



AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2018**

**A NONPROFIT PUBLIC BENEFIT CORPORATION
OPERATING THE FOLLOWING CALIFORNIA CHARTER SCHOOLS**

Compass Charter Schools of San Diego (Charter No. 1454)
Compass Charter Schools of Fresno (Charter No. 1631)
Compass Charter Schools of Los Angeles (Charter No. 1651)

San Diego

Los Angeles

**San Francisco
Bay Area**

christywhite
A PROFESSIONAL
ACCOUNTANCY CORPORATION *associates*

COMPASS CHARTER SCHOOLS
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JUNE 30, 2018

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Compass Charter Schools
Thousand Oaks, California

Report on the Financial Statements

We have audited the accompanying financial statements of Compass Charter Schools (the "Organization") which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

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State Board of Accountancy*

Opinion

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of Compass Charter Schools taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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 additional 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 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 November 26, 2018, on our consideration of the Organization'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 solely 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 effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.



San Diego, California
November 26, 2018

COMPASS CHARTER SCHOOLS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

Current assets

Cash and cash equivalents	\$ 2,993,836
Investments	2,263,635
Accounts receivable	713,572
Prepaid expenses	38,859
Other current assets	5,000

Total Assets	\$ 6,014,902
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LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 876,570
Deferred revenue	15,000
Total liabilities	891,570

Net assets

Unrestricted	5,080,481
Temporarily restricted	42,851
Total net assets	5,123,332
Total Liabilities and Net Assets	\$ 6,014,902

The notes to the financial statements are an integral part of this statement.

COMPASS CHARTER SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Federal and state support and revenues			
Local control funding formula, state aid	\$ 6,788,750	\$ -	\$ 6,788,750
Other state revenues	1,388,666	-	1,388,666
Total federal and state support and revenues	8,177,416	-	8,177,416
Local support and revenues			
Payments in lieu of property taxes	807,981	-	807,981
Investment income, net	52,716	-	52,716
Other local revenues	818,848	-	818,848
Total local support and revenues	1,679,545	-	1,679,545
Donor restrictions satisfied	81,791	(81,791)	-
Total Support and Revenues	9,938,752	(81,791)	9,856,961
Expenses			
Program services	11,046,480	-	11,046,480
Management and general	1,497,505	-	1,497,505
Total Expenses	12,543,985	-	12,543,985
CHANGE IN NET ASSETS	(2,605,233)	(81,791)	(2,687,024)
Net Assets - Beginning	7,685,714	124,642	7,810,356
Net Assets - Ending	\$ 5,080,481	\$ 42,851	\$ 5,123,332

The notes to the financial statements are an integral part of this statement.

COMPASS CHARTER SCHOOLS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

California Charter No.	Program Services			Total Program Services	Management and General	Total Expenses
	1454 Compass Charter Schools of San Diego	1631 Compass Charter Schools of Fresno	1651 Compass Charter Schools of Los Angeles			
EXPENSES						
Personnel expenses						
Certificated salaries	\$ 1,771,535	\$ 593,527	\$ 2,017,303	\$ 4,382,365	\$ 34,273	\$ 4,416,638
Non-certificated salaries	172,954	100,013	340,671	613,638	532,664	1,146,302
Employee benefits	692,091	236,061	802,995	1,731,147	61,319	1,792,466
Total personnel expenses	2,636,580	929,601	3,160,969	6,727,150	628,256	7,355,406
Non-personnel expenses						
Books and supplies	826,390	318,435	1,051,358	2,196,183	711	2,196,894
Services and other operating	742,153	271,329	904,121	1,917,603	410,402	2,328,005
Interest expense	-	-	-	-	16,369	16,369
Payments to authorizing agencies	24,246	20,100	161,198	205,544	22,838	228,382
Repayment of revenues	-	-	-	-	418,929	418,929
Total non-personnel expenses	1,592,789	609,864	2,116,677	4,319,330	869,249	5,188,579
Total Expenses	\$ 4,229,369	\$ 1,539,465	\$ 5,277,646	\$ 11,046,480	\$ 1,497,505	\$ 12,543,985

The notes to the financial statements are an integral part of this statement.

