

**City of Milwaukee – Charter Schools
Report of Management Oversight Consultant
with Financial Scorecards
For the 2016-2017 Fiscal Year**

**M. L. Tharps & Associates, LLC
Management Consultants / Certified Public Accountants
Milwaukee, Wisconsin**

M. L. Tharps & Associates, LLC

1845 North Farwell Avenue Suite 109

Milwaukee, WI 53202

(414) 278-8532 Fax (414) 278-7579

Certified Public Accountants

Management Consultants

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

We have completed a review of the management function of the eight charter schools (Downtown Montessori Academy, Central City Cyberschool, DLH Academy, Milwaukee Academy of Science, Milwaukee Collegiate Academy, Milwaukee Math and Science Academy, Escuela Verde, and Rocketship Southside Community Prep), which have contracted with the City of Milwaukee for the 2016-2017 fiscal 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, LLC

February 22, 2018

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

M. L. Tharps & Associates (MLTA) 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) MLTA has obtained an understanding of the school's financial processes and/or controls over significant financial systems.
- b) Monthly and quarterly financial reports submitted by the school were reviewed and analyzed to monitor the financial situation of the school on an ongoing basis.
- c) An annual site visit was conducted with management of each school including interviews and discussion of school management policies.
- d) Obtained a copy of the school's annual audit report. MLTA reviewed the report for propriety, noting any findings reported by the auditor, and that the report was in accordance with reporting standards. Financial results and financial position were reviewed to determine the school's ongoing financial propriety, along with comparison with prior years to determine upward or downward trends.
- e) If necessary, additional follow-up was conducted with schools where problems had been identified.

City of Milwaukee – Charter Schools Financial Scorecard Criteria and Scoring

Each school is provided with an annual financial scorecard, which rates the school using 4 criteria - Financial Condition, Financial Reporting & Contract Compliance, Internal Controls, and Sustainability. The following page provides an explanation of the categories and scoring system:

CATEGORY	OBJECTIVES	MAXIMUM SCORE
Financial Condition	<ul style="list-style-type: none"> - Liquidity - ability to pay bills on time - Budgetary Control - ability to control expenses achieve revenues to match expenses - Financial performance - Timely identify major financial events 	50
Financial Reporting & Contract Compliance	<ul style="list-style-type: none"> - Compliance with CSRC reporting requirements 	20
Internal Controls	<ul style="list-style-type: none"> - Internal controls report from auditor and consultant analysis - Timely identify major internal control issues 	20
Sustainability	<ul style="list-style-type: none"> - Long range plan of school - Long term financial health - Long term attractiveness (enrollment trends) 	10
TOTAL		<hr style="width: 100%; border: 0.5px solid black;"/> 100

Reports / Scorecards

Downtown Montessori Academy

Downtown Montessori Academy (DMA) was one of the two charter schools initially established by the City of Milwaukee. DMA was established in 1998, and in addition to the charter school, DMA also operates a child care facility. The 2016-17 school year was DMA's nineteenth year of operation as a City of Milwaukee Charter school. Below is a summary of the financial results and financial contract compliance for the year ended June 30, 2017.

Current Year Financial Results

DMA, as it has over the past several years, has continued to show positive financial results in both the charter school and day care. The 2016-17 school year showed approximately a \$125,000, or a 5% increase in revenues. Since 2014, the school has increased revenues by almost \$500,000, or 25%. Expenses have also increased by \$500,000 however, the school has consistently shown surpluses each year.

Per review of the year-end audited financial statements, DMA once again performed very well financially in the 2016-17 fiscal year. Although expenses increased more than revenues over the prior year, DMA still showed a solid surplus.

Below is a comparative summary of the school's financial results over the last three fiscal years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus	\$ 129,449	\$ 239,631	\$ 159,063
Revenues	\$ 2,472,404	\$ 2,347,577	\$ 2,145,426
Expenses	\$ 2,342,955	\$ 2,107,946	\$ 1,986,363
Surplus as a Percentage of Revenues	5%	10%	7%

Current Financial Position

DMA's year-end cash position remained consistent to the prior year with the school maintaining approximately \$620,000 in cash at year end. As has been the case in prior years, there is no concern regarding the financial position of the school, as past experience indicates that they are very fiscally-minded and are well aware of their budget limitations. The ratio of cash and receivables to current liabilities (excluding notes payable) remains excellent even though it had a slight decrease from the prior year. Unrestricted net assets continue to increase and are 63% of yearly revenues as of June 30, 2017. The board has designated approximately \$240,000 of the unrestricted net assets for building improvements as well as additional programming costs.

