



AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2023**

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

Compass Charter Schools of San Diego (Charter No. 1454)
Compass Charter Schools of Los Angeles (Charter No. 1651)
Compass Charter Schools of Yolo (Charter No. 2059)

FINANCIAL SECTION

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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

Opinion

We have audited the accompanying financial statements of Compass Charter Schools which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Compass Charter Schools and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in section O of Note 1 to the financial statements, in 2022-23 Compass Charter Schools adopted new accounting guidance, ASU No. 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Compass Charter Schools' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Compass Charter Schools' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Compass Charter Schools' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 XX, 2023**, on our consideration of Compass Charter Schools' 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 Compass Charter Schools'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 Compass Charter Schools' internal control over financial reporting and compliance.

San Diego, California
November XX, 2023

COMPASS CHARTER SCHOOLS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023

ASSETS

Current assets

Cash and cash equivalents	\$ 11,280,522
Investments	1,049,132
Accounts receivable	2,564,017
Prepaid expenses	544,184
Total current assets	<u>15,437,855</u>

Noncurrent assets

Right-of-use asset	94,226
Deposits	10,220
Total noncurrent assets	<u>104,446</u>
Total Assets	<u>\$ 15,542,301</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 2,200,190
Operating lease liability	90,419
Deferred revenue	3,628,140
Total liabilities	<u>5,918,749</u>

Net assets

Without donor restrictions	<u>9,623,552</u>
Total net assets	<u>9,623,552</u>
Total Liabilities and Net Assets	<u>\$ 15,542,301</u>

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, 2023**

	<u>Without Donor Restrictions</u>
SUPPORT AND REVENUES	
Federal and state support and revenues	
Local control funding formula, state aid	\$ 21,721,343
Federal revenues	1,917,425
Other state revenues	<u>5,487,135</u>
Total federal and state support and revenues	<u>29,125,903</u>
Local support and revenues	
Payments in lieu of property taxes	3,770,236
Investment income, net	113,863
Other local revenues	<u>77,818</u>
Total local support and revenues	<u>3,961,917</u>
Total Support and Revenues	<u>33,087,820</u>
 EXPENSES	
Program services	31,789,961
Management and general	<u>1,223,932</u>
Total Expenses	<u>33,013,893</u>
 CHANGE IN NET ASSETS	 73,927
 Net Assets - Beginning	 <u>9,549,625</u>
 Net Assets - Ending	 <u>\$ 9,623,552</u>

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, 2023**

	Program Services			Total Program Services	Management and General	Total
	Compass Charter Schools of San Diego	Compass Charter Schools of Los Angeles	Compass Charter Schools of Yolo			
Charter No.	1454	1651	2059			
EXPENSES						
Personnel expenses						
Certificated salaries	\$ 4,602,446	\$ 4,509,649	\$ 3,164,574	\$ 12,276,669	\$ 437,383	\$ 12,714,052
Non-certificated salaries	1,063,290	1,171,758	801,689	3,036,737	302,184	3,338,921
Employee benefits	2,114,051	2,270,589	1,588,189	5,972,829	290,131	6,262,960
Total personnel expenses	<u>7,779,787</u>	<u>7,951,996</u>	<u>5,554,452</u>	<u>21,286,235</u>	<u>1,029,698</u>	<u>22,315,933</u>
Non-personnel expenses						
Books and supplies	1,483,198	1,701,077	1,212,715	4,396,990	11,858	4,408,848
Services and other operating	1,833,795	2,529,969	1,499,384	5,863,148	170,600	6,033,748
Payments to authorizing agencies	85,964	89,989	67,635	243,588	11,776	255,364
Total non-personnel expenses	<u>3,402,957</u>	<u>4,321,035</u>	<u>2,779,734</u>	<u>10,503,726</u>	<u>194,234</u>	<u>10,697,960</u>
Total Expenses	<u>\$ 11,182,744</u>	<u>\$ 12,273,031</u>	<u>\$ 8,334,186</u>	<u>\$ 31,789,961</u>	<u>\$ 1,223,932</u>	<u>\$ 33,013,893</u>

