

**City of Milwaukee – Charter Schools  
Report of Management Oversight Consultant  
For the 2014-2015 Fiscal Year**

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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 ten charter schools (Downtown Montessori Academy, Central City Cyberschool, DLH Academy, King's Academy, Milwaukee Academy of Science, Milwaukee Collegiate Academy, Milwaukee Math and Science Academy, Escuela Verde, and the North Point Lighthouse Charter School, and Rocketship Southside Community Prep), which have contracted with the City of Milwaukee for the 2014-2015 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*

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**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 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 financial processes and/or controls over significant financial systems.
- b) Monthly and quarterly financial reports submitted by the schools were reviewed and analyzed to monitor the financial situation of the school on an ongoing basis.
- c) 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. 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.
- d) If necessary, additional follow-up is conducted with schools where problems have been identified.

**Reports on Charter Schools**

## **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 2014-15 school year was DMA's seventeenth 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, 2015.

### **Current Year Financial Results**

DMA, as it has over the past several years, has steadily increased its enrollment in both the charter school and day care. The school's recent expansion has resulted in a continued increase in enrollments. The 2014-15 enrollment increase resulted in approximately a \$200,000 increase in overall revenue. This increase, on top of the prior year's increase, resulted in a 50% increase in revenues over the past 3 years.

Per review of the periodic financial statements and the year-end audited financial statements, DMA once again performed very well financially in the 2014-15 fiscal year. Expenses did increase over the prior year due to higher enrollments and the school expansion, however, the increase was in line with the increase in revenues, which still resulted in the school increasing its unrestricted net assets by \$160,000 for the year.

### **Current Financial Position**

DMA's year-end cash position remained consistent to the prior year with the school maintaining just over \$600,000 in cash at year end. 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 current liabilities (excluding notes payable) is 3.1 to 1, slightly less than the prior year 3.8 to 1, but still an excellent ratio. Unrestricted net assets as of June 30, 2015 are \$1,200,000. The board has designated approximately \$350,000 of the unrestricted net assets for the building improvements as well as additional programming costs.

The school currently has three long-term debt mortgage notes outstanding as of June 30, 2015. Each of these notes are to be repaid over a 15 year period. As of June 30, the balance of those loans totaled \$1.85 million. No issues regarding repayment of those loans are expected.

### **Review of Annual Audit**

The annual audit for Downtown Montessori Academy was completed as of October 22, 2015 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. A prior year finding related to DMA's insurance coverage not being in accordance with contractual requirements was cleared. 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. DMA has complied with those reporting requirements for the 2014-15 school year, however, there were several reports that were not submitted on a timely basis.

### **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.

## **Central City Cyberschool**

Central City Cyberschool (CCC) was established as a charter school in 1999, and completed its sixteenth year of operations in 2015. Below is a summary of the financial results and financial contract compliance for their fiscal year ended July 31, 2015.

### **Current Year Financial Results**

Once again in 2014-15, CCC's revenues were almost exactly the same as the prior two years. Revenues for 2014-15 were approximately \$4.3 million and even though expenses increased by \$200,000 to \$4.1 million, the school further improving its financial position. Over the past 4 years, the school's unrestricted net asset balance has gone from \$1.3 million to \$2.8 million.

Per review of the period statements during the year and the audited financial statements, the school once again had excellent financial results for 2014-15 fiscal year. CCC showed an increase in net assets of \$227,000 for the fiscal year. Cash flow was excellent during the fiscal year.

### **Current Financial Position**

CCC has become very stable financially over the past several years, its current position is still solid. The school continues to show an unrestricted net asset balance, which is now \$2.8 million. The ratio of cash and receivables to current payables (excluding notes payable) is 3 to 1, down from 3.3 to 1 last year, but still an excellent ratio.

The school has two large long-term debt obligations totaling approximately \$520,000. The larger of the two notes (\$410,000) matures in June 2016 and the other note (\$110,000) matures in July 2017. The school has been able to pay on this balance without financial hardship, and should be able to continue to do so in the future.