The school currently has three long-term debt mortgage notes outstanding as of June 30, 2017. Each of these notes are to be repaid over a 15 year period. As of June 30, 2017 the balance of those loans totaled \$1.67 million. No issues regarding repayment of those loans are expected.

Below is comparative summary of three indicators of the school's financial position over the last three years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets	\$ 1,569,153	\$ 1,439,704	\$ 1,200,073
Current Assets to Current Liabilities Ratio	3.2 to 1	3.6 to 1	3.1 to 1
Unrestricted Net Assets as Percentage of Yearly Revenues	63%	61%	56%

Review of Annual Audit

The annual audit for Downtown Montessori Academy was completed as of October 30, 2017 by Walkowicz, Boczkiewicz & Co., S.C. Per review of the report, there were no findings in internal control or compliance, and the auditor expressed no issues over DMA's ability to continue as a going concern. The audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly and quarterly financial reports, as well as providing notice of any significant changes in management or board governance. DMA has complied with those reporting requirements for the 2016-17 school year.

Conclusion

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

DOWNTOWN MONTESSORI ACADEMY

Financial Scorecard

SCORING CRITERIA	2017	2016	2015	2014	2013	COMMENTS
Financial Condition (Maximum 50)	48	48	48	47	47	- Continued strong growth in school's net asset balance. - Several years of positive financial results. - 3.2:1 current ratio. - Year-end cash and receivable balance of \$750,000 with total yearly budget of \$2.4 million.
Financial Reporting & Contract Compliance (Maximum 20)	20	17	16	18	16	- All required monthly reports provided in accordance with contract. - Audit completed on timely basis.
Internal Controls (Maximum 20)	17	17	17	17	17	- Solid internal controls in place, however, the small size of the organization precludes an ideal internal control structure. - No audit findings in last 4 audits
Sustainability (Maximum 10)	10	10	10	10	10	- Sustained enrollment. - Excellent financial position.
TOTAL	<u>95</u>	<u>92</u>	<u>91</u>	<u>92</u>	<u>90</u>	

Central City Cyberschool

Central City Cyberschool (CCC) was established as a charter school in 1999, and completed its eighteenth year of operations in 2017. Below is a summary of the financial results and financial contract compliance for their fiscal year ended July 31, 2017.

Current Year Financial Results

CCC revenues in 2016-17 again were almost the same as the prior four years. Revenues for the 2016-17 fiscal year and the prior three fiscal years have been consistent at approximately \$4.3 million. This is due to the school maintaining a consistent enrollment level. However, school operating expenses for 2016-17 increased by approximately \$300,000 over the prior year, resulting in a deficit in the current year. The \$300,000 increase in expenses was mostly due to an increase in wages and salaries and benefits of \$240,000.

Per review of the audited financial statements, the school once again had excellent financial results for 2016-17 fiscal year. CCC showed an decrease in net assets of \$161,000 for the fiscal year. Even with the deficit, cash flow continued to be excellent during the fiscal year as the school has significant accumulated assets from prior years.

Below is a comparative summary of the school's financial results over the last three fiscal years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus / (Deficit)	\$ (161,427)	\$ 105,493	\$ 212,583
Revenues	\$ 4,341,613	\$ 4,312,833	\$ 4,327,145
Expenses	\$ 4,503,040	\$ 4,207,340	\$ 4,114,562
Surplus/(Deficit) as a Percentage of Revenues	-4%	2%	5%

Current Financial Position

CCC continues to be a very financially stable organization. The school maintains a year-end cash balance of \$250,000, similar to the prior year. Although the school showed a deficit for 2016-17, the school maintains a solid unrestricted net asset balance of approximately \$2.75 million. The ratio of cash and receivables to current payables (excluding notes payable) is 1.5 to 1, down from 2.5 to 1 last year, but still a solid ratio. However, management should take steps to ensure that further decreases do not occur, or are minimized.

The school paid off its long-term debt obligation in 2016-17, and currently has no long-term debt obligations.