COMPASS CHARTER SCHOOLS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (2,687,024)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Net realized/unrealized gain on investments	(27,228)
(Increase) decrease in operating assets	
Accounts receivable	4,435,456
Prepaid expenses	7,802
Other current assets	(5,000)
Increase (decrease) in operating liabilities	
Accounts payable	(894,372)
Deferred revenue	15,000
Net cash provided by (used in) operating activities	<u>844,634</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Transfers from investment account to operating account	1,022,896
Transfer to establish money market investment account	(250,000)
Net cash provided by (used in) investing activities	<u>772,896</u>

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS 1,617,530

Net cash and cash equivalents - Beginning 1,376,306

Net cash and cash equivalents - Ending \$ 2,993,836

SUPPLEMENTAL DISCLOSURE

Cash paid on interest	<u>\$ 16,369</u>
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The notes to the financial statements are an integral part of this statement.

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Compass Charter Schools (the “Organization”), was formed as a nonprofit public benefit corporation on October 28, 2011 under the name Academy of Arts & Sciences. In February 2017, the Organization changed its name to Compass Charter Schools. The main purpose of the Organization is to manage public charter schools. Compass Charter Schools’ mission is to inspire, and develop innovative, creative, self-directed learners, one scholar at a time. Funding sources primarily consist of state apportionments, in lieu of property tax revenues, and grants and donations from the public. During the fiscal year ended June 30, 2018, Compass Charter Schools operated three (3) California public charter schools. Information on each charter school is as follows:

Charter School	Charter No.	Classes Began	Authorizing Agency	County
Compass Charter Schools of San Diego	1454	8/27/2012	MEUSD	San Diego
Compass Charter Schools of Fresno	1631	7/1/2014	OC	Fresno
Compass Charter Schools of Los Angeles	1651	7/1/2014	AADUSD	Los Angeles

The authorizing agencies noted above include: Acton-Agua Dulce Unified School District (AADUSD), Mountain Empire Unified School District (MEUSD), and Orange Center School District (OC).

B. Basis of Accounting

The Organization’s policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenues are recognized when earned rather than when cash is received and certain expenses and purchases of assets are recognized when the obligation is incurred rather than when cash is disbursed.

C. Financial Statement Presentation

Compass Charter Schools is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include all resources available for use by the Board of Directors and management’s discretion in carrying out the activities of the organization in accordance with its Bylaws. Temporarily or permanently restricted net assets are only expendable for the purposes specified by the donor or through the passage of time. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets are generally required to be held by the organization in perpetuity while the earnings on those assets are available for use by the organization to support operations. Donors can place restrictions on the earnings from permanently restricted contributions at the time the contributions are made or pledged. Fund accounting is not used in the Organization’s financial statement presentation.

D. 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, such as depreciation expense and the net book value of capital assets. Accordingly, actual results could differ from those estimates.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Functional Expenses

The costs of providing services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Certain costs and expenses have been allocated between program and supporting services based on management's estimates.

F. Contributions

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the existence or nature of any donor restrictions.

Non-cash contributions of goods, materials, and facilities are recorded at fair value at the date of contribution. Contributed services are recorded at fair value at the date of contribution if they are used to create or enhance a non-financial asset or require specialized skills, are provided by someone possessing those skills, and would have to be purchased by the organization if not donated.

G. In Lieu of Property Taxes Revenue

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County bills and collects the taxes for the authorizing agency. In lieu of distributing funds out of property tax proceeds, the authorizing agency makes monthly payments to Compass Charter Schools. Revenues are recognized by the Organization when earned.

H. Cash and Investments

Compass Charter Schools considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents. The Organization's method of accounting for most investments is the fair value method. Fair value is determined by published quotes when they are readily available. Gains and losses resulting from adjustments to fair values are included in the accompanying statement of activities.

I. Receivables and Allowances

Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. Based on review of these factors, the Organization establishes or adjusts the allowance for specific revenue sources as a whole. At June 30, 2018, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Capital Assets

Compass Charter Schools has not yet adopted a policy to capitalize asset purchases in conformance with generally accepted accounting principles because the Organization does not own, nor does it plan to acquire, property or equipment of significant value.

K. Deferred Revenue

Deferred revenue arises when potential revenue does not meet the criteria for recognition in the current period and when resources are received by the organization prior to the incurrence of expenses. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the statement of financial position and revenue is recognized.

L. Income Taxes

Compass Charter Schools is a 509(a)(1) publicly supported nonprofit organization that is exempt from income taxes under Section 501(a) and 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. The Organization is exempt from state franchise or income tax under Section 23701(d) of the California Revenue and Taxation Code. As an organization operating schools, the Organization is not required to register with the California Attorney General as a charity.

