

**City of Milwaukee – Charter Schools  
Report of Management Oversight Consultant  
For the School Year Ended June 30, 2005**

**November 22, 2005**

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To the Members of The City of Milwaukee  
Charter School Review Committee

We have completed a review of the management function of the four charter schools (Downtown Montessori Academy, Central City Cyberschool, DLH Academy and Academy of Learning and Leadership), which have contracted with the City of Milwaukee for the 2004-2005 school year, and have issued our report herein. This report is based on a review of and limited testing of the policies and procedures employed by each school. We have not performed an audit of these schools, however, we have performed sufficient procedures to get an adequate understanding of each school's management policies and procedures. Based on these procedures, we are issuing this report of each school's management activities.

We would like to thank the management of each charter school for their cooperation in our efforts to perform our management oversight services.

*M.L. Tharps & Associates*

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**City of Milwaukee – Charter Schools  
Report of Management Oversight Consultant  
Description of Procedures Performed**

M. L. Tharps & Associates developed procedures for reviewing both Charter Schools' management policies and procedures and their compliance with the City of Milwaukee contract. These procedures were developed based on the review of the contracts between the Charter Schools and the City of Milwaukee, the management oversight requirements outlined in the Request for Proposal, and conferences/discussions with the Charter School Review Committee and various City personnel. The procedures are as follows:

- a) M. L. Tharps & Associates (MLTA) met with financial management personnel to get an understanding of school's operations as well as the accounting, budgeting and financial management functions.
- b) For each major system function (cash receipts / accounts receivable, cash disbursements / accounts payable, and payroll), MLTA has obtained an understanding of the schools processes and/or controls over each area.
- c) Cash account reconciliations were reviewed and compared to month-end general ledger balances.
- d) Revenues were reviewed to verify whether charter students were paying tuition, book and/or registration fees.
- e) Liability accounts were reviewed to determine if large or unusual liabilities exist.
- f) Obtained a copy of the school's annual audit reports. MLTA reviewed the reports for propriety, noting any findings reported by the auditor, and that the reports were in accordance with reporting standards.

**Reports on Charter Schools**

## **Downtown Montessori Academy**

MLTA reviewed Downtown Montessori Academy's management policies, procedures and contract compliance during the 2004-05 school year. Communications were conducted with Virginia Flynn, Principal as well as the school's administrative assistant Hope O'Brien.

### **Current Year Developments**

During our current year review, we noted no major changes in the financial and internal control structure at Downtown Montessori Academy. Management has been very receptive to our past recommendations for improvement and appears to have implemented all our recommendations.

Financial management duties of the school continue to be performed by the administrative assistant, with support from Virginia Flynn. In addition, the school has engaged an outside accounting firm, Hau & Associates, S.C., to provide assistance with monthly closeouts, tax returns, and provide general technical assistance for the school. The firm also performs the Academy's annual audit.

A question regarding the independence of Hau & Associates was addressed during the year. As the firm provides technical assistance to the Academy in certain accounting functions, we questioned whether the firm was considered independent to perform the annual audit. Based on communications with Hau & Associates management and their peer review firm, it was determined that they are independent of the Academy for purposes of performing their annual audit.

### **Financial Status of School**

Per review of the financial statements and per discussions with Ms. Flynn, the school had another solid year. Cash flow has remained steady over the past year, and the school continues to be responsible with its spending. The school's annual audit showed a \$10,000 net excess of revenue over expenses for the year on revenues of approximately \$630,000. The school had a \$50,000 decrease in revenues for the year, mainly from \$28,000 decrease in day care revenue and a \$37,000 decrease in grant revenues. However, the school in turn decreased expenses by \$27,000 to maintain a positive outcome for the year. The ratio of cash and receivables to liabilities is very solid. Because of very limited space at its current location, the school is trying to raise capital to assist in the construction or purchase of its own school building in the future, thus a large accumulation of cash is desired for a significant down payment.