### **Review of Annual Audit**

The annual audit for Central City Cyberschool for the fiscal year ended July 31, 2015 was completed as of November 5, 2015 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. 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 2014-15 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, 2015, the school continues to have a solid financial management system in place. The school is in very good financial condition, with good cash flow. The school is in compliance with the financial management provisions of its contract with the City of Milwaukee.

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

DLH Academy was established as a charter school in 2002, and has completed its thirteenth year of operations in 2015. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2015.

### **Current Year Financial Results**

Continuing its positive trend over the last several years, DLH Academy has now shown surpluses in four consecutive years and has continued to build on its positive financial position. The current fiscal year resulted in another 55% increase in their unrestricted net assets. Revenue increased by \$190,000 and expenses increased by only \$100,000 resulting in a larger surplus.

Per review of the audited financial statements, the school showed an increase in unrestricted net assets of \$396,000 on revenues of \$4.0 million and expenses of \$3.6 million for the fiscal year. The liquid asset position of the school also improved over the prior year. Cash flow appeared adequate during the fiscal year with the school using its line of credit if needed.

### **Current Financial Position**

Currently, the school has unrestricted net assets of \$1.1 million, a net cash position of approximately \$700,000 and a 5 to 1 ratio of cash and receivables to current liabilities up from 3.5 to 1 in the prior year. Year-end cash balances totaled approximately \$740,000, and the school had receivables of \$128,000. Current liabilities totaled \$173,000, thus resulting in the excellent ratio. The school does maintain a \$100,000 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, 2015.

### **Review of Annual Audit**

The annual audit for DLH Academy for the fiscal year ended June 30, 2014 was completed as of September 28, 2015 by the firm of Sitzberger Hau and Company, S.C. 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 2014-15 school year.

## **Conclusion**

Based on our review of the management policies, procedures, compliance and the annual audit of the DLH Academy as of June 30, 2015\ it appears that the organization continues to have solid procedures in place to ensure a sufficient financial management system. The school continues to improve its financial position, as evidenced through its increasing net asset balance. As of June 30, 2014, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

## **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 fifteenth year of operations in 2015. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2015.

### **Current Year Financial Results**

MAS showed a significant decrease in net assets for the current year. The school showed a decrease in unrestricted net assets of approximately \$140,000. However, if you remove the non-cash expense of depreciation from the equation, the school showed a net cash surplus of \$260,000. Total revenue remained consistent, however, unrestricted revenues decreased by \$500,000. The school continued its capital campaign, in which it received almost \$300,000 in promises to give and cash contributions. In addition, the school continues to maintain a healthy net asset balance despite the current year deficit.

### **Current Financial Position**

Currently, the school has unrestricted net assets of \$1.4 million, a very solid cash flow position and a 2.8 to 1 ratio of cash and receivables to current liabilities other than current debt service. Year-end cash balances totaled approximately \$2 million, and the school had receivables of \$465,000. Current liabilities other than current debt service total \$905,000, thus resulting in the favorable ratio. As the school has a favorable cash position, they do not have a line of credit.

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 \$11.9 million at June 30, 2015. 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 \$1.64 million on June 30, 2015. This balance is in addition to the unrestricted cash of \$2 million noted above.

### **Review of Annual Audit**

The annual audit for the Milwaukee Academy of Science for the fiscal year ended June 30, 2015 was completed as of November 11, 2015 by the firm Schenck, S.C. Although the audit was issued after the deadline of October 31, the school requested, and was granted a 30 day extension of time to submit its report. 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 2014-15 school year, however, there were several reports that were not submitted on a timely basis.

### **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, 2015, 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, 2015, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

## **King's Academy**

King's Academy's was established as a City of Milwaukee charter school in 2010, after previously operating as a private school in the Milwaukee Parental Choice Program. This was the school's fifth 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, 2015.

### **Current Year Financial Results**

After an unexpected reduction in pupil FTE in 2012-13, King's Academy, for the first time as a charter school, showed a deficit. However, after making significant and necessary budget adjustments, King's Academy has shown small surpluses in the last two fiscal years, improving on its financial position.