Below is comparative summary of three indicators of the school's financial position over the last three years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets	\$ 2,767,277	\$ 2,928,704	\$ 2,823,211
Current Assets to Current Liabilities Ratio	1.5 to 1	2.5 to 1	2.9 to 1
Unrestricted Net Assets as Percentage of Yearly Revenues	64%	68%	65%

Review of Annual Audit

The annual audit for Central City Cyberschool for the fiscal year ended July 31, 2017 was completed as of November 21, 2017 by Walkowicz, Boczkiewicz & Co., S.C. The audit was timely submitted in accordance with the submission deadline. Per review of the report, there were no financial statement, internal control or compliance findings noted by the auditor, and the auditor expressed no issues over CCC's ability to continue as a going concern. However, there was an audit finding regarding the school not performing employee background checks for two employees until after the employees had contact with students. CCC took corrective action by terminating the employee responsible for obtaining the background checks, and has taken steps to ensure that this will not happen again. The audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly financial reports, as well as providing notice of any significant changes in management or board governance. CCC has complied with those reporting requirements for the 2016-17 school year.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of Central City Cyberschool as of the end of the school's fiscal year, July 31, 2017, the school continues to have a solid financial management system in place. The school is in very good financial condition, with good cash flow. However, the school needs to be cognizant of maintaining a break-even or surplus budget, as further deficits could signal future financial issues. Other than the instance of noncompliance regarding background check requirements, the school is in compliance with the financial management provisions of its contract with the City of Milwaukee.

CENTRAL CITY CYBERSCHOOL

Financial Scorecard

SCORING CRITERIA	2017	2016	2015	2014	2013	COMMENTS
Financial Condition (Maximum 50)	47	48	48	47	45	<ul style="list-style-type: none"> - Strong net asset balance. - 1.5:1 ratio of cash and receivables to payables. - \$2.8 million in unrestricted net assets. - No long-term debt or outstanding line of credit balance.
Financial Reporting & Contract Compliance (Maximum 20)	20	18	20	20	20	<ul style="list-style-type: none"> - All monthly reports and audit provided on timely basis.
Internal Controls (Maximum 20)	17	17	17	17	17	<ul style="list-style-type: none"> - Solid internal controls in place, however, the small size of the organization precludes an ideal internal control structure. - No internal control or compliance findings in audit
Sustainability (Maximum 10)	10	10	10	10	10	<ul style="list-style-type: none"> - Sustained enrollment levels. - Excellent financial position.
TOTAL	94	93	95	94	92	

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

DLH Academy was established as a charter school in 2002, and has completed its fifteenth year of operations in 2017. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2017.

Current Year Financial Results

Continuing its positive trend over the last several years, DLH Academy has now shown surpluses in six consecutive years and is continuing to build on its positive financial position. The current fiscal year resulted in another 14% increase in their unrestricted net asset balance. Revenue increased by \$120,000 and expenses increased by \$80,000, resulting in the surplus.

Per review of the year-end audited financial statements, the school showed an increase in unrestricted net assets of \$184,000 on revenues of \$4 million and expenses of \$3.8 million for the fiscal year. Cash flow was solid during the fiscal year. The school has a \$200,000 line of credit if needed for cash flow purposes.

Below is a comparative summary of the school's financial results over the last three fiscal years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus / (Deficit)	\$ 184,003	\$ 147,230	\$ 396,131
Revenues	\$ 4,002,956	\$ 3,884,062	\$ 4,014,341
Expenses	\$ 3,818,953	\$ 3,736,832	\$ 3,618,210
Surplus/(Deficit) as a Percentage of Revenues	5%	4%	10%

Current Financial Position

Currently, the school has unrestricted net assets of \$1.45 million, a net cash position of approximately \$900,000 and a 5.7 to 1 ratio of cash and receivables to current liabilities. Year-end cash balances totaled approximately \$1.16 million and the school had receivables of \$320,000. Current liabilities totaled \$267,000, thus resulting in the excellent ratio. As mentioned above, the school maintains a \$200,000 line of credit for cash flow purposes, from which it occasionally draws, and there was no balance outstanding on this line of credit as of June 30, 2017.

Below is comparative summary of three indicators of the school's financial position over the last three years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets	\$ 1,449,376	\$ 1,265,373	\$ 1,118,143
Current Assets to Current Liabilities Ratio	5.7 to 1	6.0 to 1	5.0 to 1
Unrestricted Net Assets as Percentage of Yearly Revenues	36%	33%	28%

Review of Annual Audit

The annual audit for DLH Academy for the fiscal year ended June 30, 2017 was completed as of August 28, 2017 by the firm of Tushaus & Associates, LLC. The audit was timely submitted in accordance with the submission deadline. Per review of the report, there were no financial statement, internal control or compliance findings noted by the auditor, and the auditor expressed no issues over DLH's ability to continue as a going concern. The audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly financial reports, as well as providing notice of any significant changes in management or board governance. DLH Academy has complied with those reporting requirements for the 2016-17 school year.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of the DLH Academy, it appears that the school continues to have solid procedures in place to ensure a sufficient financial management system. As of June 30, 2017, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

