



COMPASS ROSE

COMPASS ROSE EDUCATION, INC.

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED

AUGUST 31, 2018

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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, 2018, at a meeting of the governing body of the charter holder on the _____ day of _____, _____.

Signature of Board Secretary

Signature of Board President



Armstrong, Vaughan & Associates, P. C.

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

Certified Public Accountants

Kimberly J. Roach

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statement of financial position of Compass Rose Education, Inc. as of August 31, 2018, and the related statements of activities, 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.

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, 2018, and the changes in its net assets and its cash flows for the year 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, 2019 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, 2019

**GENERAL-PURPOSE
FINANCIAL STATEMENTS**

COMPASS ROSE EDUCATION, INC.
STATEMENT OF FINANCIAL POSITION
AUGUST 31, 2018

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	98,806
Accounts Receivable:		
Texas Education Agency		119,140
Prepaid Expenses		11,045
<i>Total Current Assets</i>		228,991

<i>Property and Equipment, net</i>		403,046
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TOTAL ASSETS	\$	632,037
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$	60,329
<i>Current Liabilities</i>		60,329

Other Liabilities:

Deferred Rent		382,032
<i>Total Liabilities</i>		442,361

Net Assets:

Unrestricted		189,676
<i>Total Net Assets</i>		189,676

TOTAL LIABILITIES AND NET ASSETS	\$	632,037
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The accompanying notes are an integral part of this financial statement.

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

	Unrestricted	Temporarily Restricted	Totals
REVENUE			
5700 Local Revenues	\$ 552,230	\$ 3,272	\$ 555,502
5800 State Revenues	-	960,657	960,657
5900 Federal Revenues	-	221,033	221,033
	<u>552,230</u>	<u>1,184,962</u>	<u>1,737,192</u>
Net Assets Released from Restrictions	1,184,962	(1,184,962)	-
TOTAL REVENUE	<u>1,737,192</u>	<u>-</u>	<u>1,737,192</u>
EXPENSES			
11 Instruction	511,411	-	511,411
13 Curriculum Development and Instructional Student Development	100,678	-	100,678
23 School Leadership	229,620	-	229,620
33 Health Services	4,754	-	4,754
34 Student Transportation	47,079	-	47,079
35 Food Services	62,921	-	62,921
36 Extracurricular Activities	321	-	321
41 General Administration	294,392	-	294,392
51 Plant Maintenance	527,524	-	527,524
53 Data Processing	2,406	-	2,406
61 Community Service	364	-	364
TOTAL EXPENSES	<u>1,781,470</u>	<u>-</u>	<u>1,781,470</u>
CHANGE IN NET ASSETS	(44,278)	-	(44,278)
NET ASSETS - BEGINNING OF YEAR	<u>233,954</u>	<u>-</u>	<u>233,954</u>
NET ASSETS - END OF YEAR	<u>\$ 189,676</u>	<u>\$ -</u>	<u>\$ 189,676</u>

The accompanying notes are an integral part of this financial statement.

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

CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES	
Cash Received from State and Federal Grantors	\$ 1,262,818
Cash Received from Others	555,502
Cash Paid to Employees for Services	(821,465)
Payments to Vendors for Goods and Services	(502,077)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>494,778</u>
 CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES	
Purchase of Property and Equipment	(448,248)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(448,248)</u>
 NET INCREASE (DECREASE) IN CASH	 46,530
 BEGINNING CASH AND CASH EQUIVALENTS	 <u>52,276</u>
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 98,806</u>
 RECONCILIATION OF CHANGES IN NET ASSETS TO NET	
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Increase (Decrease) in Net Assets	\$ (44,278)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation	45,201
(Increase) Decrease in Current Assets:	
Accounts Receivable:	
Texas Education Agency	81,128
Prepaid Expenses	(565)
Increase (Decrease) in Liabilities:	
Accounts Payable	47,920
Deferred Rent	365,372
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 494,778</u>

COMPASS ROSE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2018

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

Compass Rose does not conduct any non-charter activities.

Basis of Accounting and Presentation

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

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

Unrestricted Net Assets – net assets that are not subject to grantor or donor-imposed stipulations.

Temporarily Restricted Net Assets – net assets subject to grantor or donor-imposed stipulations that may or will be met either by actions of Compass Rose and/or passage of time.

