

**City of Milwaukee – Charter Schools  
Report of Management Oversight Consultant  
For the School Year Ended June 30, 2006**

**December 21, 2006**

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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 five charter schools (Downtown Montessori Academy, Central City Cyberschool, DLH Academy, Academy of Learning and Leadership, and Maasai Institute), which have contracted with the City of Milwaukee for the 2005-2006 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  
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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) For new schools in the program, 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) Quarterly financial statements were obtained from the schools to monitor the financial situation of the school on an ongoing basis.
- g) 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.

### **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.

### **Financial Status of School**

Per review of the periodic financial statements and the year-end audited financial statements, 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 \$2,000 net excess of revenue over expenses for the year on revenues of approximately \$650,000. The school had a \$25,000 increase in revenues for the year. Although day care revenues decreased by \$25,000, charter school revenues increased by almost \$50,000. The ratio of cash and receivables to liabilities remains very solid at a 3.5 to 1 ratio, where a 2 to 1 ratio is desired for most organizations.

### **Other Contract Compliance Issues**

#### **Annual Audit**

The annual audit for Downtown Montessori Academy was completed as of September 11, 2006 by the firm Hau & Associates. 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, continue to be submitted to us.

## **Central City Cyberschool**

MLTA performed an ongoing review of Central City Cyberschool's management policies, procedures and contract compliance during the 2005-06 school year. Our primary contact is 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.

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. Beginning in November 2005, the school hired an outside firm, to provide monthly closeouts and quarterly financial statements.

### **Financial Status of School**

Per review of the financial statements, it appears that the school continues to be financially stable and is improving. Cash flow appeared adequate for the 2005-06 year. Our ongoing review indicated no severe financial constraints on the school.

Per review of the audited financial statements, nothing came to our attention that would indicate any financial problems at the school. The school showed an increase in net assets of \$284,000 on revenues of \$3.7 million for the fiscal year. The school is now showing a net asset balance of approximately \$470,000. The ratio of cash and receivables to current payables (excluding notes payable) is approximately 1.7:1, which is greatly improved, from a 1:1 ratio in the prior year.

The school continues to have a large long-term debt obligation (approximately \$3.4 million), incurred during the construction of the school building, however, a prior year liability of \$150,000 for the lease of computers, was paid off during the year. This will result in additional savings in the coming year. In addition, the monthly debt service payment decreased by approximately \$7,000 for 2005-06. Based on this, interest on debt paid during the year decreased by over \$120,000. 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, 2006 was completed as of October 2, 2006 by the firm of David L. Scrima, S.C., however the audit was not received until November 3, 2006. Per the contract with the City of Milwaukee, the annual audit was due on or before October 15, 2006. Thus, the school was not in compliance with the audit requirement. However, due to health issues of the principal, a delay in issuing the report resulted. 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 review of revenues for the school's fiscal year ended July 31, 2006, 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, 2006, 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 2005-2006 school year, the school appears to be in material compliance with the financial management provisions of its contract with the City of Milwaukee.

## **Recommendations**

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

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

MLTA reviewed DLH Academy's management policies, procedures and contract compliance during the 2005-2006 school year. Communications were conducted with Ms. Barbara Horton, Executive Director and the school's financial manager.

### **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 continues to maintain a solid 3:1 ratio of cash and receivables to liabilities. The school made a \$45,000 investment in new equipment for the school during the year. This couples with the \$55,000 investment made in the prior year. The school is also planning a classroom expansion project, in which the school received approximately \$125,000 in donations during the school year. Those donations have been segregated from other revenues and are considered restricted until they are used for the expansion.

### **Financial Status of School**

Based on a review of the annual audit, the school had a good year in 2005-06, showing an unrestricted net asset increase of \$10,000 on unrestricted revenues of \$2.4 million. This was an increase of \$300,000 over the prior year, which is attributable to the increase in enrollment for the school year. Expenses only increased by \$155,000, thus they were able to reverse the prior year deficit of \$125,000. Currently, the school has net assets of over \$220,000, meaning the school could 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, 2006 was completed as of August 8, 2006 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 review of revenues for the school's fiscal year ended June 30, 2006 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, 2006 it appears that the organization continues to have 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**

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

## **Academy of Learning and Leadership**

MLTA reviewed the Academy of Learning and Leadership's management policies, procedures and contract compliance during the 2005-2006 school year. Communications were conducted with Ms. Camille Mortimore, Executive Director, as well as the schools office manager.

### **Current Year Developments**

2005-06 was the third year of operations for The Academy of Learning and Leadership as a City of Milwaukee charter school. Due to struggles in its initial year of operations, the school needed to begin a reversal of its initial year's deficit of approximately \$200,000. Although the school has not been able to reverse this initial deficit, it appears to be operating at a near break-even budget over the past two years, where the deficit has not increased significantly. Based on the school's audit, the initial year's deficit has increased by approximately \$6,000.

The financial management staff of the school appears to have established an adequate internal control system. Our review noted no significant deficiencies in the internal control structure.