D.L. HINES COLLEGE PREPARATORY ACADEMY OF EXCELLENCE

Financial Scorecard

SCORING CRITERIA	2017	2016	2015	2014	2013	COMMENTS
Financial Condition (Maximum 50)	48	47	45	45	40	- Showed fifth consecutive year of surpluses. - 5.7:1 current ratio is excellent. - No long-term debt or outstanding line of credit balance.
Financial Reporting & Contract Compliance (Maximum 20)	20	20	20	17	15	- All required monthly reports received - Audit completed on timely basis.
Internal Controls (Maximum 20)	17	17	17	17	17	- Solid internal controls in place, however, the small size of the organization precludes an ideal internal control structure. - No internal control or compliance findings in audit
Sustainability (Maximum 10)	10	10	10	9	8	- Sustained enrollment levels - Good financial position - Several consecutive years of positive financial results
TOTAL	95	94	92	88	80	

Milwaukee Academy of Science

The Milwaukee Academy of Science (MAS) was established as a charter school in 2000 under a charter with the University of Wisconsin-Milwaukee. In 2008, the school switched its chartering authority to the City of Milwaukee. MAS completed its seventeenth year of operations in 2017. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2017.

Current Year Financial Results

MAS showed another significant increase in net assets for the 2017 fiscal year. For the year, the school showed an increase in unrestricted net assets of approximately \$307,000. In comparison, the school also showed an unrestricted net asset increase of \$331,000 in the prior year. Total unrestricted revenue increased by \$450,000, while expenses increased by \$480,000. The school is maintaining a healthy net asset balance and solid cash flow position.

Below is a comparative summary of the school's financial results over the last three fiscal years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus / (Deficit)	\$ 306,755	\$ 331,395	\$ (140,511)
Revenues	\$ 10,856,389	\$ 10,399,135	\$ 10,248,161
Expenses	\$ 10,549,634	\$ 10,067,740	\$ 10,388,672
Surplus/(Deficit) as a Percentage of Revenues	3%	3%	-1%

Current Financial Position

Currently, the school has unrestricted net assets of \$2 million, a very solid cash flow position and a 4.5 to 1 ratio of cash and receivables to current liabilities other than current debt service, up from 3.9 to 1 in the prior year. Year-end operating cash balances totaled approximately \$3.4 million, and the school had receivables including promises to give from donors of \$567,000. Current liabilities other than current debt service total \$912,000, thus resulting in the favorable ratio. The school has a \$250,000 line of credit available, but due to its favorable cash position, they did not use the line during 2016-17.

In November 2013, the Redevelopment Authority of the City of Milwaukee refinanced bonds in the amount of approximately \$11.7 million, which was loaned to the school to purchase, rehabilitate and equip the elementary and high school. This refinanced debt is to be repaid over a 30-year period. The balance of this loan is \$10.9 million as of June 30, 2017. In addition, as part of the loan covenant, the school is required to maintain cash and investments in a Debt Service Reserve Fund, and a Repair and Replacement Fund. Total cash in these restricted accounts totaled \$1.66 million on June 30, 2017. This balance is in addition to the operating cash of \$3.4 million noted above.

Below is comparative summary of three indicators of the school's financial position over the last three years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets	\$ 2,030,702	\$ 1,723,947	\$ 1,392,552
Current Assets to Current Liabilities Ratio	4.5 to 1	3.9 to 1	3.4 to 1
Unrestricted Net Assets as Percentage of Yearly Revenues	19%	17%	14%

Review of Annual Audit

The annual audit for the Milwaukee Academy of Science for the fiscal year ended June 30, 2017 was completed as of November 13, 2017 by the firm Schenck, S.C. Although submitted after the deadline of October 31, management requested a 30 day extension to submit the report, which was granted. Therefore the school is in compliance with the submission requirement. Per review of the report, there were no financial statement, internal control or compliance findings by the auditor, and the auditor expressed no issues over MAS's ability to continue as a going concern. The audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly financial reports, as well as providing notice of any significant changes in management or board governance. MAS has complied with those reporting requirements for the 2016-17 school year.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of the Milwaukee Academy of Science as of June 30, 2017, it appears that the organization has adequate procedures in place to ensure a sufficient financial management system. The school has an excellent financial position with an excellent ratio of cash and receivables to liabilities as well as an excellent unrestricted net asset balance. As of June 30, 2017, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