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, 2023**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 73,927
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Lease expense - amortization of right-of-use asset	(3,807)
(Increase) decrease in operating assets	
Accounts receivable	1,646,582
Prepaid expenses	354,440
Increase (decrease) in operating liabilities	
Accounts payable	(1,925,665)
Deferred revenue	2,876,865
Net cash provided by (used in) operating activities	<u>3,022,342</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Reinvestment of interest and dividends	<u>(27,248)</u>
Net cash provided by (used in) investing activities	<u>(27,248)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,995,094
Cash and cash equivalents - Beginning	<u>8,285,428</u>
Cash and cash equivalents - Ending	<u>\$ 11,280,522</u>
SUPPLEMENTAL DISCLOSURE	
Cash paid for interest	<u>\$ -</u>

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

**COMPASS CHARTER SCHOOLS
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2023**

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, 2023, Compass Charter Schools operated three (3) California public charter schools. Information on each of the three charter schools 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 Los Angeles	1651	7/1/2014	AADUSD	Los Angeles
Compass Charter Schools of Yolo	2059	7/1/2019	WJUSD	Yolo

The authorizing agencies noted above include: Acton-Agua Dulce Unified School District (AADUSD), Mountain Empire Unified School District (MEUSD), and Winters Joint Unified School District (WJUSD).

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

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). ASC 958-205 was effective July 1, 2018. Under the Guide, Compass Charter Schools is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions – These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net assets with donor restrictions – These assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires (that is until the stipulated time restriction ends or the purpose of the restriction is accomplished) the net assets are restricted. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions.

For its operation of public charter schools, the Organization also accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual* presented in Procedure 810 Charter Schools. Fund accounting is only used to the extent that internal accounting for multiple charter school or other program operations is necessary and is not used for external financial statement presentation.

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as "net assets released from restrictions." Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without restriction upon acquisition of the assets and the assets are placed in service.

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 local school districts. In lieu of distributing funds out of property tax proceeds, the local school districts make monthly payments to Compass Charter Schools. Revenues are recognized by the Organization when earned.

H. Cash and Cash Equivalents

Compass Charter Schools considers all highly liquid deposits and investments with an original maturity of less than ninety days to be cash equivalents.

I. Investments

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. Investment return is presented net of any investment fees.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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, 2023, an allowance for doubtful accounts was not considered necessary as all accounts receivable were deemed collectible.

K. 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.

L. 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.

M. 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.

N. 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, 2023

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

O. Change in Accounting Principle

ASC 842 Leases

In February 2016, FASB issued ASU No 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. The new lease standard is effective for private nonprofits with fiscal years beginning after December 15, 2021.

Under FASB ASC 842, a right-of-use asset and a related lease liability must be recorded on the statement of financial position (balance sheet) for proper recognition of any operating lease. A right-of-use asset is an intangible asset that pertains to the lessee’s right to occupy, operate, and hold a leased asset during the agreed rental period. A lease liability is the financial obligation for the payments required by the lease, discounted to present value.

The Organization has determined the impact and has reflected the significant change from this accounting principle within its financial statements for the 2022-23 fiscal year. Refer to Note 6 for additional information regarding the operating lease and the related right-of-use asset and operating lease liability held by the Organization.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of June 30, 2023, consists of the following:

Cash in county treasury	\$ 3,213,802
Cash in banks, non-interest bearing	239,813
Cash in banks, interest bearing	7,814,907
Cash with payment processor (PayPal)	12,000
Total Cash and Cash Equivalents	<u>\$ 11,280,522</u>

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, 2023, \$549,133 of Compass Charter Schools’ bank balance was exposed to custodial credit risk as there were deposits over \$250,000 at one bank.

Cash in County Treasury

Policies and Practices

Compass Charter Schools is a voluntary participant in an external investment pool for one 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.

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

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 Treasury Investment Pool, which combines the share of the portfolio for Compass Charter Schools of San Diego, has a combined fair value of \$3,126,145 and an amortized book value of \$3,213,802 as of June 30, 2023. The average weighted maturity for this pool is 438 days.

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:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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

Fair Value Measurement

Cash in county treasury is measured at Level 1 using the fair value input levels noted in Note 1N. The funds were not previously measured. The Organization has reclassified these funds as Level 1 because the amounts invested in the county treasury pooled investment fund primarily consist of investment types having observable inputs that reflect quoted prices. The investment types include those noted under the general authorizations section. As such, the carrying value consists of the amortized book value presented as "cash in county treasury" offset by the "county treasury fair value adjustment", if deemed material and recorded, to arrive at the combined fair value amount noted under the interest rate risk section.