## **Other Contract Compliance Issues**

### **Annual Audit**

The annual audit for Downtown Montessori Academy was completed as of September 26, 2005 by the firm Hau & Associates. Although the report was due September 15, 2005, the school requested and was granted an extension of time to complete the audit. Per review of the report, there were no material findings by the auditor and the audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

### **Student Tuition / Fees**

As stated in the contract between Downtown Montessori Academy and the City of Milwaukee, the school may not charge tuition for any charter student, nor may it charge fees for registration, books, teacher salary, equipment or courses credited for graduation. Activity and uniform fees may be charged, but the school must not profit from these fees.

We noted that any fees charged appeared to be allowable and were not considered excessive. There was no evidence that a charter funded student paid tuition or paid any other unallowable fees during the school year.

## **Conclusion**

Based on our review of management's policies and procedures, it appears the school has established a solid financial management system. The school appears to be in excellent financial condition, with a solid cash flow. The school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

## **Recommendations**

Based on our management review, we have recommended that Downtown Montessori Academy continue its current management policies and procedures. In addition, we have requested that at least quarterly, financial statements with budget-to-actual results, be submitted to us.

## **Central City Cyberschool**

MLTA performed a review of Central City Cyberschool's management policies, procedures and contract compliance during the 2004-05 school year. Meetings were conducted with Dr. Christine Faltz, Principal, who is in charge of the financial management functions for the school.

### **Current Year Developments**

During our current year review, we noted no major changes in the internal control structure at Central City Cyberschool, and that most of the past recommendations we have suggested have been implemented. One of our past recommendations was not implemented during the 2004-05 school year, but has been implemented for the 2004-05 school year.

We previously recommended that since Dr. Faltz does not have any formal accounting experience, and given the size of the school and staff, that the school should retain a person with adequate accounting or engage an account firm to reconcile accounts and properly classify transactions in accordance with generally accepted accounting principles. In addition we have recommended that the school engage this person or accountant firm to provide monthly or quarterly financial statements. This will ensure enhanced controls over financial reporting and provide a more accurate and valuable monitoring source for budgeting purposes. Although the school did not take this step during the 2004-05 school year, beginning in November 2005, the school has hired an outside firm, Reilly, Penner & Benton, to provide monthly closeouts and quarterly financial statements.

### **Financial Status of School**

Per review of the financial statements and per discussions with Dr. Faltz, it appears that the school is financially stable. Cash flow appeared adequate for the 2004-05 year. Our review indicated no severe financial constraints on the school.

Per review of the audited financial statements, other than the above noted item, nothing came to our attention that would indicate any financial problems at the school. The school showed a decrease in net assets of \$106,000 on revenues of \$3.6 million for the fiscal year. Based on the current year deficit, the school's net assets have decreased to approximately \$85,000. Per discussion with Dr. Faltz, the school generally tries to achieve a break-even budget. Per Dr. Faltz, the school has increased enrollment for 2005-06 by approximately 20 students, thus increasing revenue by over \$140,000. In addition, 2 staff positions were eliminated, and the monthly debt service payment for the school building has been automatically adjusted per the original agreement from \$45,000 per month to \$38,000. These changes should ensure the future financial viability of the school. The ratio of cash and receivables to payables is approximately 1:1, which is adequate, but not ideal.

The school continues to have a large long-term debt obligation (approximately \$3.6 million), incurred during the construction of the school building and a significant liability for the lease /



purchase of computer hardware of approximately \$150,000. However, as stated above, the monthly debt service payment has decreased by approximately \$7,000 for 2005-06. Thus, the school should be financially able to pay the debt service on this balance without major financial hardship.

### **Other Contract Compliance Issues**

#### **Annual Audit**

The annual audit for Central City Cyberschool for the fiscal year ended July 31, 2005 was completed as of October 10, 2005 by the firm Sattel, Johnson, Appel & Co. Per the contract with the City of Milwaukee, the annual audit was due on or before October 15, 2005. Thus, the school was in compliance with the audit requirement. Per review of the report, there were no material findings by the auditor and the audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

#### **Student Tuition/ Fees**

As is stated in the contract between Central City Cyberschool and the City of Milwaukee, the school may not charge tuition for any charter student, nor may it charge fees for registration, books, teacher salary, equipment or courses credited for graduation. Activity and uniform fees may be charged, but the school must not profit from these fees.