The Organization's management believes all of its significant tax positions would be upheld under examination; therefore, no provision for income tax has been recorded. The Organization's information and/or tax returns are subject to examination by the regulatory authorities for up to four years from the date of filing.

M. Fair Value Measurements

The Fair Value Measurements Topic of the FASB *Accounting Standards Codification* establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. |
| Level 2 | Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement. |

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

N. New Accounting Pronouncements

Not-for-Profit Financial Reporting Model Standard

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities* whereby significant changes were proposed in seven areas: net asset classes, liquidity and availability of resources, classification and disclosure of underwater endowment funds, expense reporting, statement of cash flows, investment return, and release of restrictions on capital assets. The amendments in ASU No. 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization has not yet determined the impact on the financial statements.

Revenue Recognition

In May 2014, the International Accounting Standards Board (IASB) and FASB issued a joint accounting standard on revenue recognition to address a number of concerns regarding the complexity and lack of consistency surrounding the accounting for revenue transactions. Consistent with each board's policy, FASB and IASB issued new reporting standards on revenue recognition. FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The guidance in FASB ASU No. 2014-09 provides a framework for revenue recognition and supersedes or amends several of the revenue recognition requirements in FASB ASC 605 *Revenue Recognition*. The guidance was originally effective for public entities for the fiscal year beginning after December 15, 2016. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, to allow entities additional time to implement systems, gather data, and resolve implementation questions. The new requirements are to be applied to fiscal years beginning after December 15, 2017. The Organization has not yet determined the impact on the financial statements.

Leases

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The objective of the ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. The new FASB ASU topic on leases consists of five subtopics: overall, lessee, lessor, sale and leaseback transactions, and leveraged lease arrangements. ASU No. 2016-02 is applicable to any entity that enters into a lease and is effective for public business entities for fiscal years beginning after December 15, 2018. The Organization has not yet determined the impact on the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2018, consist of the following:

Cash in county treasury	\$	2,316,349
Cash in banks, non-interest bearing		511,409
Cash in banks, interest bearing		166,078
Total Cash and Cash Equivalents	\$	2,993,836

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Cash in Banks

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, an organization's deposits may not be returned to it. Compass Charter Schools does not have a policy for custodial credit risk for deposits. The FDIC insures up to \$250,000 per depositor per insured bank. As of June 30, 2018, \$308,911 of Compass Charter Schools' bank balance was exposed to custodial credit risk as there were deposits over \$250,000 at two separate banks.

Cash in County Treasury

Policies and Practices

Compass Charter Schools is a voluntary participant in an external investment pool for two of its charter schools. The fair value of the Organization's investment in the pool is reported in the financial statements at amounts based upon the Organization's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio in relation to the amortized cost of that portfolio. The balance available for withdrawal is recorded on the amortized cost basis and is based on the accounting records maintained by the County Treasurer.

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest Organization funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the California Government Code:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 2 – CASH AND CASH EQUIVALENTS (continued)

Cash in County Treasury (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of the investment, the greater the sensitivity of its fair value to changes in the market interest rates. The Organization has managed its exposure to interest rate risk by investing in the County Treasury.

The Organization's investments in the San Diego County Investment Pool, which combines the share of the portfolio for Compass Charter Schools of San Diego, has a combined fair value of \$2,124,537 and an amortized book value of \$2,138,372 as of June 30, 2018. The average weighted maturity for this pool is 331 days. The Organization also holds investments with the Fresno County Investment Pool for Compass Charter Schools of Fresno. The investments in this pool had a combined fair value of \$178,004 and amortized book value of \$177,977 at June 30, 2018. The average weighted maturity for this pool is 803 days.

Fair Value Measurement

Investments in the San Diego and Fresno County Treasury investment pools are not measured using the fair value input levels noted in Note 1M because the Organization's transactions are based on a stable net asset value per share. All contributions and redemptions are transactions at \$1.00 net asset value per share.

NOTE 3 – INVESTMENTS

The following table provides a description and sets forth, by level within the fair value hierarchy explained in Note 1M, the Organization's investments as of June 30, 2018:

		Quoted Market Price for Assets Level 1
Fixed income securities	\$ 2,013,082	\$ 2,013,082
Money market funds	250,553	-
Total Investments	\$ 2,263,635	\$ 2,013,082

The portion of investments held in money market funds noted above are carried at amortized cost. These types of investments do not qualify as securities as defined in FASB ASC 320, *Investments – Debt and Equity Securities*, thus the fair value disclosures required by ASC 820, *Fair Value Measurements and Disclosures*, are not provided.