Per review of the annual audit, the school showed an in unrestricted net assets of \$69,000 for the year. Revenues totaled \$1.85 million, almost \$150,000 higher than the prior year. The \$69,000 surplus is consistent with the prior year \$62,000 surplus.

### **Current Financial Position**

Currently, the school has unrestricted net assets of \$342,000, and the school's available cash at year-end is almost \$100,000 higher than the prior year. It appears they have adequate cash available. They still have an excellent 3.7 to 1 ratio of cash and receivables to current liabilities, up from 2.9 to 1 in the prior year. Year-end cash balances totaled approximately \$216,000, and the school had receivables of \$335,000. Current liabilities total \$142,000, thus resulting in the favorable ratio. Other than a small liability for two copier leases, the school has no significant debt service. The school continues to be in a solid financial position.

### **Review of Annual Audit**

The annual audit for the King's Academy for the fiscal year ended June 30, 2015 was completed as of September 15, 2015 by the firm Ritz Holman, LLP. 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 King's Academy'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. King's Academy has complied with those reporting requirements for the 2014-15 school year, however, there were several reports that were not submitted on a timely basis.

## **Conclusion**

Based on our review of the management policies, procedures, compliance and the annual audit of the King's Academy as of June 30, 2015, it appears that the organization has adequate procedures in place to ensure a sufficient financial management system. The school appears to be in a solid financial position after its fifth year as a charter school. The school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

## **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. 2014-15 was the school's fourth 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, 2015.

### **Current Year Financial Results**

MCA, after two years of extraordinary financial results, effectively had a break-even year in 2014-15. Based on the two previous years, this is certainly not detrimental to the school's cumulative financial position. The school posted revenues of \$3.2 million as well as showing \$3.2 million in expenses for the year. Revenues increased by \$250,000 due to a sharp increase in enrollment. However, expenses increased by almost \$700,000. That increase is most significantly reflected in a \$400,000 increase in wages and professional fees, as well as a \$100,000 increase in occupancy expenses. The school continues to receive significant outside contributions, receiving almost \$750,000 for the year after receiving \$1 million in the prior year.

Per review of the annual audit, the school showed a small decrease in unrestricted net assets for the year of \$8,000. The school currently has an unrestricted net asset balance of \$864,000. Unrestricted net assets have gone from \$107,000 to \$864,000 in the past three years.

### **Current Financial Position**

MCA has dramatically improved its financial position over the last three fiscal years. As noted above, their unrestricted net assets increased by \$750,000 over the last three years. In addition, its ratio of cash and receivables to current liabilities increased to 7 to 1 from 2.8 to 1 two years prior. Year-end cash balances totaled \$506,000, up from \$395,000 in the prior year and the school had receivables of \$146,000. Current liabilities totaled \$85,000, thus resulting in the favorable ratio. The school has a very solid financial position as of June 30, 2015.

### **Review of Annual Audit**

The annual audit for MCA for the fiscal year ended June 30, 2015 was completed as of October 29, 2015 by the firm Ritz Holman, LLP. Per review of the report, there were no financial statement findings and unqualified reports were issued by the auditor. However, an internal control and compliance finding was noted, noting that the school's principal did not have its administrator's license renewed for the 2014-15 school year. The school acknowledged the clerical error, and immediately took the steps to correct the problem. 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.



### **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 2014-15 school year, however, there were a few reports that were not submitted on a timely basis.

### **Conclusion**

Based on our review of the management policies, procedures, compliance and the annual audit of the Milwaukee Collegiate Academy as of June 30, 2015, it appears that the organization has taken the steps to ensure a sufficient financial management system. The school appears to be in solid financial position after its fourth year following its transition to a charter school. 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**

The Milwaukee Math and Science Academy (MMSA) was established as a City of Milwaukee charter school in 2011. 2014-15 was the school's fourth 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, 2015.

