

**City of Milwaukee – Charter Schools
Report of Management Oversight Consultant
For the 2015-2016 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 2015-2016 fiscal year, and have issued our report herein. This report is based on a review of and limited testing of the policies and procedures employed by each school. We have not performed an audit of these schools, however, we have performed sufficient procedures to get an adequate understanding of each school's management policies and procedures. Based on these procedures, we are issuing this report of each school's management activities.

We would like to thank the management of each charter school for their cooperation in our efforts to perform our management oversight services.

M.L. Tharps & Associates, LLC

February 22, 2017

**City of Milwaukee – Charter Schools
Report of Management Oversight Consultant
Table of Contents**

Overview of Management Oversight Procedures	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
King's Academy	14
Milwaukee Collegiate Academy	16
Milwaukee Math and Science Academy	18
Escuela Verde	20
North Point Lighthouse Charter School	22
Rocketship Southside Community Prep	24

**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.

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Reports on Charter Schools

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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 2015-16 school year was DMA's eighteenth 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, 2016.

Current Year Financial Results

DMA, as it has over the past several years, has continued to increase its enrollment in both the charter school and day care. The 2015-16 school year showed approximately an 8% increase in enrollments. This increase resulted in 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 2015-16 fiscal year. Expenses did increase over the prior year due to higher enrollments, however, the increase was less than the increase in revenues, resulting in an even larger increase in unrestricted net assets over the prior year. The 2015-16 increase in unrestricted net assets was \$240,000 compared to \$160,000 for 2014-15.

Current Financial Position

DMA's year-end cash position remained consistent to the prior year with the school maintaining approximately \$670,000 in cash at year end. As has been the case in prior years, there is no concern regarding the financial position of the school, as past experience indicates that they are very fiscally-minded and are well aware of their budget limitations. The ratio of cash and receivables to current liabilities (excluding notes payable) remains excellent at 3.7 to 1, an increase over the prior year 3.1 to 1. Unrestricted net assets as of June 30, 2016 are \$1,440,000. 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, 2016. Each of these notes are to be repaid over a 15 year period. As of June 30, 2016 the balance of those loans totaled \$1.77 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 20, 2016 by Walkowicz, Boczkiewicz & Co., S.C. Per review of the report, there were no findings in internal control or compliance, and the auditor expressed no issues over DMA's ability to continue as a going concern. The audit appears to have been properly submitted and is in accordance with generally accepted accounting standards.

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly and quarterly financial reports, as well as providing notice of any significant changes in management or board governance. DMA has complied with those reporting requirements for the 2015-16 school year, however, earlier in the year, there were several reports that were not submitted on a timely basis. That issue appears to have been corrected as of the end of the school year.

Conclusion

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

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Central City Cyberschool

Central City Cyberschool (CCC) was established as a charter school in 1999, and completed its seventeenth year of operations in 2016. Below is a summary of the financial results and financial contract compliance for their fiscal year ended July 31, 2016.

Current Year Financial Results

Once again in 2015-16, CCC revenues were almost exactly the same as the prior three years. Revenues for 2015-16 were approximately \$4.3 million and even though expenses increased by \$90,000 to \$4.2 million, the school further improved its financial position. Over the past 5 years, the school's unrestricted net asset balance has gone from \$1.3 million to \$2.9 million.

Per review of the period statements during the year and the audited financial statements, the school once again had excellent financial results for 2015-16 fiscal year. CCC showed an increase in net assets of \$105,000 for the fiscal year. Cash flow was continued to be excellent during the fiscal year.

Current Financial Position

CCC continues to be a very stable organization financially. The school continues to show growth in its unrestricted net asset balance, which is now \$2.9 million. The ratio of cash and receivables to current payables (excluding notes payable) is 2.5 to 1, down from 3 to 1 last year, but still an excellent ratio.

The school recently paid off one of its two large long-term debt obligations in 2016. The remaining note (\$58,000) matures in July 2017. The school has been able to pay on this balance without financial hardship, and should pay this debt on time and in accordance with the debt agreement. The payoff of these debt agreements will result in an increase in cash available for other purposes of over \$400,000 in FY 2017 and an additional \$60,000 in FY 2018.

Review of Annual Audit

The annual audit for Central City Cyberschool for the fiscal year ended July 31, 2016 was completed as of November 17, 2016 by Walkowicz, Boczkiewicz & Co., S.C. The audit was timely submitted in accordance with the submission deadline. Per review of the report, there were no financial statement, internal control or compliance findings noted by the auditor, and the auditor expressed no issues over CCC's ability to continue as a going concern. However, there was a comment from the auditor in a separate letter to management that crime and errors and omissions insurance coverage did not meet the requirements of the contract with the City of Milwaukee. The school, in response, immediately corrected the issue with its insurance provider, and is now in compliance. 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 2015-16 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, 2016, the school continues to have a solid financial management system in place. The school is in very good financial condition, with good cash flow. Other than the instance of noncompliance with insurance requirements, the school is in compliance with the financial management provisions of its contract with the City of Milwaukee.

