

**City of Milwaukee – Charter Schools
Report of Management Oversight Consultant
For the School Year Ended June 30, 2010**

**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 five charter schools (Downtown Montessori Academy, Central City Cyberschool, DLH Academy, Academy of Learning and Leadership, and the Milwaukee Academy of Science), which have contracted with the City of Milwaukee for the 2009-2010 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, LLC

November 17, 2010

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Table of Contents**

Description of Procedures Performed	4
Reports on Charter Schools:	
Downtown Montessori Academy	6
Central City Cyberschool	8
D.L. Hines College Preparatory Academy of Excellence (DLH Academy)	10
Milwaukee Academy of Science	12

**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) MLTA has obtained an understanding of the schools processes and/or controls over significant financial control system.
- b) Cash account reconciliations were reviewed and compared to month-end general ledger balances.
- c) Revenues were reviewed to verify whether charter students were paying tuition, book and/or registration fees.
- d) Liability accounts were reviewed to determine if large or unusual liabilities exist.
- e) Quarterly financial statements were obtained from the schools, and are reviewed to monitor the financial situation of the school on an ongoing basis.
- 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 2009-10 school year. Communications were conducted with Virginia Flynn, School Administrator.

Current Year Financial Results

Following their relocation to Milwaukee's Bay View area during 2006-07, the school has steadily increased its yearly enrollment. Following an increase of approximately 15 students in the prior year, enrollment increased by approximately 20 students in 2009-10.

Per review of the periodic financial statements and the year-end audited financial statements, the school once again performed very well financially in the 2009-10 school year. The increase in enrollment resulted in a \$99,000 increase in net assets for the year compared to a \$88,000 increase in the prior year. Charter school aids increased by \$132,000 and total revenues increased by \$198,000, whereas total expenses increased by only \$188,000, which accounts for the strong financial results of the school. As the school continues its planning for a significant expansion project, the accumulated surpluses are an important component of the school's plans for financing the expansion.

Current Financial Position

The school's year-end cash position increased by \$90,000 to \$287,000 from the prior year. There are no concerns regarding the current financial position of the school, as past experience with the school indicates that they are very fiscally-minded and are well aware of their budget limitations. The ratio of cash and receivables to liabilities is excellent at a 3.5 to 1 ratio. Unrestricted net assets as of June 30, 2010 are \$270,000.

The school also has a \$75,000 line of credit available to supplement cash needs due to timing issues with state aid payments. There was no outstanding balance of this line of credit as of June 30, 2010.

Contract Compliance

Annual Audit

The annual audit for Downtown Montessori Academy was completed as of October 4, 2010 by the firm David L. Scrima, S.C. Per review of the report, there were no material findings by the auditor. Although the audit was submitted subsequent to the deadline for submission, the school applied for a 30-day extension, and was granted the extra time to complete the audit. 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.

Internal Control Structure

Accounting duties for the 2009-10 year were under the direction of the school's administrative assistant, with outside accounting support provided by the firm Ritz Holman. Although the organizational structure is small, we believe the internal control structure is solid, with adequate segregation of duties for an organization of its size.

Conclusion

Based on our review of management's policies and procedures, it appears the school has in place a solid financial management system. The school remains in good 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.

Recommendations

We recommend that the school continue to follow the same financial controls and processes that are currently in place.

Central City Cyberschool

MLTA performed an ongoing review of Central City Cyberschool's management policies, procedures and contract compliance during the 2009-10 school year. Our primary contact is Dr. Christine Faltz, School Administrator.

Current Year Financial Results

Per review of the audited financial statements, the school showed an increase in net assets of \$115,000 on revenues of \$4 million for the fiscal year. An increase in enrollment resulted in a \$225,000 increase in charter school revenues, and a \$300,000 increase in total revenues. Expenses increased by approximately the same amount as total revenues, resulting in the \$115,000 surplus. Cash flow appeared adequate for the 2009-10 year.

Current Financial Position

Based on our review, it appears that the school continues to be financially stable. The school continues to show a very solid net asset balance, which is now \$990,000. The ratio of cash and receivables to current payables (excluding notes payable) is approximately 1.05:1, a decrease from the prior year, yet still positive.

The school continues to have a large long-term debt obligation (approximately \$2.35 million). The school has been able to pay the debt service on this balance without major financial hardship, and should be able to continue to do so in the future.

Contract Compliance

Annual Audit

The annual audit for Central City Cyberschool for the fiscal year ended July 31, 2010 was completed as of October 1, 2010 by the firm of David L. Scrima, S.C. The audit was timely submitted in accordance with the submission deadline. 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, 2010, we noted that no tuition or fees were charged to any student.

Internal Control Structure

During our review for 2009-10, we noted no major changes in the internal control structure of the school. It appears that the school continues to have a solid internal control structure, with good financial practices in place. Along with Ms Faltz, the school has a business manager to perform the accounting functions for the school. The school has also engaged the services of an outside accountant to perform quarterly accounting services.

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, 2010, it appears that the school has adequate procedures in place to ensure a sufficient financial management system. The school appears to be in good financial condition, with adequate cash flow. The school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

Recommendations

We recommend that the school continue to follow the same financial controls and processes that are currently in place.

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

MLTA reviewed DLH Academy's management policies, procedures and contract compliance for the 2009-10 school year. Communications were conducted with Ms. Barbara Horton, Executive Director and the school's financial manager, Cheryl McMurtry.