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 3 – INVESTMENTS

The following table provides a description and sets forth, by level within the fair value hierarchy explained in Note 1N, the Organization’s investments as of June 30, 2023:

	Market Value	Fair Value Classification			At Cost
		Level 1	Level 2	Level 3	
Fixed income securities	\$ 794,268	\$ 794,268	\$ -	\$ -	\$ 794,268
Money market funds	254,864	-	-	-	253,697
Total Investments	\$ 1,049,132	\$ 794,268	\$ -	\$ -	\$ 1,047,965

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.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2023, consists of the following:

Local control funding sources, state aid	\$ 1,097,079
Federal sources	639,325
Other state sources	454,104
In lieu property tax payments	373,455
Other local sources	54
Total Accounts Receivable	\$ 2,564,017

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable as of June 30, 2023, consists of the following:

Salaries and benefits	\$ 1,089,375
Vendor payables	547,287
Due to grantor government	242,876
Compensated absences	229,438
Due to authorizing agencies	91,214
Total Accounts Payable	\$ 2,200,190

NOTE 6 – OPERATING LEASE

In November 2020, the Organization entered into a lease agreement to occupy commercial space located at 850 Hampshire Road, Suite R in Westlake Village, California. The facility is utilized by the Organization for general administrative office space. The lease agreement covers a term of four (4) years commencing January 1, 2021, and ending December 31, 2024. The lease allows for termination based on a mutual agreement between both parties; therefore, the agreement is deemed an operating lease. Future payment obligations under this lease are as follows:

Fiscal Year Ending June 30,	(a)	(b)	(c)	(b) - (c)	(a) - (c)
	Lease Expense	Lease Payments	Discount (4%)	Operating Lease Liability	Right-of-Use Asset
2024	\$ 61,187	\$ 61,723	\$ 2,357	\$ 59,366	\$ 63,898
2025	30,593	31,318	265	31,053	30,328
Total	\$ 91,780	\$ 93,041	\$ 2,622	\$ 90,419	\$ 94,226

COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023

NOTE 6 – OPERATING LEASE (continued)

The following table shows the present value of the operating lease liability as the actual lease payments less the implied discount rate and the right-of-use asset as the lease expense over the straight-line basis reduced by the implied discount rate. The Charter has accounted for its lease agreements using an implied discount rate of 4%. The associated asset and liability are amortized over the straight-line basis over the term of the lease as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Lease Payments</u>	<u>Lease Expense</u>
2024	\$ 61,723	\$ 61,187
2025	31,318	30,593
Total lease payments	<u>93,041</u>	<u>91,780</u>
NPV adjustment	<u>(2,622)</u>	<u>(2,622)</u>
Operating Lease Liability	<u>\$ 90,419</u>	
Prepaid rent		5,068
Right-of-Use Asset		<u>\$ 94,226</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue as of June 30, 2023, consists of the following:

Federal sources	\$ 230,727
State sources	3,397,413
Total Deferred Revenue	<u>\$ 3,628,140</u>

NOTE 8 – NET ASSETS

At June 30, 2023, the Organization did not hold any net assets with donor restrictions. At June 30, 2023, the Organization's net assets without donor restrictions consisted of \$9,623,552.

NOTE 9 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Organization's financial assets, as of June 30, 2023, reduced by amounts not available for general expenditure within one year. Financial assets are considered not available for general use when illiquid or not convertible to cash within one year, consist of assets held for others or are held aside by the governing board for specific contingency reserves. Any board designations could be drawn upon if the board approves that action.