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018 consists of the following:

Local control funding formula sources	\$	529,382
Other state sources		125,424
In lieu of property tax payments		45,133
Other local sources		13,633
Total Accounts Receivable	\$	713,572

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2018 consists of the following:

Due to grantor governments	\$	216,371
Deferred compensation (summer holdback)		182,050
Other payroll liabilities		220,979
Due to authorizing agencies		14,165
Credit card liabilities		10,776
Vendor payables		232,229
Total Accounts Payable	\$	876,570

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2018 consisted of \$42,851 related to the College Readiness Block Grant.

NOTE 7 – RELATED PARTY TRANSACTIONS

Authorizing Agency

The Charters make payments to the authorizing agencies specified in Note 1A, to provide purchased services in addition to fees for oversight. In accordance with California Education Code 47613(a), the authorizing agency may charge actual costs of oversight not to exceed one percent of revenue from local control funding formula sources. Total oversight fees paid or payable to the authorizing agencies amounted to \$228,382 for the fiscal year ended June 30, 2018.

Interagency Activity

Receivables and payables due between the charter schools are classified as due to/from related entities within the Statement of Financial Position by Charter. Cash in bank balances are maintained by the Organization as a whole and are noted as due from related entities within the Statement of Position by Charter. Interagency transactions and balances are eliminated in the financial statements of Compass Charter Schools to better reflect the true activities of the corporation.

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 8 – EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. In accordance with *California Education Code 47605*, charter schools have the option of participating in such plans if an election to participate is specified within the charter petition. The Charters have made such election. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS). The Organization offers all employees social security as an alternative plan to those who may not qualify for CalSTRS.

California State Teachers' Retirement System (CalSTRS)

Plan Description

Compass Charter Schools contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard; Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 10.25% or 9.205% of their 2017-18 salary depending on the employee's membership date in the plan. The required employer contribution rate for fiscal year 2017-18 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. Compass Charter Schools' contributions to CalSTRS for the past three years are as follows:

	Contribution	Percent of Required Contribution
2017-18	\$ 704,604	100%
2016-17	\$ 511,730	100%
2015-16	\$ 359,120	100%

On-Behalf Payments

The State of California makes direct on-behalf payments for retirement benefits to CalSTRS on behalf of all school agencies in California. The amount of on-behalf payments made for Compass Charter Schools is estimated at \$295,404 for 2017-18, which is computed as the proportionate share of total 2016-17 State on-behalf contributions. The amount has been proportionately allocated and recorded for each charter school based on 2017-18 contributions to CalSTRS.

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Governmental Funds

Compass Charter Schools has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. The Organization has undergone certain reviews and has experienced certain expenditure disallowances under the terms of the grants, which have been recorded in the financial statements. Any future such audits could generate additional expenditure disallowances under funding terms; however, it is believed that any required reimbursements would not be material.

Multi-employer Defined Benefit Plan Participation

Under current law on multiemployer defined benefit plans, the Organization's voluntary withdrawal from any underfunded multiemployer defined benefit plan would require the Organization to make payments to the plan, which would approximate the Organization's proportionate share of the multiemployer plan's unfunded vested liabilities. CalSTRS has estimated that the Organization's share of withdrawal liability is approximately \$7,037,840 as of June 30, 2017. The Organization does not currently intend to have its charter schools withdraw from CalSTRS. Refer to Note 8 for additional information on employee retirement plans.

Legal Settlement

In April 2017, the Organization agreed to a settlement agreement and release with the New Jerusalem Elementary School District (the "District") to resolve all claims, issues, disputes, and appeals related to a legal action under *New Jerusalem Elementary School District v. Academy of Arts and Sciences Charter School*, a case with the Superior Court of San Joaquin. As a result of the settlement agreement, the Organization agreed to an initial payment of one million dollars to the District, as well as monthly installment payments in the amount of \$50,000 for a period of twelve (12) consecutive months beginning July 1, 2017. The total amount of the legal settlement payable from the Organization to the District was \$1,600,000. During the fiscal year ended June 30, 2018, the Organization paid the remaining amount of \$550,000. As of June 30, 2018, there was no outstanding balance attributed to the legal settlement.