MILWAUKEE ACADEMY OF SCIENCE

Financial Scorecard

SCORING CRITERIA	2017	2016	2015	2014	2013	COMMENTS
Financial Condition (Maximum 50)	47	46	45	45	45	<ul style="list-style-type: none"> - Maintaining a steady strong net asset balance over past several years. - 4.5:1 ratio of cash and receivables to current payables other than long-term debt. - \$2 million in unrestricted net assets. - \$11 million in long-term debt, but no issues making debt service payments.
Financial Reporting & Contract Compliance (Maximum 20)	20	18	18	17	16	<ul style="list-style-type: none"> - All required monthly reports received on a timely basis. - Audit completed on timely basis.
Internal Controls (Maximum 20)	19	19	19	18	18	<ul style="list-style-type: none"> - The school has implemented a a very solid structure. - No internal control or compliance findings in recent audits.
Sustainability (Maximum 10)	10	10	10	10	10	<ul style="list-style-type: none"> - School has sustained enrollment - Excellent financial postion.
TOTAL	96	93	92	90	89	

Milwaukee Collegiate Academy

The Milwaukee Collegiate Academy (MCA) was established as a City of Milwaukee charter school in 2011 after previously operating as a Milwaukee Parental Choice Program school. 2016-17 was the school's sixth year as a City of Milwaukee charter school. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2017.

Current Year Financial Results

MCA, after two years of extraordinary financial results from FY 2013 through FY 2014, a break-even year in FY 2015 and a significant deficit in FY 2016, showed another, smaller deficit in FY 2017. Because of the financial performance in FY 2013 and 2014, the deficit of \$80,000 is not seriously detrimental to the school's cumulative financial position, which is still solid. However, continued deficits could be detrimental going forward, as it could significantly reduce the school's cumulative surplus. For FY 2017, the school posted revenues of \$3.47 million, up from \$3.1 million in the prior year. Per pupil revenues, outside donations as well as grant revenues increased over the prior year. Expenses increased by \$200,000 to \$3.55 million. The school continues to receive significant outside contributions, receiving \$460,000 for the FY 2017 after receiving \$380,000 in the prior year, accounting for 13% of the school's revenue.

Per review of the annual audit, the school showed a decrease in unrestricted net assets for the year of \$80,000. The school currently has an unrestricted net asset balance of \$511,000. Unrestricted net assets have gone from \$107,000 to \$511,000 in the past five years, even with the FY 2016 and FY 2017 deficits.

Below is a comparative summary of the school's financial results over the last three fiscal years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus / (Deficit)	\$ (80,356)	\$ (264,536)	\$ (8,372)
Revenues	\$ 3,468,833	\$ 3,094,896	\$ 3,193,760
Expenses	\$ 3,549,189	\$ 3,359,432	\$ 3,202,132
Surplus/(Deficit) as a Percentage of Revenues	-2%	-9%	0%

Current Financial Position

MCA had dramatically improved its financial position over the 2013 and 2014 fiscal years. As noted above, their unrestricted net assets increased by \$404,000 over the last five years. In addition, its ratio of cash and receivables to current liabilities is a very solid 8 to 1. Year-end cash balances totaled \$325,000, and the school had receivables of \$90,000. Current liabilities totaled \$52,000, thus resulting in the favorable ratio. Even after the current year deficit, the school has a solid financial position as of June 30, 2017.

Below is comparative summary of three indicators of the school's financial position over the last three years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets	\$ 510,863	\$ 591,219	\$ 855,755
Current Assets to Current Liabilities Ratio	8.0 to 1	3.0 to 1	7.6 to 1
Unrestricted Net Assets as Percentage of Yearly Revenues	15%	19%	27%

Review of Annual Audit

The annual audit for MCA for the fiscal year ended June 30, 2017 was completed as of October 25, 2017 by the firm Ritz Holman, LLP. Per review of the report, there was a financial statement finding regarding the accounting staff not making certain adjusting entries prior to the audit that should normally be made. Management has responded that an outsourced accountant will be used in the future to ensure that the proper adjustments have been made by the accounting staff. In addition, The auditor expressed no issues over the school's ability to continue as a going concern, and the audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

In response to auditor comments made to management from the school's 2015 and 2016 audits, The Wisconsin Department of Public Instruction (WDPI) initiated a site visit to perform a field review of internal controls of the organization. These comments were not considered audit findings, but were listed as items for consideration by the auditor to strengthen internal controls and operating efficiency. Our 2017 review and the auditor's 2017 review indicated that those suggestions were now in place. The results of WDPI's review also noted that the school has implemented the recommended controls and procedures, however, they did note that in some instances, there was a lack of receipt documentation for certain credit card purchases. In response to the finding, WDPI has requested documentation for the school's January 2018 credit card transactions. This response is pending as of this report date. In addition, we will be performing a review to ensure that the school is in compliance with the documentation requirements. We will report our results and the WDPI results to the CSRC.