Per discussion with Dr. Faltz and per review of revenues for the school's fiscal year ended July 31, 2005, we noted that no tuition or fees were charged to any student.

### **Conclusion**

Based on our review of the management policies and procedures of Central City Cyberschool as of the end of the school's fiscal year, July 31, 2005, it appears that the school has adequate procedures in place to ensure a sufficient financial management system. We noted that the school has been very responsive to our recommendations for improvement. For the 2004-2005 school year, the school appears to be in material compliance with the financial management provisions of its contract with the City of Milwaukee.

### **Recommendations**

As noted above, we have recommended that the school employ the services of an accountant or accounting firm to provide monthly accounting services, which include preparation of a quarterly financial report, with a budget-to-actual analysis. The school has implemented this for the 2005-06 school year. In addition, we have requested that quarterly financial reports be provided to us for our review and analysis.

## **D.L. Hines College Preparatory Academy of Excellence (DLH Academy)**

MLTA reviewed DLH Academy's management policies, procedures and contract compliance during the 2004-2005 school year. Communications were conducted with Ms. Barbara Horton, Executive Director and the school's financial manager, Ms. Cheryl McMurtry.

### **Current Year Developments**

Based on our review of the financial operations of the school, DLH Academy continues to appear to be extremely well run. The school continues to have a solid financial management system in place, and maintains a solid 3:1 ratio of cash and receivables to liabilities. The school made a \$55,000 investment in new equipment for the school during the year. This couples with the \$100,000 investment made in the prior year. The school is also planning to expand the school to provide a 4-year old Kindergarten and increase grades to 8<sup>th</sup> grade. This would increase the school's enrollment to approximately 300 students.

The school also engaged a new auditor for the 2004-05 school year. The firm of Reilly, Penner & Benton LLP is now the auditor for the school.

### **Financial Status of School**

Based on a review of the annual audit, the school had a very low cash position as of June 30, 2005, with less than \$1,000 in cash. However, the school had grantor receivables of over \$110,000, which were received in August, 2005. The school also has a line of credit available to help the school through such cash deficits. For the year, the school showed a net deficit of approximately \$125,000. The reason for the deficit is due to the school beginning to undertake some of its expansion plans resulting in increased expenses over the prior year. Although the school had a large deficit for the current year, the school is still sound financially due to its large accumulated net assets from prior years. Currently, the school has net assets of over \$210,000, meaning the school is able to operate at a deficit and still maintain a solid financial position.

### **Other Contract Compliance Issues**

#### **Annual Audit**

The annual audit for DLH Academy for the fiscal year ended June 30, 2005 was completed as of August 9, 2005 by the firm Reilly, Penner & Benton LLP. Per review of the report, there were no material findings by the auditor and the audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

#### **Student Tuition/ Fees**

As is stated in the contract between DLH Academy and the City of Milwaukee, the school may not charge tuition for any charter student, nor may it charge fees for registration, books, teacher salary, equipment or courses credited for graduation. Activity and uniform fees may be charged, but the school must not profit from these fees.

Per discussion with the school's financial manager and per review of revenues for the school's fiscal year ended June 30, 2005 we noted that no tuition or fees were charged to any student.

### **Conclusion**

Based on our review of the management policies and procedures of the DLH Academy as of June 30, 2005 it appears that the organization had excellent procedures in place to ensure a sufficient financial management system. The school appears to have be in compliance with the financial management provisions of its contract with the City of Milwaukee.

### **Recommendations**

We have requested that the school provide us a quarterly financial report, with a budget-to-actual analysis. We believe this will enhance our monitoring of the school's financial operations and will aid in increasing the overall controls that have been previously implemented by the school, and will provide an additional tool in achieving management goals.

In addition, we recommend the school closely monitor its current budget to actual results to ensure that the school maintains its current financial position. We believe it is important for the school to maintain its current net asset value, therefore ensuring a solid financial future.