Permanently Restricted Net Assets – net assets required to be maintained in perpetuity with only the income to be used for the charter school’s activities due to grantor or donor-imposed restrictions.

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.

COMPASS ROSE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
AUGUST 31, 2018

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

Contributions

Compass Rose accounts for contributions as unrestricted, temporarily restricted, or permanently restricted contributions, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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 furniture and equipment. Leasehold improvements are amortized over the lesser of the life of the lease or the expected useful life.

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, 2015.

Subsequent Events

Subsequent events were considered through January 11, 2019, which is the date the financial statements were available to be issued.

NOTE 2 -- ACCOUNTS RECEIVABLE

Accounts Receivable at August 31, 2018 consisted of the following:

Texas Education Agency	
Foundation School Program	\$ 113,571
National School Breakfast and Lunch	<u>5,569</u>
Total Accounts Receivable	<u>\$ 119,140</u>

COMPASS ROSE EDUCATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
AUGUST 31, 2018

NOTE 3 -- CAPITAL ASSETS

Capital assets at August 31, 2018 were as follows:

Leasehold Improvements	\$ 448,247
Total Property and Equipment	448,247
Less: Accumulated Depreciation	<u>(45,201)</u>
Property and Equipment - Net	<u>\$ 403,046</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 \$45,201 for the year ended August 31, 2018.

NOTE 4 -- TEMPORARILY RESTRICTED NET ASSETS

All Temporarily restricted donations and grants were released from restriction as of August 31, 2018. Releases of temporarily restricted net assets during the year ending August 31, 2018 were as follows:

Foundation School Program	\$ 960,657
Charter School Start-up Program	168,176
National School Lunch Program	37,032
Every Student Succeeds Act	<u>19,097</u>
Total Released from Restriction	<u>\$ 1,184,962</u>

NOTE 5 -- PENSION PLAN OBLIGATION

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

COMPASS ROSE EDUCATION, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 AUGUST 31, 2018

NOTE 5 -- PENSION PLAN OBLIGATION (CONT.)

The plan financial statements for the year ending August 31, 2017 reported the following information:

Total Plan Assets	\$ 165,379,341,964
Plan Net Position	\$ 147,361,922,120
Accumulated Benefit Obligations	\$ 179,336,535,000
Funded Percentage	82%

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>			
2018	7.70%	6.80%	1.50%
<i>Amounts</i>			
2018	\$ 55,515	\$ 49,026	\$ 12,955

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

NOTE 6 -- RETIREE HEALTH PLAN

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

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

<u>Year Ending August 31,</u>	<u>Member</u>	<u>State</u>	<u>Employer</u>
<i>Rates</i>			
2018	0.65%	1.00%	0.75%
<i>Amounts</i>			
2018	\$ 4,686	\$ 7,209	\$ 5,408

COMPASS ROSE EDUCATION, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 AUGUST 31, 2018

NOTE 7 -- HEALTH CARE COVERAGE

During the year ended August 31, 2018, 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 8 -- OPERATING LEASES

In 2017, Compass Rose leased a school site. The lease agreement is for 10 years through July 31, 2026. The lease included improvement incentives of \$180,488 and reduced payments in the early years. However, Compass Rose has a termination option through July 31, 2019 that could terminate the lease on December 31, 2019. If terminated, Compass Rose would owe back the unamortized incentives with 5% interest. If the termination option is not exercised, the lease may be expanded to include additional square footage and improvement incentives. Rent is being recognized on a straight-line basis to smooth out the incentives and scheduled rent increases over the life of the lease, assuming the termination is not exercised. The difference between straight-line rent payments and the recognized rent expense is reported on the Statement of Financial Position as Deferred Rent. Rental expense for the year ending August 31, 2018 related to the lease was \$328,844 and scheduled payments were \$143,961. Future minimum lease payments as of August 31, 2018 are as follows:

Year Ending August 31,	Future Minimum Lease Payments	Rent Expense
2019	\$ 313,705	\$ 328,844
2020	360,976	328,844
2021	361,878	328,844
2022	371,805	328,844
2023	382,959	328,844
2024	382,959	328,844
2025	383,917	328,844
2026	394,448	328,844
2027	361,578	301,441

NOTE 13 -- COMMITMENTS AND CONTINGENCIES

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. The programs administered by the charter school have complex compliance requirements, and 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.