Operating Lease

In July 2016, the Organization entered into a lease agreement to occupy approximately 4,623 square feet of commercial space located at 850 Hampshire Road, Suite P in Westlake Village, California. The facility is utilized by the Organization for general administrative office space and a performing arts lab. The lease agreement covers a term of five (5) years commencing July 1, 2016 and ending June 30, 2023. The agreement allows for an optional renewal for an additional five-year term upon six-months written notice. The lease allows for termination based on a mutual agreement between both parties; therefore, the agreement is deemed an operating lease. The base rent for the first year of the agreement was established as \$1.75 per square foot per month or \$8,090. The base rent is to increase by three percent each year on the anniversary date. Future payment obligations under this lease are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Payment</u>
2019	\$ 102,995
2020	106,085
2021	109,268
Total	<u>\$ 318,348</u>

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2018

NOTE 10 – SUBSEQUENT EVENTS

Compass Charter Schools has evaluated subsequent events for the period from June 30, 2018 through November 26, 2018, the date the financial statements were available to be issued. Management did not identify any transactions that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION SECTION

COMPASS CHARTER SCHOOLS
STATEMENT OF FINANCIAL POSITION BY CHARTER
JUNE 30, 2018

California Charter No.	1454	1631	1651			
	Compass Charter Schools of San Diego	Compass Charter Schools of Fresno	Compass Charter Schools of Los Angeles	Other Projects & Operations	Interagency Eliminations	Organization Total
ASSETS						
Current assets						
Cash and cash equivalents	\$ 2,138,372	\$ 177,977	\$ -	\$ 677,487	\$ -	\$ 2,993,836
Investments	-	-	-	2,263,635	-	2,263,635
Accounts receivable	41,869	29,351	642,112	240	-	713,572
Prepaid expenses	-	-	-	38,859	-	38,859
Interagency receivable	-	-	-	2,328,731	(2,328,731)	-
Other current assets	-	-	-	5,000	-	5,000
Total Assets	\$ 2,180,241	\$ 207,328	\$ 642,112	\$ 5,313,952	\$ (2,328,731)	\$ 6,014,902
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable	\$ 97,412	\$ 12,055	\$ -	\$ 767,103	\$ -	\$ 876,570
Interagency payable	1,856,410	112,909	359,412	-	(2,328,731)	-
Deferred revenue	-	-	-	15,000	-	15,000
Total liabilities	1,953,822	124,964	359,412	782,103	(2,328,731)	891,570
Net assets						
Unrestricted	226,419	39,513	282,700	4,531,849	-	5,080,481
Temporarily restricted	-	42,851	-	-	-	42,851
Total net assets	226,419	82,364	282,700	4,531,849	-	5,123,332
Total Liabilities and Net Assets	\$ 2,180,241	\$ 207,328	\$ 642,112	\$ 5,313,952	\$ (2,328,731)	\$ 6,014,902

See accompanying note to the supplementary information.

COMPASS CHARTER SCHOOLS
STATEMENT OF ACTIVITIES BY CHARTER
FOR THE YEAR ENDED JUNE 30, 2018

California Charter No.	1454	1631	1651			
	Compass Charter Schools of San Diego	Compass Charter Schools of Fresno	Compass Charter Schools of Los Angeles	Other Projects & Operations	Interagency Eliminations	Total
UNRESTRICTED SUPPORT AND REVENUES						
State support and revenues						
Local control funding formula, state aid	\$ 2,078,658	\$ 1,038,200	\$ 3,671,892	\$ -	\$ -	\$ 6,788,750
Other state revenues	528,524	191,492	668,650	-	-	1,388,666
Total state support and revenues	2,607,182	1,229,692	4,340,542	-	-	8,177,416
Local support and revenues						
Payments in lieu of property taxes	615,316	63,435	129,230	-	-	807,981
Investment income, net	28,065	6,502	18,149	-	-	52,716
Other local revenues	365,127	102,891	350,830	-	-	818,848
Interagency transfers	1,235,598	268,086	1,219,283	-	(2,722,967)	-
Total local support and revenues	2,244,106	440,914	1,717,492	-	(2,722,967)	1,679,545
Donor restrictions satisfied	35,114	25,078	21,599	-	-	81,791
Total Unrestricted Support and Revenues	4,886,402	1,695,684	6,079,633	-	(2,722,967)	9,938,752
EXPENSES						
Program services	4,229,369	1,539,465	5,277,646	-	-	11,046,480
Management and general	413,812	148,882	515,882	3,141,896	(2,722,967)	1,497,505
Total Expenses	4,643,181	1,688,347	5,793,528	3,141,896	(2,722,967)	12,543,985
CHANGE IN UNRESTRICTED						
NET ASSETS	243,221	7,337	286,105	(3,141,896)	-	(2,605,233)
TEMPORARILY RESTRICTED NET ASSETS						
Donor restrictions satisfied	(35,114)	(25,078)	(21,599)	-	-	(81,791)
CHANGE IN TEMPORARILY RESTRICTED						
NET ASSETS	(35,114)	(25,078)	(21,599)	-	-	(81,791)
CHANGE IN NET ASSETS	208,107	(17,741)	264,506	(3,141,896)	-	(2,687,024)
Net Assets - Beginning	18,312	100,105	18,194	7,673,745	-	7,810,356
Net Assets - Ending	\$ 226,419	\$ 82,364	\$ 282,700	\$ 4,531,849	\$ -	\$ 5,123,332