### **Current Year Financial Results**

In its fourth year of operation,, MMSA once again showed solid financial results for the year. The school once again showed a significant increase in its per-pupil aid, due to an increase in its enrollment. Per-pupil funding increased by \$270,000 to \$2.53 million, and total revenues increased by \$450,000 to \$3.21 million.

Per review of the annual audit, the showed a unrestricted surplus for the year of \$128,000. Expenses increased over the prior year by \$450,000 to \$3.1 million, but the school was still able to expand its net asset balance.

### **Current Financial Position**

After its fourth year of operations, the school has accumulated an unrestricted net asset balance of \$540,000. MMSA has a solid cash flow position and a 2.5:1 ratio of cash and receivables to current liabilities other than debt service. Year-end cash balances totaled approximately \$375,000, and the school had receivables of \$163,000. Current liabilities total \$216,000, thus resulting in the favorable ratio. The school also paid off its loan with its management company, Concept Schools, for which it received a cash advance for its first year of operations. The school has no other debt obligations

### **Review of Annual Audit**

The annual audit for the Milwaukee Math and Science Academy for the fiscal year ended June 30, 2015 was completed as of October 29, 2015 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 did not comply with the monthly reporting requirements, as they did not submit monthly reports after January 2015 for the 2014-15 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, 2014, it appears that the organization has adequate procedures in place to ensure a sufficient financial management system. However, the school management needs to take steps to ensure monthly reports are timely submitted. The school appears to be in a solid financial position as a charter school. Other than the late submission of monthly reports, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

## **Escuela Verde**

Escuela Verde completed its third year of operations as a City of Milwaukee charter school in 2013-14. 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, 2015.

### **Current Year Financial Results**

In its third year of operations, Escuela Verde, once again, was able to achieve very good financial results. With a relatively low enrollment, the school again showed a surplus for the year. Grant and per-pupil revenue for the school totaled only \$820,000 for the year, however 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 \$100,000, on revenues of \$820,000 and expenses of \$720,000.

### **Current Financial Position**

After its third year of operations, the school has accumulated unrestricted net assets of \$241,000, 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 \$117,000, and the school had receivables of \$16,000. Current liabilities other than debt service totaled only \$5,000, thus resulting in the favorable ratio. The school has an outstanding loan payable for leasehold improvements of which the current balance is approximately \$5,000. That loan is scheduled to mature in 2016, and the school should have no difficulties in making payment.

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 \$368,000 and current liabilities of \$173,000 for a favorable 2.1 to 1 ratio.

### **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, 2015 was completed as of December 21, 2015 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 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. However, the audit was completed and submitted late by the organization. Escuela Verde's contract with the City of Milwaukee stipulates that the annual audit be submitted by October 31. A 30 day extension to November 30 was requested and granted, however, the report was still submitted late.

### **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 2014-15 school year, however, there were several reports that were not submitted on a timely basis.

### **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, 2015, 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. Other than the late completion and submission of its audit report, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

## **North Point Lighthouse Charter School**

North Point Lighthouse Charter School (North Point) completed its third year of operations as a City of Milwaukee charter school in 2014-15. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2015.

### **Current Year Financial Results**

After its third year of operations, North Point again showed mixed results financially. Due to the costs relating to the startup of the school, and lower than expected enrollment, the school showed a significant deficit for its first year. Following an improved second year of operations, the school showed stability, but no improvement in its financial results.

Per review of the annual audit, the school showed a small deficit for the year of \$45,000 after a small surplus of \$30,000 in the prior year. Revenues decreased slightly to \$2.85 million compared to \$2.9 million in the prior year and expenses increased slightly to account for the small deficit. However, if you remove the non-cash expense of depreciation from the equation, the school showed a net cash surplus of \$60,000.