NOTE 14 -- LITIGATION

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

SUPPLEMENTARY INFORMATION

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

EXPENSES	
6100 Payroll	\$ 821,465
6200 Professional and Contracted Services	661,980
6300 Supplies and Materials	200,525
6400 Other Operating Costs	97,500
6500 Debt Service	-
Total Expenses	<u>\$ 1,781,470</u>

See Independent Auditor's Report.

COMPASS ROSE EDUCATION, INC.
 SCHEDULE OF CAPITAL ASSETS
 AUGUST 31, 2018

	<u>Local</u>	<u>State</u>	<u>Federal</u>
1110 Cash	\$ 189,939	\$ (100,340)	\$ 9,207
1510 Land and Improvements	-	-	-
1520 Buildings and Improvements	-	448,247	-
1531 Vehicles	-	-	-
1539 Furniture and Equipment	-	-	-
Total Property and Equipment	<u>\$ 189,939</u>	<u>\$ 347,907</u>	<u>\$ 9,207</u>

Note: Compass Rose utilizes a pooled cash system. Negative cash amounts reflected above represent short-term borrowings from locally sourced cash that will be repaid through granting agency reimbursements.

COMPASS ROSE EDUCATION, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2018

	Budgeted Amounts		Actual	Variance from Final Budget
	Original	Final	Amounts (Budgetary)	
REVENUE				
5700 Local Support	\$ -	\$ 420,737	\$ 555,502	\$ 134,765
5800 State Funding	761,705	892,927	960,657	67,730
5900 Federal Funding	508,494	508,494	184,002	(324,492)
TOTAL REVENUE	<u>1,270,199</u>	<u>1,822,158</u>	<u>1,700,161</u>	<u>(121,997)</u>
EXPENSES				
11 Instruction	854,937	906,820	511,411	395,409
13 Curriculum Development and Instructional Student Development	71,252	101,104	100,678	426
23 School Leadership	148,255	231,359	229,620	1,739
31 Guidance, Counseling and Evaluation Services	1,600	-	-	-
33 Health Services	250	4,754	4,754	-
34 Student Transportation	50,000	39,523	47,079	(7,556)
35 Food Services	-	-	7	(7)
36 Extracurricular Activities	-	322	321	1
41 General Administration	92,356	275,162	294,392	(19,230)
51 Plant Maintenance	46,150	257,273	162,152	95,121
53 Data Processing Services	5,191	5,469	2,406	3,063
61 Community Service	200	364	364	-
TOTAL EXPENSES	<u>1,270,191</u>	<u>1,822,150</u>	<u>1,353,184</u>	<u>468,966</u>
CHANGE IN NET ASSETS	<u>\$ 8</u>	<u>\$ 8</u>	346,977	<u>\$ 346,969</u>
Reconciliation to Net Change in Net Assets				
Perspective Differences:				
Food Service Revenue			37,031	
Food Service Expenses			(62,914)	
Deferred Rent			(365,372)	
Change in Net Assets (All Funds, GAAP Basis)			<u>\$ (44,278)</u>	

See Independent Auditor's Report.

COMPASS ROSE EDUCATION, INC.
NOTES TO BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2018

BUDGETARY DIFFERENCES

Compass Rose's annual budget process does not include activities for the national school lunch program. It also does not include accruals for scheduled rent increases. In the budget process, rent is presented based on the lease payments required for that period. For the Statement of Activities, rent expense is recorded on a straight-line basis over the life of the lease. Because the lease has discounted rent and incentives in the early years, this causes a perspective difference on the budgetary basis of accounting. A schedule is provided at the bottom of the budgetary comparison schedule to reconcile it to the Statement of Activities.

**COMPLIANCE AND
INTERNAL CONTROL**



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, 2018, 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, 2019.

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.

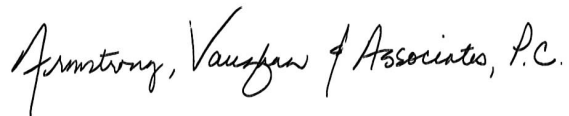
Compliance and Other Matters

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, 2019.

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, 2019