Financial Assets	
Cash and cash equivalents	\$ 11,280,522
Investments, at cost	1,047,965
Accounts receivable	2,564,017
Prepaid expenses	544,184
Total Financial Assets, excluding noncurrent	<u>\$ 15,436,688</u>
Contractual or donor-imposed restrictions	
Cash restricted by others for specific uses	<u>(3,628,140)</u>
Financial Assets available to meet cash needs for expenditures within one year	<u>\$ 11,808,548</u>

**COMPASS CHARTER SCHOOLS
 NOTES TO FINANCIAL STATEMENTS, continued
 JUNE 30, 2023**

NOTE 10 – 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 10.205% of their 2022-23 salary depending on the employee’s membership date in the plan. The required employer contribution rate for fiscal year 2022-23 was 19.10% 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:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2022-23	\$ 2,385,281	100%
2021-22	\$ 1,911,813	100%
2020-21	\$ 1,713,100	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 \$1,086,051. The on-behalf payment amount is computed as the proportionate share of total 2021-22 State on-behalf contributions.

NOTE 11 – 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. Although such audits could generate additional expenditure disallowances under funding terms, it is believed that any required reimbursements would not be material.

**COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023**

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

Multiemployer Defined Benefit Plan Participation

Under current law on multi-employer 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 \$13,518,490 as of June 30, 2022. The Organization does not currently intend to have its charter schools withdraw from CalSTRS. Refer to Note 10 for additional information on employee retirement plans.

Charter School Authorization

As mentioned in Note 1A, the charter schools under Compass Charter Schools are approved to operate as a public charter school through authorization from their respective authorizing agencies. As such, the charter schools are subject to the risk of possible non-renewal or revocation at the discretion of their authorizing agency if certain criteria for student outcomes, management, and/or fiscal solvency are not met.

On July 9, 2021, the Governor of California approved Assembly Bill 130 (AB 130). Effective July 1, 2021, AB 130 added a provision within the California Education Code whereby all charter schools whose term expires on or between January 1, 2022, and June 30, 2025, inclusive, shall have their term extended by two years. As a result, the new term expiration date to the charter petition for schools mentioned in Note 1A are as follows:

Charter School	Charter No.	Original Term End	Extended Term End
Compass Charter Schools of San Diego	1454	6/30/2022	6/30/2024
Compass Charter Schools of Los Angeles	1651	6/30/2024	6/30/2026
Compass Charter Schools of Yolo	2059	6/30/2024	6/30/2026

The Organization’s charter schools 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 Section 47613(b), 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 to the authorizing agencies amounted to \$255,364 for the fiscal year ended June 30, 2023

Litigation

The Organization is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the Organization at June 30, 2023 or the likelihood of a favorable or unfavorable outcome is unable to be evaluated at this time.

**COMPASS CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS, continued
JUNE 30, 2023**

NOTE 12 – RELATED PARTY TRANSACTIONS

Interagency Activity

Receivables and payables due between the charter schools and other operating units 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.

NOTE 13 – SUBSEQUENT EVENTS

Compass Charter Schools has evaluated subsequent events for the period from June 30, 2023 through **November XX, 2023**, the date the financial statements were available to be issued.

On July 10, 2023, the Governor of California approved Senate Bill 114 (SB 114), which amended California Education Code (EC) 47607.4. The EC was amended to add “all charter schools whose term expires on or between January 1, 2024, and June 30, 2027, inclusive, shall have their term extended by one additional year.” As a result, each charter petition end date is extended as follows:

<u>Charter School</u>	<u>Charter No.</u>	<u>Original Term End</u>	<u>Extended Term End</u>
Compass Charter Schools of San Diego	1454	6/30/2022	6/30/2026
Compass Charter Schools of Los Angeles	1651	6/30/2024	6/30/2028
Compass Charter Schools of Yolo	2059	6/30/2024	6/30/2028

Management did not identify any other transactions or events that require disclosure or that would have an impact on the financial statements.