During the school's initial year of operations, the Executive Director, due to the serious deficit shortfall, advanced the school over \$500,000 with a no interest loan. These loans enabled the school to continue to operate during its initial year. During the 2005-06 fiscal year, the school board approved making payments to the Executive Director for the carrying costs related to this loan, as the Executive Director has an outstanding personal loan, which funded the loan to the school. The only payments on this loan in 2006 were for interest on the loan. The principal balance of the loan as of June 30, 2006 remains at \$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. 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.

Based on its accumulated line of credit and payable to the director, it important that the school budget to reverse the accumulated deficit and pay down this debt. A review of the audited financial statements shows the school showed a deficit of revenue over expenses of \$27,000 for 2005-06. The ratio of current assets to current liabilities (excluding the bank line of credit) is 1.4:1, a reasonable ratio. However, the school has a large bank line of credit balance (\$495,000) as well as the \$350,000 loan from the Executive Director. Although this debt is not immediately payable, it is important that the school budget to repay this debt. In addition, the school has a \$2.85 million balance on its building mortgage with a monthly debt service payment of approximately \$22,000 per month.

The school is also planning on expanding its capacity through the addition of another building in 2007. Therefore tight budgeting will be even more imperative as costs will continue to increase. However, anticipated increases in enrollment should offset these additional costs.

### **Other Contract Compliance Issues**

#### **Annual Audit**

The annual audit for the Academy of Learning and Leadership for the fiscal year ended June 30, 2006 was completed by the firm Coleman & Williams, Ltd. as of July 28, 2006. 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 review of revenues for the school's fiscal year ended June 30, 2006, 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, 2006, 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**

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

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.

## **Maasai Institute**

MLTA reviewed the Maasai Institute's management policies, procedures and contract compliance during the 2005-2006 school year. Communications were conducted with Ms. Janis McCollum, Executive Director.

### **Current Year Developments / Financial Status**

2005-06 was the first year of operations for Maasai Institute as a City of Milwaukee charter school. Needless to say, the school had a number of obstacles to overcome in this initial year. Due to enrollments falling, well below initial projections, the school had to make major modifications to its budget. Fortunately, the school was able to obtain a \$150,000 line of credit to help fund the anticipated deficit. In addition, the school was able to obtain various foundation and organization grants which helped to fund the purchase of equipment and other supplies. As the school anticipated a higher enrollment, it entered into a lease of a large school building, which was severely underutilized, and had a large lease payment. Occupancy costs were approximately 22% of revenues, which is a very high percentage compared to other schools, which range from 7% to 10 of revenues.

Despite these difficulties, the school appears to have made it through its initial year not seriously hampered. Although the school's ratio of current assets to liabilities is a dangerously low 2:9, the school did not have to exhaust its line of credit to fund the deficit. As of June 30, 2006, the balance of the \$150,000 line of credit was \$56,000. Although the audited financial statements indicate a surplus of \$7,000 at year-end, this does not include the school's cash spent for furniture and equipment. Including this in the calculation changes that surplus to a \$160,000 deficit.

We believe the school can reverse this based on its enrollment almost doubling for the 2006-07 school year. If the school can carefully budget its funds, it should be able to pay down the debt and become stable financially. We will be closely monitoring the school's progress toward that goal.

As is common with operations of this size, we noted that the school did not have an adequate financial control system in place during much of the initial year. Our initial visits indicated a lack of an accounting system and a poorly managed system of internal controls and general filing procedures. The school struggled to set up an accounting system and did not have a system in place until early 2006. However, management has been receptive to our suggestions for improvement and has begun to implement our suggestions for record keeping and retention. The school's audit firm noted no significant deficiencies in the internal control structure, but it did recommend that the board provide additional oversight regarding segregation of duties. This is common in a small organization.

## **Other Contract Compliance Issues**

### **Annual Audit**

The annual audit for Maasai Institute for the fiscal year ended June 30, 2006 was completed by the firm of David L. Scrima, S.C. as of September 25, 2006. Per the contract with the City of Milwaukee, the annual audit was due on or before September 15, 2005. Thus, the school was not 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 the Maasai Institute 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 review of revenues for the school's fiscal year ended June 30, 2006, 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 Maasai Institute as of June 30, 2006, it appears that the organization has not fully implemented procedures to ensure an adequate financial management system. However, it appears they are on track to implement those procedures in the near future. Other than the late filing of its annual audit, the school appears to have been 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 the school continue to improve upon its current management policies and procedures. We recommend that the school implement the recommendations suggested by the school's auditor, as well as taking steps to ensure its accounting system is up-to-date each month. In addition, we have requested that at least quarterly, financial statements with budget-to-actual results, continue to be submitted to us.

We also recommend that the school's financial audit be started earlier to ensure the report is issued by the contractual deadline of September 15. In the event of unforeseen circumstances causing a delay, we suggest that a formal request for an extension of time to complete be made.

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