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

DLH Academy was established as a charter school in 2002, and has completed its fourteenth year of operations in 2016. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2016.

Current Year Financial Results

Continuing its positive trend over the last several years, DLH Academy has now shown surpluses in five consecutive years and is continuing to build on its positive financial position. The current fiscal year resulted in another 13% increase in their unrestricted net asset balance. Although revenue was lower by \$100,000 and expenses increased by \$100,000, the school still showed a net asset increase of almost \$150,000.

Per review of the audited financial statements, the school showed an increase in unrestricted net assets of \$147,000 on revenues of \$3.9 million and expenses of \$3.75 million for the fiscal year. The liquid asset position of the school also improved over the prior year. Cash flow was adequate during the fiscal year. The school has a \$100,000 line of credit if needed for cash flow purposes.

Current Financial Position

Currently, the school has unrestricted net assets of \$1.25 million, a net cash position of approximately \$625,000 and a 5.8 to 1 ratio of cash and receivables to current liabilities up from 5 to 1 in the prior year. Year-end cash balances totaled approximately \$820,000, and the school had receivables of \$305,000. Current liabilities totaled \$194,000, thus resulting in the excellent ratio. As mentioned above, the school maintains 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, 2016.

Review of Annual Audit

The annual audit for DLH Academy for the fiscal year ended June 30, 2016 was completed as of November 22, 2015 by the firm of Sitzberger Hau and Company, S.C. Although after the deadline of October 31, management requested an extension to November 30, and was granted that extension. 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 2015-16 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, 2016 it appears that the organization continues to have solid procedures in place to ensure a sufficient financial management system. As of June 30, 2016, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

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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 sixteenth 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 increase in net assets for the 2016 fiscal year. For the year, the school showed a increase in unrestricted net assets of approximately \$330,000. In comparison, the school showed an unrestricted net asset decrease of \$140,000 in the prior year. Total unrestricted revenue increased by \$150,000, while expenses decreased by over \$300,000. The school is maintaining a healthy net asset balance and solid cash flow position.

Current Financial Position

Currently, the school has unrestricted net assets of \$1.7 million, a very solid cash flow position and a 3.4 to 1 ratio of cash and receivables to current liabilities other than current debt service, up from 2.8 to 1 in the prior year. Year-end cash balances totaled approximately \$2.5 million, and the school had receivables of \$438,000. Current liabilities other than current debt service total \$875,000, 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 million as of June 30, 2016. In addition, as part of the loan covenant, the school is required to maintain cash and investments in a Debt Service Reserve Fund, and a Repair and Replacement Fund. Total cash in these restricted accounts totaled \$1.66 million on June 30, 2016. This balance is in addition to the unrestricted cash of \$2.5 million noted above.

Review of Annual Audit

The annual audit for the Milwaukee Academy of Science for the fiscal year ended June 30, 2016 was completed as of October 28, 2016 by the firm Schenck, S.C. 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 2015-16 school year,

however, earlier in the year, there were several reports that were not submitted on a timely basis. That issue appears to have been corrected as of the end of the school year.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of the Milwaukee Academy of Science as of June 30, 2016, 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, 2016, other than the late submission of monthly reports earlier in the year, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

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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 sixth and final year as a City of Milwaukee charter school. As of July 1, 2016, the school has transitioned to a private school participating in the Private School Choice Program. Below is a summary of the school's financial results and financial contract compliance for their fiscal year ended June 30, 2016.

Current Year Financial Results

After two prior years of solid financial results, King's Academy showed a small deficit in unrestricted revenues and expenses for the 2015-16 fiscal year. A slight increase in revenues was not enough to make up for increased payroll and transportation expenses, which caused the school to show a \$10,000 deficit for the year.

Per review of the annual audit, the school showed an decrease in unrestricted net assets of \$10,000 for the year. Revenues totaled \$1.95 million, almost \$50,000 higher than the prior year.

Current Financial Position

Currently, the school has unrestricted net assets of \$322,000, and the school's available cash at year-end is almost \$200,000, slightly lower than the prior year. It appears they have adequate cash available to cover current liabilities. They still have an excellent 3.6 to 1 ratio of cash and receivables to current liabilities, down slightly from 3.7 to 1 in the prior year. 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 as it transitions to the Private School Choice Program.

Review of Annual Audit

The annual audit for the King's Academy for the fiscal year ended June 30, 2016 was completed as of February 1, 2016 by the firm Ruiz 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. However, the audit was not completed by the October 31, 2016 deadline, and was submitted over 3 months after the deadline.

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 did submit the required for the 2015-16 school year. However, several reports were submitted late.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of the King's Academy as of June 30, 2016, 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 as it transitions to a private school. Other than the late submission of its audit and occasional late submission of its monthly reports, the school was in compliance with the financial management provisions of its contract with the City of Milwaukee.

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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. 2015-16 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, 2016.