SUPPLEMENTARY INFORMATION

COMPASS CHARTER SCHOOLS
STATEMENT OF FINANCIAL POSITION BY CHARTER
JUNE 30, 2023

Charter No.	1454	1651	2059	Charter Management Operations	Eliminations	Total
	Compass Charter Schools of	Compass Charter Schools of	Compass Charter Schools of			
ASSETS						
Current assets						
Cash and cash equivalents	\$ 2,153,524	\$ 1,574,755	\$ 672,564	\$ 6,879,679	\$ -	\$ 11,280,522
Investments	-	-	-	1,049,132	-	1,049,132
Accounts receivable	336,977	1,212,825	1,014,161	54	-	2,564,017
Prepaid expenses	75,966	77,001	41,829	349,388	-	544,184
Interagency receivable	52,688	63,776	43,536	-	(160,000)	-
Total current assets	<u>2,619,155</u>	<u>2,928,357</u>	<u>1,772,090</u>	<u>8,278,253</u>	<u>(160,000)</u>	<u>15,437,855</u>
Noncurrent assets						
Right-of-use asset	-	-	-	94,226	-	94,226
Deposits	-	-	-	10,220	-	10,220
Total noncurrent assets	-	-	-	104,446	-	104,446
Total Assets	<u>\$ 2,619,155</u>	<u>\$ 2,928,357</u>	<u>\$ 1,772,090</u>	<u>\$ 8,382,699</u>	<u>\$ (160,000)</u>	<u>\$ 15,542,301</u>
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	\$ 243,904	\$ 452,117	\$ 286,558	\$ 1,217,611	\$ -	\$ 2,200,190
Operating lease liability	-	-	-	90,419	-	90,419
Interagency payable	-	-	-	160,000	(160,000)	-
Deferred revenue	1,429,362	1,454,226	744,552	-	-	3,628,140
Total liabilities	<u>1,673,266</u>	<u>1,906,343</u>	<u>1,031,110</u>	<u>1,468,030</u>	<u>(160,000)</u>	<u>5,918,749</u>
Net assets						
Without donor restrictions	945,889	1,022,014	740,980	6,914,669	-	9,623,552
Total net assets	<u>945,889</u>	<u>1,022,014</u>	<u>740,980</u>	<u>6,914,669</u>	<u>-</u>	<u>9,623,552</u>
Total Liabilities and Net Assets	<u>\$ 2,619,155</u>	<u>\$ 2,928,357</u>	<u>\$ 1,772,090</u>	<u>\$ 8,382,699</u>	<u>\$ (160,000)</u>	<u>\$ 15,542,301</u>

See accompanying notes to the supplementary information.

**COMPASS CHARTER SCHOOLS
STATEMENT OF ACTIVITIES BY CHARTER
FOR THE YEAR ENDED JUNE 30, 2023**

Charter No.	1454	1651	2059			
	Compass Charter Schools of San Diego	Compass Charter Schools of Los Angeles	Compass Charter Schools of Yolo	Charter Management Operations	Eliminations	Total
SUPPORT AND REVENUES WITHOUT DONOR RESTRICTIONS						
Federal and state support and revenues						
Local control funding formula, state aid	\$ 7,106,256	\$ 9,134,032	\$ 5,481,055	\$ -	\$ -	\$ 21,721,343
Federal revenues	729,741	815,488	372,196	-	-	1,917,425
Other state revenues	2,115,586	1,936,459	1,435,090	-	-	5,487,135
Total federal and state support and revenues	<u>9,951,583</u>	<u>11,885,979</u>	<u>7,288,341</u>	<u>-</u>	<u>-</u>	<u>29,125,903</u>
Local support and revenues						
Payments in lieu of property taxes	1,829,504	448,459	1,492,273	-	-	3,770,236
Investment income, net	86,945	496	341	26,081	-	113,863
Other local revenues	28,576	29,228	20,014	-	-	77,818
Interagency transfers	-	668,276	-	332,276	(1,000,552)	-
Total local support and revenues	<u>1,945,025</u>	<u>1,146,459</u>	<u>1,512,628</u>	<u>358,357</u>	<u>(1,000,552)</u>	<u>3,961,917</u>
Total Support and Revenues	<u>11,896,608</u>	<u>13,032,438</u>	<u>8,800,969</u>	<u>358,357</u>	<u>(1,000,552)</u>	<u>33,087,820</u>
EXPENSES						
Program services	11,182,744	12,273,031	8,334,186	-	-	31,789,961
Management and general	600,531	604,486	351,191	668,276	(1,000,552)	1,223,932
Total Expenses	<u>11,783,275</u>	<u>12,877,517</u>	<u>8,685,377</u>	<u>668,276</u>	<u>(1,000,552)</u>	<u>33,013,893</u>
CHANGE IN NET ASSETS	113,333	154,921	115,592	(309,919)	-	73,927
Net Assets - Beginning	<u>832,556</u>	<u>867,093</u>	<u>625,388</u>	<u>7,224,588</u>	<u>-</u>	<u>9,549,625</u>
Net Assets - Ending	<u>\$ 945,889</u>	<u>\$ 1,022,014</u>	<u>\$ 740,980</u>	<u>\$ 6,914,669</u>	<u>\$ -</u>	<u>\$ 9,623,552</u>

See accompanying notes to the supplementary information.