## **Academy of Learning and Leadership**

MLTA reviewed the Academy of Learning and Leadership's management policies, procedures and contract compliance during the 2004-2005 school year. Communications were conducted with Ms. Camille Mortimore, Director as well as the schools office manager.

### **Current Year Developments**

2004-05 was the second year of operations for The Academy of Learning and Leadership as a City of Milwaukee charter school. As the school struggled in its initial year due to construction delays with the school building and subsequent lower than expected enrollments, the school needed to begin a reversal of its initial year's deficit of approximately \$300,000. It appears the school is beginning to sustain itself financially.

In its second year of operations, the financial management staff appears to have established an adequate internal control system. Our review noted no significant deficiencies, nor did the school's independent auditor. Because of the schools difficulties during the first year, the Executive Director advanced the school over \$500,000 during the year with a no interest loan. These loans have enabled the school to operate at its fullest extent, providing the needed funds for operations. The loan is currently being repaid, with an outstanding balance as of June 30, 2005 of \$350,000.

### **Financial Status of School**

Based on our review of the financial operations of the school, The Academy of Learning and Leadership is well run. Ms. Mortimore is directly involved in the financial management of the school, along with her business manager, Sherry Grace. In addition, Ms. Mortimore's husband, Bill Mortimore is an unpaid consultant to the school, providing assistance in the budgeting process and other financial matters.

As noted above, the school had significant financial hardship during its first full year of operation. Thus it was imperative that the school follow its budget in order to reverse the accumulated deficit. A review of the audited financial statements shows the school showed an excess of revenue over expenses of \$21,000 for 2004-05. The ratio of cash and receivables to current liabilities (excluding the bank line of credit) is 2.5:1, a healthy ratio. However, the school has a large bank line of credit balance (\$455,000) as well as the loan from the Executive Director of \$350,000. Although this debt is not immediately payable, it is important that the school budget to repay this debt. In addition, the school has a \$2.9 million balance on its building mortgage with a monthly debt service payment of approximately \$22,000 per month.

Because of the initial year difficulties and resulting deficit, the school board changed its enrollment policy to allow a maximum of two additional children per each grade. In addition, the struggling Infant-Toddler Room has been closed temporarily and an additional Kindergarten

room has replaced it. This will increase the school's capacity to 246 students, 39 more than the 2004-05 enrollment of 207 students.

### **Other Contract Compliance Issues**

#### **Annual Audit**

The annual audit for the Academy of Learning and Leadership for the fiscal year ended June 30, 2005 was completed as of August 19, 2005. However, the report was not issued prior to the reporting deadline of September 15, 2005. No extension of time was requested, therefore we have informed the school that an extension must be requested in the future if delays are anticipated. Per review of the report, there were no material findings by the auditor and the audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

#### **Student Tuition / Fees**

As is stated in the contract between the Academy of Learning and Leadership and the City of Milwaukee, the school may not charge tuition for any charter student, nor may it charge fees for registration, books, teacher salary, equipment or courses credited for graduation. Activity and uniform fees may be charged, but the school must not profit from these fees.

Per discussion with Ms. Grace and per review of revenues for the school's fiscal year ended June 30, 2005, we noted that no tuition or fees were charged to any student.

### **Conclusion**

Based on our review of the management policies and procedures of the Academy of Learning and Leadership as of June 30, 2005, it appears that the organization has procedures in place to ensure an adequate financial management system. Other than the late filing of its annual audit, the school appears to have be in compliance with the financial management provisions of its contract with the City of Milwaukee.

### **Recommendations**

We have requested that the school provide us a quarterly financial report, with a budget-to-actual analysis. We believe this will enhance our monitoring of the school's financial operations and will aid in increasing the overall controls that have been previously implemented by the school, and will provide an additional tool in achieving management goals.

In addition, we recommend the school closely monitor its current budget to actual results as well as implement a plan to pay down the schools current debt on its line of credit as well as its debt to the Executive Director. The sooner these amounts are paid, the better the school's financial outlook will become.