See accompanying note to the supplementary information.

COMPASS CHARTER SCHOOLS
CHARTER ORGANIZATIONAL STRUCTURE
JUNE 30, 2018

Compass Charter Schools (the "Organization") was formed as a nonprofit public benefit corporation on October 28, 2011 under the name Academy of Arts & Sciences. In February 2017, the Organization changed its name to Compass Charter Schools. As of June 30, 2018, the Organization operated three (3) California public charter schools in three counties. The following is a list of all charter schools operated by the Organization during 2017-18:

Charter School	Charter No.	Classes Began	Authorizing Agency	County
Compass Charter Schools of San Diego	1454	8/27/2012	MEUSD	San Diego
Compass Charter Schools of Fresno	1631	7/1/2014	OC	Fresno
Compass Charter Schools of Los Angeles	1651	7/1/2014	AADUSD	Los Angeles

AADUSD – Acton-Agua Dulce Unified District
MEUSD – Mountain Empire Unified School District
OC – Orange Center School District

The Board of Directors of Compass Charter Schools oversees the operations for all charter schools of the Organization. As of June 30, 2018, the members of the board and administrators are as follows:

BOARD OF TRUSTEES		
Trustee	Office	Term Ending
Matt Koblick	Chair	June 2018
Kathy Granger	District Representative & Treasurer	June 2018
Lisa Robotham	Secretary & Parent Representative	June 2018
Matthew Brown	Director	June 2020
Joe Cummings	Director	June 2018
John Vargas	Director	June 2020

ADMINISTRATION

James (J.J.) Lewis
President & CEO

Lisa Fishman
Director of Operations

Mae Van Vooren
Director of Strategic Initiatives

See accompanying note to the supplementary information.

**COMPASS CHARTER SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2018**

No Classroom-Based Average Daily Attendance (ADA) was generated or reported during the fiscal year 2017-18 by any charter school operated by the Organization.

SECOND PERIOD REPORT: AVERAGE DAILY ATTENDANCE (ADA) - NON-CLASSROOM BASED

California Charter No.	1454	1631	1651
	Compass	Compass	Compass
	Charter Schools	Charter Schools	Charter Schools
	of San Diego	of Fresno	of Los Angeles
Certificate No.	05472FAA	0767E2A5	4487AE2E
Grade Span			
Grades K - 3*	132.60	37.71	121.06
Grades 4 - 6	94.95	38.03	102.89
Grades 7 - 8	70.28	21.96	69.76
Grades 9 - 12	78.00	31.31	134.31
Total ADA -			
Non-Classroom Based	375.83	129.01	428.02

ANNUAL REPORT: AVERAGE DAILY ATTENDANCE (ADA) - NON-CLASSROOM BASED

California Charter No.	1454	1631	1651
	Compass	Compass	Compass
	Charter Schools	Charter Schools	Charter Schools
	of San Diego	of Fresno	of Los Angeles
Certificate No.	780DF8F3	2A6C1583	767656DB
Grade Span			
Grades K - 3*	132.88	39.92	126.06
Grades 4 - 6	96.29	40.17	107.18
Grades 7 - 8	72.12	23.21	75.26
Grades 9 - 12	79.41	32.09	134.85
Total ADA -			
Non-Classroom Based	380.70	135.39	443.35

*Includes Transitional Kindergarten (TK)

**COMPASS CHARTER SCHOOLS
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

There were no adjustments made to reconcile fund balance reported on the Financial Report - Alternative Forms to net assets per the audited financial statements by charter school for the year ended June 30, 2018.