**COMPASS CHARTER SCHOOLS
LEA ORGANIZATION STRUCTURE
JUNE 30, 2023**

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, 2023, 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 2022-23:

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 Los Angeles	1651	7/1/2014	AADUSD	Los Angeles
Compass Charter Schools of Yolo	2059	7/1/2019	WJUSD	Yolo

*AADUSD – Acton-Agua Dulce Unified District
MEUSD – Mountain Empire Unified School District
WJUSD – Winters Joint Unified School District*

The Board of Directors of Compass Charter Schools oversees the operations for all charter schools of the Organization. As of June 30, 2023, the members of the board and administrators are as follows:

BOARD OF TRUSTEES

Trustee	Office	Term Ending
Thomas Arnett	Chair	June 2023
Lainie Rowell	Secretary	June 2024
William Stinde	Treasurer	June 2025
Therese Christopher	Director	June 2023
Samantha Herrod	Director	June 2023
Issac Olvera	Director	June 2025

ADMINISTRATION

Elizabeth Brenner
Superintendent & CEO

Lisa Fishman
Chief Operations Officer

Aviva Ebner, Ph.D.
Asst. Supt. & Chief Academic Officer

Sophia Trivino
Chief People Officer

**COMPASS CHARTER SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023**

Federal Grantor/Pass-Through Grantor/Program or Cluster	AL Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF EDUCATION:			
<i>Passed through California Department of Education:</i>			
Title I, Part A			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 382,956
Comprehensive Support and Improvement for LEAs	84.010	15438	403,984
Subtotal Title I, Part A			<u>786,940</u>
Title II, Part A, Supporting Effective Instruction Local Grants	84.367	14341	65,072
Title IV, Part A, Student Support and Academic Enrichment Grants	84.424	15396	34,509
COVID-19 Emergency Acts Funding/Education Stabilization Fund Discretionary Grants [1]:			
Elementary and Secondary School Emergency Relief II (ESSER II) Fund	84.425	15547	23,726
Elementary and Secondary School Emergency Relief III (ESSER III) Fund	84.425	15559	560,737
Expanded Learning Opportunities (ELO) Grant ESSER II State Reserve	84.425	15618	44,114
Expanded Learning Opportunities (ELO) Grant GEER II	84.425	15619	10,125
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Emergency Needs	84.425	15620	19,190
Expanded Learning Opportunities (ELO) Grant: ESSER III State Reserve, Learning Loss	84.425	15621	26,107
Subtotal Education Stabilization Fund Discretionary Grants			<u>683,999</u>
<i>Passed through El Dorado Charter SELPA:</i>			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	346,905
Total U. S. Department of Education			<u>1,917,425</u>
Total Federal Expenditures			<u>\$ 1,917,425</u>

[1] - Major Program

**COMPASS CHARTER SCHOOLS
SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2023**

There was no classroom-based average daily attendance (ADA) reported during the 2022-23 fiscal year by any charter school noted below:

SECOND PERIOD REPORT: AVERAGE DAILY ATTENDANCE (ADA)			
California Charter No.	1454	1651	2059
	Compass Charter Schools of San Diego	Compass Charter Schools of Los Angeles	Compass Charter Schools of Yolo
Grade Span			
Regular			
Kindergarten* through third	282.76	307.38	259.82
Fourth through sixth	211.96	187.35	196.02
Seventh through eighth	127.76	134.11	107.16
Ninth through twelfth	174.36	215.91	93.25
Total Average Daily Attendance - Nonclassroom-Based	796.84	844.75	656.25

ANNUAL REPORT: AVERAGE DAILY ATTENDANCE (ADA)			
California Charter No.	1454	1651	2059
	Compass Charter Schools of San Diego	Compass Charter Schools of Los Angeles	Compass Charter Schools of Yolo
Grade Span			
Regular			
Kindergarten* through third			
Fourth through sixth			
Seventh through eighth			
Ninth through twelfth			
Total Average Daily Attendance - Nonclassroom-Based	-	-	-
Total Average Daily Attendance	796.84	844.75	656.25