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly financial reports, as well as providing notice of any significant changes in management or board governance. Milwaukee Collegiate Academy has complied with those reporting requirements for the 2016-17 school year.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of the Milwaukee Collegiate Academy as of June 30, 2017, it appears that the organization is taking the steps to ensure a sufficient financial management system. The school appears to still be in solid financial position after its sixth year following its transition to a charter school. However, continued operating deficits could jeopardize that position. Other than the internal control finding noted by WDPI regarding credit card receipts, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

MILWAUKEE COLLEGIATE ACADEMY

Financial Scorecard

SCORING CRITERIA	2017	2016	2015	2014	2013	COMMENTS
Financial Condition (Maximum 50)	44	45	47	45	40	- Even with deficits in FY 2017 and 2016, school is in good financial position. Prior 3 years had solid financial results. - 8:1 current ratio compared to 0.6:1 in FY 2012
Financial Reporting & Contract Compliance (Maximum 20)	20	18	18	20	20	- All required monthly reports received on a timely basis - Audit completed on timely basis.
Internal Controls (Maximum 20)	14	18	18	16	12	- Small size of the organization precludes an ideal internal control structure. - Audit findings regarding accounting adjustments and auditor comments regarding lack of documentation for credit card transactions.
Sustainability (Maximum 10)	9	9	10	9	8	- Continued growth in enrollment with new facility - Solid financial position with a base to solicit significant contributions. - FY 2017 and 2016 deficits could be a concern.
TOTAL	<u>87</u>	<u>90</u>	<u>93</u>	<u>90</u>	<u>80</u>	

Milwaukee Math and Science Academy

The Milwaukee Math and Science Academy (MMSA) was established as a City of Milwaukee charter school in 2011. 2016-17 was the school's sixth year as a City of Milwaukee charter school. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2017.

Current Year Financial Results

After showing a slight deficit in the prior fiscal year, MMSA returned to showing positive financial results in the 2016-17 fiscal year. Other than the school's first year of operations, after several years of surpluses, the school showed its first deficit in FY 2016. The school reversed that deficit, and added to its cumulative surplus in FY 2017. Because of stronger enrollment, revenues increased by \$440,000 over the prior year, and expenses only increased by \$296,000, resulting in the surplus.

Per review of the annual audit, the school showed an increase in unrestricted net assets for the year of \$91,000 on revenues of \$3.7 million and expenses of \$3.6 million.

Below is a comparative summary of the school's financial results over the last three fiscal years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus / (Deficit)	\$ 91,103	\$ (54,000)	\$ 66,142
Revenues	\$ 3,689,219	\$ 3,248,380	\$ 3,149,589
Expenses	\$ 3,598,116	\$ 3,302,380	\$ 3,083,447
Surplus/(Deficit) as a Percentage of Revenues	2%	-2%	2%

Current Financial Position

After its sixth year of operations, the school has accumulated an unrestricted net asset balance of \$577,000. MMSA has a solid cash flow position and a favorable 2.6:1 ratio of cash and receivables to current liabilities. Year-end cash balances totaled approximately \$617,000, and the school had receivables of \$80,000. Current liabilities total \$269,000, resulting in the favorable ratio. MMSA has no outstanding debt obligations.

Below is comparative summary of three indicators of the school's financial position over the last three years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets	\$ 577,166	\$ 486,063	\$ 540,063
Current Assets to Current Liabilities Ratio	2.6 to 1	2.3 to 1	2.5 to 1
Unrestricted Net Assets as Percentage of Yearly Revenues	16%	15%	17%

Review of Annual Audit

The annual audit for the Milwaukee Math and Science Academy for the fiscal year ended June 30, 2017 was completed as of October 30, 2017 by the firm Ritz Holman, LLP. Per review of the report, there were no financial statement, internal control or compliance findings by the auditor. The auditor expressed no issues over the school's ability to continue as a going concern, and the report appears to have been properly submitted and is in accordance with generally accepted accounting standards.

