

**City of Milwaukee – Charter Schools
Report of Management Oversight Consultant
For the School Year Ended June 30, 2009**

**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 2008-2009 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

May 18, 2010

**City of Milwaukee – Charter Schools
Report of Management Oversight Consultant
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 |
| Academy of Learning and Leadership | 12 |
| Milwaukee Academy of Science | 15 |

**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 2008-09 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 experienced a temporary decrease in enrollment, and a corresponding loss of revenues. During 2008-09, enrollment increased by approximately 15 students. Therefore with this increase, and the increase from the prior year, the temporary loss in students has been mitigated.

Per review of the periodic financial statements and the year-end audited financial statements, the school once again performed very well financially in the 2008-09 school year. The increase in enrollment resulted in a \$88,000 increase in net assets for the year compared to a \$10,000 increase in the prior year. Charter school aids increased by \$125,000 and total revenues increased by \$148,000, whereas total expenses increased by only \$71,000, which accounts for the strong financial results of the school. As the school is planning 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 \$70,000 to \$187,000 from the prior year. Presently there are no concerns regarding the 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 2.5 to 1 ratio. Unrestricted net assets as of June 30, 2009 are \$171,000.

The school also has a \$50,000 line of credit available to supplement cash needs due to timing issues with state aid payments. The outstanding balance of this line of credit was \$38 as of June 30, 2009.

Contract Compliance

Annual Audit

The annual audit for Downtown Montessori Academy was completed as of August 27, 2009 by the firm David L. Scrima, S.C. 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.

Internal Control Structure

During our current year review, we noted several changes in the financial and internal control structure at Downtown Montessori Academy. Accounting duties for the 2008-09 year were under the direction of the school's administrative assistant, with outside accounting support provided by the firm Hau and Associates. The internal control structure appears solid, with adequate segregation of duties and solid fiscal practices.

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 appears to be 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 2008-09 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 \$148,000 on revenues of \$3.7 million for the fiscal year. A small decrease in enrollment resulted in approximately \$75,000 decrease in charter school revenues. However, expenses held steady from the prior year, resulting in the \$148,000 surplus. Cash flow appeared adequate for the 2008-09 year.

Current Financial Position

Based on our review, it appears that the school continues to be financially stable, with no significant changes over the past year. The school is now showing a very solid net asset balance of approximately \$875,000. The ratio of cash and receivables to current payables (excluding notes payable) is approximately 1.5:1, the same as the prior year.

The school continues to have a large long-term debt obligation (approximately \$2.75 million). The school has been able to pay the debt service on this balance without major financial hardship, and should be able to continue without any problems.

Contract Compliance

Annual Audit

The annual audit for Central City Cyberschool for the fiscal year ended July 31, 2009 was completed as of October 8, 2009 by the firm of David L. Scrima, S.C. 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, 2009, we noted that no tuition or fees were charged to any student.

Internal Control Structure

During our review for 2008-09, 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, 2009, 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 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

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 2008-09 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 significant deficit for the year, showing an unrestricted net asset decrease of \$424,000 on unrestricted revenues of \$2.8 million. Of the \$424,000 deficit, approximately \$125,000 is a result of a prior year adjustment made for accrued salaries that were not accrued in the June 30, 2008 financial statements. This was due to a change in compensation of teachers to a 12-month cycle as opposed to the previous 10-month cycle. Based on this, the prior year surplus was significantly overstated. In addition, since the school has had significant surpluses in past years, bonuses were paid to staff in 2008 and 2009, and 2 additional staff members were hired. Although the school showed a significant deficit for the year, this appears to be a one-time situation. Other than compensation costs, all other expenses remained consistent.

Current Financial Position

Currently, the school has unrestricted net assets of \$316,000, a solid cash flow position and a 1.6:1 ratio of cash and receivables to current liabilities. Year-end cash balances totaled approximately \$344,000, and the school had receivables of \$115,000. Current liabilities total \$288,000, thus resulting in the favorable ratio. The school does maintain a \$100,000 line of credit for cash flow purposes, and there was a \$97,500 balance outstanding on this line of credit as of June 30, 2009.

Contract Compliance

Annual Audit

The annual audit for DLH Academy for the fiscal year ended June 30, 2009 was completed as of September 10, 2009 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, 2009 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 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 school continues to build on its surpluses to where it has a significant 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, 2009 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 significant 2008-09 deficit. As of June 30, 2009, 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.

Academy of Learning and Leadership

MLTA reviewed the Academy of Learning and Leadership's management policies, procedures and contract compliance during the 2008-09 school year. Communications were conducted with Ms. Camille Mortimore, Executive Director, as well as the school's business manager and accountant.

Current Year Financial Results

For the year ended June 30, 2009, the school showed a decrease in net assets of \$94,000, on revenues of \$4.55 million and expenses of \$4.32 million. The school's cumulative deficit is now \$250,000. However, this cumulative deficit can be attributed to cumulative building depreciation of approximately \$550,000.

During 2006-07, the school embarked on an expansion project, adding a new school building, which allowed the school to increase its enrollment by approximately 60%. The school financed this through \$10 million bonding issue, which refinanced their existing debt, provided financing for the building construction, and provided a reserve to pay interest on the bonds until full enrollment is realized. Details of this bonding issue are described in the next section.

Current Financial Position

Currently, the school has unrestricted net assets of \$(250,000). However, the school's cash position is favorable, and there is a 1.5:1 ratio of cash and receivables to current liabilities. Year-end cash balances totaled approximately \$271,000, and the school had receivables of \$395,000. Current liabilities total \$460,000, thus resulting in the favorable ratio. The school has a \$500,000 line of credit for cash flow purposes. At year-end, there was no outstanding balance on this line of credit.

