

**Financial Capacity of The Compass School**  
**Westminster, Vermont**  
August 2019

**Report to the State Board of Education**  
**by the 'Financial Capacity Review Team' commissioned by the State Board**

**Background**

In late March, 2019, public news media reported that The Compass School (hereinafter, 'the School') had not filed their annual IRS 990 financial reports since 2015. As a consequence, the Internal Revenue Service had revoked the School's status as a non-profit charitable institution under the federal tax code, Section 501(C)(3). Moreover, as an *"approved independent school"* under Vermont law (16 VSA §166), The Compass School was obliged to report to the Vermont Agency of Education any *"...failure to file its federal or state tax returns when due..."*. The School did not make timely notice to the Agency of its 'failure to file its federal .. tax returns when due.'

On 17 April, at the request of the State Board of Education, the School's Executive Director and the co-Chair of its Board of Directors appeared before the Board to explain the circumstances surrounding the School's failure to file its 990 forms with the IRS and the School's failure to report this fact to the Agency. In response, the Board voted unanimously that it *"reasonably believes that The Compass School lacks 'financial capacity to meet its stated objectives' "* as required by 16 VSA §166 and State Board Rule 2226.1. In a 6 May follow-up letter, the Chair of the State Board advised the Executive Director of the School that the reason for the Board's finding *"is the School's failure to adopt appropriate financial policies, procedures, and practices which are necessary to prevent financial mismanagement or misuse of public funds..."*.

In response, the Executive Director furnished extensive documentation on the School's financial circumstances and reported that the School had taken action to file the delinquent 990 reports and had requested the IRS to reinstate the School's non-profit standing. On 14 May the Executive Director reported that the IRS had reinstated the School's charitable non-profit (501(C)(3)) status retroactively to the date of its revocation.

At the State Board's 15 May meeting, representatives of the School again appeared before the Board. They described recent initiatives of the School's administration and Board of Directors to strengthen their policies, practices, and procedures for financial oversight and management. While acknowledging the School's progress, the Board voted unanimously to *"establish a review team as authorized in 16 VSA §166 that will report its findings and recommendations to the full Board..."*

In July, the Chair of the State Board recruited two employees of the state Department of Financial Regulation, one employee of the Agency of Education, one representative of the Council of Independent Schools, and two members of the State Board of Education to serve as the Financial Capacity Review Team.

## **Background** (continued)

The Financial Capacity Review Team first convened on 30 July to review events to date. Early on, it was apparent to the Team that the “financial capacity” of the School depends as much upon the effectiveness of its Board of Directors and executive leadership as upon its income-and-expense statements and balance sheets. The Review Team analyzed financial information already furnished to the State Board of Education, notified the School of further information required, and then planned the scope and nature of its site-visit to the School.

The Review Team visited The Compass School on 13 August and met for three hours with the School’s executive and financial personnel and the School’s Board of Directors. Afterward, the Team met to compare impressions, findings, and conclusions. The Review Team then met on 20 August to review, revise, and concur in this final report to the State Board of Education.

## **Note on methods of this Review**

In the findings and conclusions that follow, it should be noted that, aside from confirming cash balances directly with the School’s bank, no audit procedures were performed to verify the information received from the School. Review procedures primarily consisted of gathering information, inquiry, and analysis. Similarly, the Review Team did not conduct a rigorous management audit. Rather, the Team met for a morning with the Board and executive leadership of the School and relied on its own members’ experience and judgement to assess the School’s capabilities to oversee, manage, and implement the financial policies, procedures, and practices of the School.

## **Findings and Conclusions**

**1. This is a good school, and it meets real and important student needs.** The Compass School is highly regarded as one of the smaller independent schools that fills an important niche in the educational landscape of Vermont. Many students come to Compass because they struggled in other educational settings. Half of all students qualify for free-and-reduced lunch, and 95% receive financial aid or public funding

The School is mission-driven. The School’s student portfolio process and each student’s proficiency tracker demonstrate accomplishments in five learning realms. Virtually all students graduate, and 90% of graduates are accepted at college, with many receiving generous ‘leadership’ scholarships based on their experiences at the School.

**Findings and Conclusions** (continued)

**2. The School's financial processes, procedures, and oversight appear to be much stronger today than only four months ago.**

The Board of Directors and the Executive Director understand, take responsibility for, and have instituted steps to address the procedural shortcomings that led to the failure to file 990 forms. This was a failure of process, and it has served, in turn, as a defining and maturing event for the School. The Review Team believes that going forward the leadership of The Compass School is better and stronger and more proactive in its governance.

In recent years, the School's Board of Directors has struggled with turnover and loss of institutional continuity. In the last three months the Board has acquired a new and experienced treasurer and other new members with skills in fundraising, marketing/public relations, and development. In June, the Board of Directors developed and adopted a Financial Manual that appears to contain the necessary processes and procedures to enable the School to operate with greater financial responsibility in the future. Currently, The Finance Committee of the School's Board is in the process of developing a Strategic Plan to support the School's ongoing financial viability, addressing such matters as maximizing revenues from various sources, accounts receivable collection, and succession planning.

The Executive Director's effectiveness has been enhanced by the Board's greater expertise and attention to financial oversight, enrollment management, marketing, and fund-raising. Additionally, the School has retained an independent accounting firm to prepare and file annually the School's IRS form 990 report.

**3. The School appears to have 'the financial capacity to meet its stated objectives'.** For example, the ratio of total liabilities to total assets and the ratio of current liabilities to current assets were strong, indicating that the School has the ability to cover its liabilities in the short- and long-term.

Nonetheless, the Board and the Executive Director have redoubled their attention to out-year risks to the School's financial capacity. For example, accounts receivable, most of which are unpaid tuition bills overdue more than ninety days, have nearly tripled in the last three years. Of similar concern to the School's leadership is declining enrollment – as it is at most schools in Vermont. Enrollments this year are forecast to be 8 percent less than last year.

As is typical of many educational institutions of this size and type, the School's income is heavily reliant upon fee-for-service. According to the School's 990 reports and current budget, 'revenue less expenses' has been modest, and in some recent years, negative. Nonetheless, the School has a history of maintaining 'the financial capacity to meet its stated objectives.'

## **Recommendations**

The Financial Capacity Review Team recommends that the State Board of Education find that:

***The Compass School has in recent months adopted ‘appropriate financial policies, procedures, and practices which are necessary to prevent financial mismanagement or misuse of public funds’, and the School is taking necessary and substantial measures to strengthen the School’s ‘financial capacity to meet its stated objectives’.***

In the near future the School’s application for renewal of its State approval will come before the Board of Education. The Financial Capacity Review Team recommends that the State Board stipulate two conditions for the five-year renewal of The Compass School’s approval:

1. That the School furnish to the Secretary its financial statements as of 30 June 2020, so that actual results for the 2019-20 school year may be considered in relation to the School’s financial capacity for the near future.
2. That the School engage an independent certified public accountant to perform on an annual basis a financial statement review in accordance with AICPA standards, furnishing to the Secretary no later than 30 December 2019 a copy of the signed engagement letter for such review for the year ending 30 June 2020.

*We, the members of the Financial Capacity Review Team, thank the State Board of Education for its confidence in our capabilities. With this report and these recommendations to the Board, the Financial Capacity Review Team has completed its assignment from the Board and fulfilled the purposes for which it was commissioned. Accordingly, we suggest that the Board de-commission the Financial Capacity Review Team forthwith.*

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*Mark Tashjian, Council of Independent Schools*

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