*Includes Transitional Kindergarten (TK)

**COMPASS CHARTER SCHOOLS
SCHEDULE OF INSTRUCTIONAL DAYS
FOR THE YEAR ENDED JUNE 30, 2023**

Charter School	2022-23 Number of	
Grade Span	Days	Status
Compass Charter Schools of San Diego (Charter No. 1454)		
Kindergarten*	175	Complied
Grade 1	175	Complied
Grade 2	175	Complied
Grade 3	175	Complied
Grade 4	175	Complied
Grade 5	175	Complied
Grade 6	175	Complied
Grade 7	175	Complied
Grade 8	175	Complied
Grade 9	175	Complied
Grade 10	175	Complied
Grade 11	175	Complied
Grade 12	175	Complied
Compass Charter Schools of Los Angeles (Charter No. 1651)		
Kindergarten*	175	Complied
Grade 1	175	Complied
Grade 2	175	Complied
Grade 3	175	Complied
Grade 4	175	Complied
Grade 5	175	Complied
Grade 6	175	Complied
Grade 7	175	Complied
Grade 8	175	Complied
Grade 9	175	Complied
Grade 10	175	Complied
Grade 11	175	Complied
Grade 12	175	Complied
Compass Charter Schools of Yolo (Charter No. 2059)		
Kindergarten*	175	Complied
Grade 1	175	Complied
Grade 2	175	Complied
Grade 3	175	Complied
Grade 4	175	Complied
Grade 5	175	Complied
Grade 6	175	Complied
Grade 7	175	Complied
Grade 8	175	Complied
Grade 9	175	Complied
Grade 10	175	Complied
Grade 11	175	Complied
Grade 12	175	Complied

*Includes Transitional Kindergarten (TK)

**COMPASS CHARTER SCHOOLS
RECONCILIATION OF FINANCIAL REPORT – ALTERNATIVE FORM WITH AUDITED FINANCIAL
STATEMENTS
JUNE 30, 2023**

California Charter No.	1454	1651	2059
	Compass Charter Schools of San Diego	Compass Charter Schools of Los Angeles	Compass Charter Schools of Yolo
June 30, 2023, fund balance/net position on the Financial Report - Alternative Form (Charter School Unaudited Actuals)	\$ 893,201	\$ 958,238	\$ 697,444
Adjustments:			
Increase (decrease) in total net assets:			
Record an accrued expense	52,688	63,776	43,536
Net adjustments	52,688	63,776	43,536
June 30, 2023, net assets per audited financial statements	\$ 945,889	\$ 1,022,014	\$ 740,980

See accompanying notes to the supplementary information.

**COMPASS CHARTER SCHOOLS
NOTES TO THE SUPPLEMENTARY INFORMATION
JUNE 30, 2023**

NOTE 1 – PURPOSE OF SCHEDULES

A. Financial Statements by Charter

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

B. LEA Organization Structure

This schedule provides information about the local education agencies (LEAs or charter schools), including the charter schools' authorizing agencies, grades served, members of the governing body, and members of the administration.

C. Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The Organization has not elected to use the 10 percent de minimis indirect cost rate.

D. Schedule of Average Daily Attendance

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.

E. Schedule of Instructional Days

This schedule presents information on the number of instructional days offered per grade level by each of the charter schools and whether the charter schools complied with the provisions of *Education Code Section 47612.5*.

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

This schedule provides the information necessary to reconcile fund balance or net position 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

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, 2023, 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 XX, 2023**.

Report on 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") as a basis for designing 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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.