Current Year Financial Results

Based on a review of the annual audit, the school had a slight deficit for the year, showing an unrestricted net asset decrease of \$85,000 on unrestricted revenues of \$2.9 million. Of the \$85,000 deficit, approximately \$47,000 is a result of depreciation on assets purchased in prior years. Enrollment remained consistent with the prior year, however, total revenues increased by \$300,000, and expenses showed a slight decrease from the prior year. Although the school showed a slight deficit for the year, there was a dramatic improvement from the prior year, in which the school showed a \$471,000 deficit. Most expenses remained consistent from year-to-year.

Current Financial Position

Currently, the school has unrestricted net assets of \$231,000, a solid cash position and a 1.5:1 ratio of cash and receivables to current liabilities. Year-end cash balances totaled approximately \$238,000, and the school had receivables of \$230,000. Current liabilities total \$315,000, thus resulting in the favorable ratio. The school does maintain a \$100,000 line of credit for cash flow purposes, and the full \$100,000 balance was outstanding on this line of credit as of June 30, 2010.

Contract Compliance

Annual Audit

The annual audit for Central City Cyberschool for the fiscal year ended June 30, 2010 was completed as of October 4, 2010 by the firm of David L. Scrima, S.C. Although the audit was submitted subsequent to the deadline for submission, the school applied for a 30-day extension, and was granted the extra 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 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, 2010 we noted that no tuition or fees were charged to any student.

Internal Control Structure

Based on our review of the financial operations of the school, DLH Academy continues to have a solid financial management system and internal control structure in place. Personnel appear to have financial and accounting experience to adequately maintain the school's accounting system. The school continues to maintain an adequate reserve, indicating the school has budgeted its funds well over time.

Conclusion

Based on our review of the management policies and procedures of the DLH Academy as of June 30, 2010 it appears that the organization continues to have excellent procedures in place to ensure a sufficient financial management system. The school appears to be in good financial position, despite the 2008-09 and current year deficit. As of June 30, 2010, 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 believe that the DLH Academy should continue its current management policies and procedures. We are satisfied with all areas of the schools financial management and contract compliance. We do, however, recommend that the school closely monitor its budget to ensure that future significant deficits will not occur, as their current favorable financial position could reverse itself quickly.

Milwaukee Academy of Science

MLTA reviewed the Milwaukee Academy of Science's management policies, procedures and contract compliance during the 2009-10 school year. This was the school's second year as a City of Milwaukee charter school, after opening in 2000 as a University of Wisconsin-Milwaukee charter school. Communications were conducted with Judy Merryfield, President/CEO and Keith Rogers, the school's business manager.

Current Year Financial Results

Per review of the annual audit, the school had a deficit for the year, showing an unrestricted net asset decrease of \$532,000 on revenues of \$9 million, a small decrease in revenue from the prior year. A major component of the deficit is from a non-cash charge for depreciation and amortization expense of \$430,000. Total operating expenses remained consistent from the prior year at \$8.7 million. The school also incurred interest on its debt service of \$679,000.

Current Financial Position

Currently, the school has unrestricted net assets of \$2.15 million, a very solid cash flow position and a 3.1:1 ratio of cash and receivables to current liabilities other than current debt service. Year-end cash balances totaled approximately \$2.1 million, and the school had receivables of \$479,000. Current liabilities other than current debt service total \$818,000, thus resulting in the favorable ratio. As the school has a favorable cash position, they do not have a line of credit.

In June 2005, the Redevelopment Authority of the City of Milwaukee issued bonds in the amount of approximately \$12 million, which in turn, was loaned to the school to purchase, rehabilitate and equip the elementary and high school. This debt is to be repaid over a 30-year period. The balance of this loan is \$11.7 million at June 30, 2010. 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 \$1.47 million on June 30, 2010. This balance is in addition to the unrestricted cash of \$2.1 million noted above.

Contract Compliance

Annual Audit

The annual audit for the Milwaukee Academy of Science for the fiscal year ended June 30, 2010 was completed as of September 8, 2010 by the firm Jenkins & Vojtisek, S.C. Per review of the report, there were no financial statement or compliance findings by the auditor and the audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

Prior year internal control findings that were considered material weaknesses by the auditor have been corrected, and the auditor indicated that the recommendations were implemented.

Student Tuition / Fees

As is stated in the contract between Milwaukee Academy of Science 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, 2010 we noted that no tuition or fees were charged to any student.

Internal Control Structure

Based on our review of the financial operations of the school, the Milwaukee Academy of Science has a solid financial management system and internal control structure in place. Personnel appear to have financial and accounting experience to adequately maintain the school's accounting system. The prior year internal control weaknesses indicated by the auditor were corrected during the 2009-10 school year. The school has a very solid accumulated surplus, indicating the school has budgeted its funds well over time.

Conclusion

Based on our review of the management policies and procedures of the Milwaukee Academy of Science as of June 30, 2010, it appears that the organization has adequate procedures in place to ensure a sufficient financial management system. The school appears to be in good financial position, despite the 2009-10 deficit. 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 believe that the school should continue its current management policies and procedures. We are satisfied with all areas of the schools financial management and contract compliance. We do, however, recommend that the school closely monitor its budget to ensure that future significant deficits will not occur.