As noted above, the school embarked on a significant expansion, which was completed in 2008. From the audited financial statements, below is a description of the financing arrangement for this expansion:

“In April 2007 the Redevelopment Authority of the City of Milwaukee (RACM) issued 15 year and 30 year tax-exempt Redevelopment Education Revenue Bonds (Series A tax-exempt bonds) totaling \$7.8 million and underwritten by A.G. Edwards. Interest rates on the tax-exempt bonds are between 5.5% and 5.625%.

RACM also issued 6 and 9 year taxable Redevelopment Education Revenue Bonds (Series B taxable bonds and Series C taxable bonds) totaling \$850,000. The interest rate on the taxable Bonds is 7.56%.

RACM loaned the bond proceeds of the Series A and Series B bonds to TC-ALL QEI, LLC (an “Investment Fund”). The Investment fund received capital contributions, in the form of New Market Tax Credits, from TransCapital Community Improvement Fund, LLC, (an “Investment Fund Tax Credit Investor”). The Investment Fund used the bond proceeds and capital

contributions to invest in Community Development Funding IX, LLC (CDE) which in-turn made two loans (a Senior Loan of \$8,130,000 and a Subordinate Loan of \$1,658,800) to the Academy. At the end of the seven (7) year tax-credit term, the CDE has an option to call the Subordinate Loan for a single payment of \$82,900, which will extinguish the Subordinate Loan of \$1,658,000.

The Series C bond proceeds (\$520,000) were loaned by RACM directly to the Academy. Interest on the loans vary between 1% and 7.56% over the term of the loans and mature on various dates with a final payment of \$1,658,800 on April 24, 2047.

For the years ended June 30, 2008 and 2009, the Academy's debt service payments are defrayed by a Capitalized Interest Fund in the amounts of \$312,020 and \$133,723 respectively."

Under the terms of the bond agreement, the school is required to submit quarterly statements and projections for bond compliance. We will be closely monitoring the financial results of the school to determine whether the financial plan for the bond financing will be properly followed to ensure the long-term viability of the school.

Contract Compliance

Annual Audit

The annual audit for the Academy of Learning and Leadership for the fiscal year ended June 30, 2009 was completed by the firm Coleman & Williams, Ltd. on January 20, 2010. As the audit report was due September 15, 2009, the school did not complete its audit on a timely basis. An extension of time to complete the audit was granted to October 31, 2009, however, that deadline was not met. Due to the complexity of the audit, it is difficult for the school to meet these deadlines. 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, 2009, 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 financial management staff of the school appears to have established a solid internal control system. Our review noted no significant deficiencies in the internal control structure. Ms. Mortimore is directly involved in the financial management of the school, along with her business manager. Due to the complexity of the school's finances and the reporting requirements related to the bond financing, the school has an accountant to handle accounting and financial reporting duties for the school.

Conclusion

Based on our review of the management policies and procedures of the Academy of Learning and Leadership as of June 30, 2009, 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 recommend that the school continue with its current management policies and procedures. As the school has a very complicated and significant debt issuance that is highly dependent on the school's projected budgets, we recommend that management continue to closely monitor budget to actual results. We also recommend that the school take steps to have its annual audit completed on a timely basis in accordance with its contract with the City of Milwaukee.

Milwaukee Academy of Science

MLTA reviewed the Milwaukee Academy of Science's management policies, procedures and contract compliance during the 2008-09 school year. This was the school's first 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 \$219,000 on revenues of \$9.1 million. There was decrease in per pupil revenue and grants, as revenues decreased by approximately \$640,000 from the prior year. A major component of the deficit is from a non-cash charge for depreciation expense of \$383,000. Total operating expenses remained consistent from the prior year at \$8.7 million. The school also incurred interest on its debt service of \$660,000.

Current Financial Position

Currently, the school has unrestricted net assets of \$2.6 million, a very solid cash flow position and a 3:1 ratio of cash and receivables to current liabilities other than current debt service. Year-end cash balances totaled approximately \$2.4 million, and the school had receivables of \$618,000. Current liabilities other than current debt service total \$950,000, 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 \$11.9 million at June 30, 2009. 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 \$1.46 million on June 30, 2009. This balance is in addition to the unrestricted cash of \$2.4 million noted above.

Contract Compliance

Annual Audit

The annual audit for the Milwaukee Academy of Science for the fiscal year ended June 30, 2009 was completed as of March 18, 2010 by the firm Jenkins & Vojtisek, S.C. Per review of the report, there were no financial statement findings by the auditor and the audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

However, the audit indicated internal control findings that were considered material weaknesses by the auditor. The findings, a repeat finding from the prior audit, are related to recording of pledges and donations receivable by the school, and the recording of various adjusting journal entries by the school at year-end. Currently, the school is relying on the auditor to make these

entries, where the school should be responsible for those entries. Due to the significance of those entries, the auditor considers their omission a material weakness. These findings do not have any effect on the financial position of the school. However, these entries should be recorded by the accounting staff of the school. The school is currently working with the auditor to correct this problem, and this finding should be resolved in time for the 2009-10 audit.

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, 2009 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 internal control weaknesses indicated by the auditor are not a cause for concern, and should be 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, 2009, other than the weaknesses addressed in the audit, 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 2008-09 deficit. 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 recommend that the school finalize the necessary steps in addressing the material weaknesses in its audit report regarding financial statement adjusting entries and accounting for pledges. We also recommend that the school take steps to have its annual audit completed on a timely basis in accordance with its contract with the City of Milwaukee.