### **Current Financial Position**

After its third year of operations, the school had an unrestricted net deficit of \$462,000. Its ratio of cash and receivables to current liabilities other than loans payable is 1:1, identical to the prior year. Year-end cash balances totaled approximately \$190,000, and the school had receivables of \$401,000. Current liabilities other than debt service totaled \$610,000, thus resulting in the ratio. The school also currently has outstanding loans of \$590,000 to be repaid over then next three years. North Point also has a \$500,000 line of credit with Lighthouse Academies, Inc. available to them for cash flow. The balance on the line of credit was \$150,000 as of June 30, 2015, down from \$270,000 the prior year.

### **Review of Annual Audit**

The annual audit for North Point for the fiscal year ended June 30, 2015 was completed as of March 2, 2016 by the firm Schenck, S.C. The report was submitted four months after the contract deadline of October 31. The school was also late in submitting its audit in the prior year as well.

Per review of the report, there were several financial statement, internal control and compliance findings by the auditor:

- A finding related to the late submission of the annual audit to the City of Milwaukee.
- Four findings related to the incorrect and untimely reporting of grant expenditures and maintaining documentation for those expenditures.

The audit appears to have been correctly submitted and is in accordance with generally accepted accounting standards. However, due to the school informing the City of Milwaukee that the school is relinquishing its charter as of June 30, 2016, the auditor has noted that the school will cease as a going concern following that date.

### **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. North Point has complied with those reporting requirements for the 2014-15 school year.

### **Conclusion**

Based on our review of the management policies, procedures, compliance and the annual audit of the North Point Lighthouse Charter School as of June 30, 2015, it appears that the organization does not presently have adequate procedures in place to ensure a sufficient financial management system. We have noted that the school has recently changed its Chief Financial Officer, following the issuance of its most recent audit. However, based on the audit findings, and the late issuance of its audit for two consecutive years, the school is not in compliance with the financial management provisions of its contract with the City of Milwaukee.

## **Rocketship Southside Community Prep**

Rocketship Southside Community Prep (Rocketship) completed its second year of operations as a City of Milwaukee charter school in 2014-15. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2015.

### **Current Year Financial Results**

As is common with other startup schools in their first years of operations, Rocketship has showed some unfavorable results financially in its first two years. Due to the costs relating to the startup of the school, the school has showed significant deficits. As this was expected, the school obtained a \$1.1 million donation and a \$1,500,000 line of credit loan from Rocketship Education, to alleviate the effects of the startup and aid with cash flow.

Per review of the annual audit, the school showed a deficit of \$666,000 for its second full year of operations following a \$679,000 loss in 2013-14. Even though the school increased operating revenues by \$900,000, it was well short of covering operating expenses. Revenues totaled \$3.7 million while expenses totaled \$4.4 million, resulting in the deficit. To alleviate this deficit, the school had to borrow an additional \$850,000 from Rocketship Education.

### **Current Financial Position**

After two years of operations, the school has an unrestricted net deficit of \$1.4 million. Its ratio of cash and receivables to current liabilities other than loans payable is approximately 1.3:1, slightly improved over the prior year. Current assets totaled \$767,000 and current liabilities totaled \$582,000, thus resulting in the ratio. Rocketship also had a \$1.5 million outstanding long-term line of credit with Rocketship Education, available to them for cash flow. Rocketship Education increased the amount available from \$650,000 to \$1.5 million in 2015. The balance on the line of credit was the full \$1,500,000 as of June 30, 2015.

Per review of the 2015-16 budget, the school is projecting an operating deficit of approximately \$400,000, which would bring the accumulated deficit to \$1.8 million.

### **Review of Annual Audit**

The annual audit for Rocketship for the fiscal year ended June 30, 2015 was completed as of October 6, 2015 by the firm Reilly, Penner & Benton LLP. Per review of the report, there were no internal control or compliance findings identified by the auditor, and two prior year compliance findings were cleared in this audit. 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.

### **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 2014-15 school year, however, there were several reports that were not submitted on a timely basis.



## **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, 2015, 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 based on projections for the 2015-16 fiscal year. The school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

## **Recommendation**

Based on our management review, we believe that the school should closely monitor its current and future budget status. Based on the results of the first years of operations, it is imperative that management take the necessary steps to alleviate the accumulated deficit.