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 11, 2021.

## **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 11, 2021