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly financial reports, as well as providing notice of any significant changes in management or board governance. MMSA has complied with those reporting requirements for the 2016-17 school year. That issue appears to have been corrected as of the end of the school year.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of the Milwaukee Math and Science Academy as of June 30, 2017, it appears that the organization has adequate procedures in place to ensure a sufficient financial management system. The school continues to be in a solid financial position as a charter school. Other than the late submission of monthly reports earlier in the school year, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

**MILWAUKEE MATH AND SCIENCE
ACADEMY
Financial Scorecard**

SCORING CRITERIA	2017	2016	2015	2014	2013	COMMENTS
Financial Condition (Maximum 50)	45	44	44	44	40	- 2.6:1 ratio of cash and receivables to payables other than debt service, increase over prior year (2.3:1) - No debt. Paid off loan with Concept Schools in 2015. - Solid net asset balance - Continued revenue growth
Financial Reporting & Contract Compliance (Maximum 20)	20	18	14	18	16	- All required monthly reports received on a timely basis - Audit completed on timely basis.
Internal Controls (Maximum 20)	18	18	18	18	18	- Solid internal controls in place. - Finances handled from corporate offices in Chicago - No internal control or compliance findings in audit
Sustainability (Maximum 10)	9	9	9	8	7	- Solid financial position - Continued enrollment growth
TOTAL	92	89	85	88	81	

Escuela Verde

Escuela Verde completed its fifth year of operations as a City of Milwaukee charter school in 2016-17. Escuela Verde is an arm of the Trans Center for Youth, Inc., which is comprised of four other entities; Shalom High School, Northwest Opportunities Vocational Academy, El Puente High School and NOVA Tech. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2017.

Current Year Financial Results

In its fifth year of operations, Escuela Verde, once again, was able to achieve very good financial results. Even with a relatively low enrollment, the school again showed a solid surplus. Grant and per-pupil revenue for the 2016-17 fiscal year exceeded \$1 million for the first time, and the school was able to manage expenses to show a surplus for the year.

Per review of the annual audit, the school, in its third full year of operations, showed a unrestricted surplus of \$137,000, on revenues of \$1.1 million and expenses of \$968,000.

Below is a comparative summary of the school's financial results over the last three fiscal years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus / (Deficit)	\$ 137,513	\$ 36,719	\$ 66,142
Revenues	\$ 1,106,395	\$ 998,565	\$ 820,959
Expenses	\$ 968,882	\$ 961,846	\$ 720,779
Surplus/(Deficit) as a Percentage of Revenues	12%	4%	8%

Current Financial Position

After its fifth year of operations, the school has accumulated unrestricted net assets of \$416,000, and maintains a solid balance sheet with a good ratio of cash and receivables to current liabilities. The school's year-end cash balances totaled approximately \$139,000, and the school had total current assets of \$412,000. Current liabilities totaled only \$13,000, thus resulting in the favorable ratio. The school also has no outstanding debt.

As the school is part of the Trans Center for Youth, Inc., it is important to look at the financial position of the organization as a whole. In reviewing the audit for the whole organization, the organization also is showing a solid financial position, with cash and receivables of \$565,000 and current liabilities of \$135,000 for a favorable 4.2 to 1 ratio.

Below is comparative summary of three indicators of the school's financial position over the last three years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets	\$ 415,741	\$ 278,228	\$ 241,509
Current Assets to Current Liabilities Ratio	30.8 to 1	16.8 to 1	20.4 to 1
Unrestricted Net Assets as Percentage of Yearly Revenues	38%	28%	29%

Review of Annual Audit

The annual audit for the Escuela Verde and the Trans Center for Youth, Inc. for the fiscal year ended June 30, 2017 was completed as of October 5, 2017 by the firm Reilly, Penner & Benton, LLP. Per review of the report, there were no financial statement, internal control or compliance findings by the auditor related to Escuela Verde, and the audit appears to have been properly submitted and is in accordance with generally accepted accounting standards. The auditor expressed no issues over the school's ability to continue as a going concern .

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly financial reports, as well as providing notice of any significant changes in management or board governance. Escuela Verde has complied with those reporting requirements for the 2016-17 school year.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of Escuela Verde and the Trans Center for Youth, Inc. as of June 30, 2017, it appears that the organization has adequate procedures in place to ensure a sufficient financial management system. The school and organization as a whole appear to be in a good financial position. The school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

ESCUELA VERDE
Financial Scorecard

SCORING CRITERIA	2017	2016	2015	2014	2013	COMMENTS
Financial Condition (Maximum 50)	47	46	44	42	42	- Good financial position after fifth year of operations. - Operating organization (Trans Center for Youth, Inc.) as a whole has very good financial position.
Financial Reporting & Contract Compliance (Maximum 20)	20	17	14	13	16	- All required monthly reports received on a timely basis - Audit completed on timely basis.
Internal Controls (Maximum 20)	17	17	17	15	16	- Good internal controls in place - No significant internal control or compliance findings in audit
Sustainability (Maximum 10)	10	9	8	6	5	- School shows continued growth. - Operating organization has solid financial results
TOTAL	94	89	83	76	79	

Rocketship Southside Community Prep

Rocketship Southside Community Prep (Rocketship) completed its fourth year of operations as a City of Milwaukee charter school in 2016-17. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2017.