San Diego, California

November XX, 2023

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Compass Charter Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Compass Charter Schools' major federal programs for the year ended June 30, 2023. Compass Charter Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Compass Charter Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Compass Charter Schools and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for each major federal program. Our audit does not provide a legal determination of Compass Charter Schools' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Compass Charter Schools' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Compass Charter Schools' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user of the report on compliance about Compass Charter Schools' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Compass Charter Schools' compliance with the compliance requirements referred to above and performing such procedures as we consider necessary in the circumstances.
- Obtain an understanding of Compass Charter Schools' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Compass Charter Schools' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Report on Internal Control Over Compliance (continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

San Diego, California
November XX, 2023

REPORT ON STATE COMPLIANCE

Independent Auditors' Report

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

Report on State Compliance

Opinion on State Compliance

We have audited Compass Charter Schools' compliance with the requirements specified in the *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to Compass Charter Schools' state program for the fiscal year ended June 30, 2023, Reference to Compass Charter Schools within this letter is inclusive of Compass Charter Schools of San Diego (No. 1454), Compass Charter Schools of Los Angeles (No. 1651), and Compass Charter Schools of Yolo (No. 2059).

In our opinion, Compass Charter Schools complied, in all material respects, with the laws and regulations of the applicable state programs for the year ended June 30, 2023, as identified in the table in the Auditor's Responsibilities for the Audit of State Compliance section of our report.

Basis for Opinion on State Compliance

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 *2022-23 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed by Title 5, *California Code of Regulations*, section 19810 as regulations (the K-12 Audit Guide). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of State Compliance section of our report.

We are required to be independent of Compass Charter Schools and to meet certain ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on state compliance. Our audit does not provide a legal determination of Compass Charter Schools' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of internal control over compliance with the requirements of the laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Compass Charter Schools' state programs.

Auditor’s Responsibilities for the Audit for State Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the state compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Compass Charter Schools’ compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the K-12 Audit Guide will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user of the report on compliance about Compass Charter Schools’ compliance with the requirements of the applicable state programs as a whole.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, and the K-12 Audit Guide, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Compass Charter Schools’ compliance with compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Compass Charter Schools’ internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the K-12 Audit Guide, but not for the purpose of expressing an opinion on the effectiveness of Compass Charter Schools’ internal control over compliance. Accordingly, no such opinion is expressed; and
- Select and test transactions and records to determine Compass Charter Schools’ compliance with the state laws and regulations to the following items:

Description	Procedures Performed
School Districts, County Offices of Education and Charter Schools	
California Clean Energy Jobs Act	No/Not applicable*
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-Course Based	Not applicable
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Yes
Career Technical Education Incentive Grant	Not applicable
Transitional Kindergarten	Yes
Charter Schools	
Attendance	Yes
Mode of Instruction	Not applicable
Nonclassroom-Based Instruction/Independent Study	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 testing of Clean Energy Jobs Act program because no use of funding for Charter No. 1651 and Charter No. 1454 has occurred in any past or current period. The program was not applicable to Charter No. 2059.*

“Not applicable” is used in the table above to indicate that the charter schools either did not receive program funding or did not otherwise operate the program during the fiscal year.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies or material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of State Compliance section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the K-12 Audit Guide. Accordingly, this report is not suitable for any other purpose.

San Diego, California
November XX, 2023

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**COMPASS CHARTER SCHOOLS
SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2023**

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 not considered to be material weaknesses?	<u>None Reported</u>
Noncompliance material to financial statements noted?	<u>None</u>

Federal Awards

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)?	No
Identification of major programs:	
<u>AL Number(s)</u> <u>Name of Federal Program or Cluster</u>	
84.425 Education Stabilization Fund Discretionary Grants	
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None Reported</u>
Any audit findings disclosed that are required to be reported in accordance with <i>2022-23 Guide for Annual Audits of California K-12 Local Education Agencies?</i>	No
Type of auditors' report issued on compliance for state programs:	<u>Unmodified</u>

All audit year findings, if any, are assigned an appropriate finding code as follows:

<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

**COMPASS CHARTER SCHOOLS
FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023**

There were no audit findings related to the financial statements for the year ended June 30, 2023.

**COMPASS CHARTER SCHOOLS
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023**

There were no audit findings and questioned costs related to federal awards for the year ended June 30, 2023.

**COMPASS CHARTER SCHOOLS
STATE AWARD FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023**

There were no audit findings and questioned costs related to state awards for the year ended June 30, 2023.

**COMPASS CHARTER SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023**

This schedule presents the status of actions taken by the Organization on each of the findings and recommendations reported in the prior year audit; however, there were no audit findings reported in the year ended June 30, 2022.