COMPASS CHARTER SCHOOLS
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1 – PURPOSE OF SCHEDULES

A. Statements by Charter

Compass Charter Schools' statements of financial position, and activities by school provide information supporting the amounts incorporated in the Organization's financial statements, which include results from all schools operated by the corporation.

B. Charter Organizational Structure

This schedule provides information about the charter schools' authorizing agencies, grades served, members of the governing body, and members of the administration.

C. Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the charter school. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

D. Reconciliation of Financial Report - Alternative Form with Audited Financial Statements

This schedule provides the information necessary to reconcile fund balance reported on the Financial Report – Alternative Form (Charter School Unaudited Actuals) to net assets on the audited financial statements by charter.

OTHER INDEPENDENT AUDITORS' REPORTS

**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 Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

SAN DIEGO

LOS ANGELES

SAN FRANCISCO/BAY AREA

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*Licensed by the California
State Board of Accountancy*

To the Board of Directors of
Compass Charter Schools
Thousand Oaks, California

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 financial statements of Compass Charter Schools (the "Organization") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements and have issued our report thereon dated November 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") to determine the auditing 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 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 the Organization'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 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Christy White Associates".

San Diego, California
November 26, 2018

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

Christy White, CPA

Michael D. Ash, CPA

John Whitehouse, CPA

Heather Daud Rubio

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LOS ANGELES

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State Board of Accountancy

To the Board of Directors of
Compass Charter Schools
Thousand OaksThousand Oaks, California

Report on State Compliance

We have audited Compass Charter Schools' compliance with the types of compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810, that could have a direct and material effect on each of Compass Charter Schools' state programs for the fiscal year ended June 30, 2018, as identified below. Reference to Compass Charter Schools within this letter is inclusive of all charter schools referenced in Note 1A of the accompanying notes to the financial statements.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Compass Charter Schools' state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in Title 5, California Code of Regulations, section 19810. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the state programs noted below occurred. An audit includes examining, on a test basis, evidence about Compass Charter Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the requirements referred to above. However, our audit does not provide a legal determination of Compass Charter Schools' compliance with those requirements.

Opinion on State Compliance

In our opinion, Compass Charter Schools complied, in all material respects, with the types of compliance requirements referred to above that are applicable to the state programs noted in the table below for the year ended June 30, 2018.

Procedures Performed

In connection with the audit referred to above, we selected and tested transactions and records to determine Compass Charter Schools' compliance with the state laws and regulations applicable to the following items:

Description	Procedures Performed
School Districts, County Office of Education and Charter Schools	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	No
After/Before School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study – Couse Based	Not applicable
Charter Schools	
Attendance	Yes
Mode of Instruction	Not applicable
Nonclassroom-Based Instruction/Independent Study for Charter Schools	Yes
Determination of Funding for Nonclassroom-Based Instruction	Yes
Annual Instructional Minutes – Classroom Based	Not applicable
Charter School Facility Grant Program	Not applicable

We did not perform procedures for the California Clean Energy Jobs Act because no funds were expended nor projects completed during 2017-18 for any of the charter schools.

Christy White Associates

San Diego, California
November 26, 2018

FINDINGS AND QUESTIONED COSTS SECTION

**COMPASS CHARTER SCHOOLS
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2018**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Non-compliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

The Organization did not expend more than \$750,000 in federal awards during the fiscal year; therefore, a Federal Single Audit is not applicable.

STATE AWARDS

Internal control over state programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

COMPASS CHARTER SCHOOLS
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

FIVE DIGIT CODE

20000

30000

AB 3627 FINDING TYPE

Inventory of Equipment

Internal Control

There were no audit findings related to financial statements during 2017-18.

COMPASS CHARTER SCHOOLS
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

FIVE DIGIT CODE

10000
40000
42000
60000
61000
62000
70000
71000
72000

AB 3627 FINDING TYPE

Attendance
State Compliance
Charter School Facilities Programs
Miscellaneous
Classroom Teacher Salaries
Local Control Accountability Plan
Instructional Materials
Teacher Misassignments
School Accountability Report Card

There were no audit findings or questioned costs related to state awards during 2017-18.

COMPASS CHARTER SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

There were no audit findings or questioned costs during 2016-17.