Current Year Financial Results

After its prior three years of operation, Rocketship had accumulated a net deficit of \$1.87 million. Rocketship, as part of its business plan, had projected significant deficits in its first four years of operation, and through the first three years, those deficits materialized. However in year four, Rocketship essentially broke even, although the school's original budget for the year showed a projected deficit of \$350,000.

Per review of the annual audit, the school showed a deficit of \$5,000 in its fourth full year of operations following losses of \$475,000 in FY 2016, \$666,000 in FY 2015 and \$679,000 in FY 2014. Revenues increased \$860,000 to \$5 million and expenses increased by only \$430,000, resulting in the break-even budget.

Below is a comparative summary of the school's financial results over the last three fiscal years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Surplus / (Deficit)	\$ (5,315)	\$ (475,482)	\$ (665,807)
Revenues	\$ 5,024,430	\$ 4,165,201	\$ 3,760,898
Expenses	\$ 5,029,745	\$ 4,640,683	\$ 4,426,705
Surplus/(Deficit) as a Percentage of Revenues	0%	-11%	-18%

Current Financial Position

After four years of operations, the school still has an unrestricted net deficit of \$1.87 million. Its ratio of current assets to current liabilities is now 1:1, a increase from 0.7 to 1 the prior year. Current assets totaled \$937,000 and current liabilities totaled \$903,000, thus resulting in the ratio. Rocketship also has a \$1.5 million outstanding long-term line of credit with Rocketship Education, available to them for cash flow. The balance on the line of credit was the full \$1,500,000 as of June 30, 2017. In addition, Rocketship Education has extended additional cash flow funding of \$700,000 which is classified as a related party short-term liability.

Rocketship has provided budget projections through FY 2019. Those projections indicate that the school will break even or show a small surplus in FY 2018 and will become self sufficient in FY 2019, and will continue to improve its financial position going forward.

Below is comparative summary of three indicators of the school's financial position over the last three years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets	\$ (1,874,869)	\$ (1,869,554)	\$ (1,394,072)
Current Assets to Current Liabilities Ratio	1.0 to 1	0.7 to 1	1.3 to 1
Unrestricted Net Assets as Percentage of Yearly Revenues	-37%	-45%	-37%

Review of Annual Audit

The annual audit for Rocketship for the fiscal year ended June 30, 2017 was completed as of October 31, 2017 by the firm Reilly, Penner & Benton LLP. Per review of the report, there were no internal control findings. However, there was a compliance finding that noted a special education teacher taught classes in a grade that was not authorized by the State of Wisconsin. The audit appears to have been properly submitted and is in accordance with generally accepted accounting standards, and the auditor expressed no issues over the school's ability to continue as a going concern, even with the large accumulated deficit.

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly financial reports, as well as providing notice of any significant changes in management or board governance. Rocketship has complied with those reporting requirements for the 2016-17 school year.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of the Rocketship Southside Community Prep as of June 30, 2017, it appears that the organization has adequate procedures in place to ensure a sufficient financial management system. However, we are concerned over the school's large cumulative deficit, and their ability to recover those losses. We do believe the organization has a reasonable plan in place, and has the ability to turn around the current financial deficit based on the current year results. Other than the compliance finding related to the special education teacher license, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

**ROCKETSHIP SOUTHSIDE COMMUNITY
PREP**

Financial Scorecard

SCORING CRITERIA	2017	2016	2015	2014	2013	COMMENTS
Financial Condition (Maximum 50)	33	28	30	35	N/A	- 1:1 current ratio. - \$1,900,000 net asset deficit at year-end - \$2,200,000 of debt owed to affiliated organization (Rocketship Education) - School essentially broke even 1 year ahead of projections.
Financial Reporting & Contract Compliance (Maximum 20)	20	17	17	17	N/A	- All required monthly reports received on a timely basis. - Audit submitted on a timely basis.
Internal Controls (Maximum 20)	18	18	18	14	N/A	- Good internal controls in place - No significant internal control or compliance findings in audit
Sustainability (Maximum 10)	7	5	5	5	N/A	- Large cumulative deficit still a concern. - 2017 budget was break-even after projection of \$350,000 deficit. - Support from Rocketship Education eases concerns of sustainability.
TOTAL	<u>78</u>	<u>68</u>	<u>70</u>	<u>71</u>	<u>N/A</u>	