Current Year Financial Results

MCA, after two years of extraordinary financial results from FY 2013 through FY 2014, and a break-even year in FY 2015, showed a significant deficit in 2015-16 fiscal year. Because of the financial performance in previous years, this is certainly not detrimental to the school's cumulative financial position. The school posted revenues of \$3.1 million, down from \$3.2 million in the prior year. Although per pupil revenues increased due to a larger enrollment, outside donations were down almost \$500,000 over the prior year. Expenses increased by \$150,000 to \$3.35 million. That increase is attributed to increases in wages and benefits. The school continues to receive significant outside contributions, receiving almost \$380,000 for the year after receiving \$750,000 in the prior year.

Per review of the annual audit, the school showed a decrease in unrestricted net assets for the year of \$265,000. The school currently has an unrestricted net asset balance of \$591,000. Unrestricted net assets have gone from \$107,000 to \$591,000 in the past four years, even with the FY 2016 deficit.

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 \$484,000 over the last four years. In addition, its ratio of cash and receivables to current liabilities is a solid to 3 to 1. Year-end cash balances totaled \$436,000, and the school had receivables of \$208,000. Current liabilities totaled \$213,000, thus resulting in the favorable ratio. Even after the current year deficit, the school has a solid financial position as of June 30, 2016.

Review of Annual Audit

The annual audit for MCA for the fiscal year ended June 30, 2016 was completed as of October 27, 2016 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. 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 2015-16 school year, however, earlier in the year, there were several reports that were not

submitted on a timely basis. That issue appears to have been corrected as of the end of the school year.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of the Milwaukee Collegiate Academy as of June 30, 2016, it appears that the organization has taken the steps to ensure a sufficient financial management system. The school appears to still be in solid financial position after its fifth year following its transition to a charter school. Other than the late submission of monthly reports earlier in the year, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

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Milwaukee Math and Science Academy

The Milwaukee Math and Science Academy (MMSA) was established as a City of Milwaukee charter school in 2011. 2015-16 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, 2016.

Current Year Financial Results

MMSA after several years of positive financial results, showed a slight deficit for the year ended June 30, 2016. After several years of surpluses, the school showed its first deficit since its first year of operations. Although revenues increased by \$100,000 over the prior year, expenses increased by almost \$220,000. The vast majority of the increase in expenses was in wages and benefits, which increased by almost \$200,000.

Per review of the annual audit, the school showed a unrestricted deficit for the year of \$54,000 on revenues of \$3.25 million and expenses of \$3.3 million. This deficit is less than 2% of total revenues for the year.

Current Financial Position

After its fifth year of operations, the school has accumulated an unrestricted net asset balance of \$486,000. MMSA has a solid cash flow position and a favorable 2.2:1 ratio of cash and receivables to current liabilities. Year-end cash balances totaled approximately \$410,000, and the school had receivables of \$99,000. Current liabilities total \$230,000, thus resulting in the favorable ratio. MMSA has no outstanding debt obligations.

Review of Annual Audit

The annual audit for the Milwaukee Math and Science Academy for the fiscal year ended June 30, 2016 was completed as of October 26, 2016 by the firm Ritz Holman, LLP. Per review of the report, there were no financial statement, internal control or compliance findings by the auditor. The auditor expressed no issues over the school's ability to continue as a going concern, and the report appears to have been properly submitted and is in accordance with generally accepted accounting standards.

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly financial reports, as well as providing notice of any significant changes in management or board governance. MMSA has complied with those reporting requirements for the 2015-16 school year, however, earlier in the year, there were several reports that were not submitted on a timely basis. That issue appears to have been corrected as of the end of the school year.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of the Milwaukee Math and Science Academy as of June 30, 2016, it appears that the organization has adequate procedures in place to ensure a sufficient financial management system. The school continues to be in a solid financial position as a charter school. Other than the late submission of monthly reports earlier in the school year, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

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Escuela Verde

Escuela Verde completed its third year of operations as a City of Milwaukee charter school in 2014-15. 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 fourth year of operations, Escuela Verde, once again, was able to achieve very good financial results. Even with a relatively low enrollment, the school again showed a surplus for the year. Grant and per-pupil revenue for the school totaled just under \$1 million 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 \$37,000, on revenues of \$998,000 and expenses of \$961,000.

Current Financial Position

After its fourth year of operations, the school has accumulated unrestricted net assets of \$278,000, 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 \$120,000, and the school had receivables of \$14,000. Current liabilities totaled only \$16,000, thus resulting in the favorable ratio. The school also has no outstanding debt.

As the school is part of the Trans Center for Youth, Inc., it is important to look at the financial position of the organization as a whole. In reviewing the audit for the whole organization, the organization also is showing a solid financial position, with cash and receivables of \$411,000 and current liabilities of \$131,000 for a favorable 3.1 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 September 27, 2016 by the firm Reilly, Penner & Benton, LLP. Per review of the report, there were no financial statement, internal control or compliance findings by the auditor related to Escuela Verde, and the audit appears to have been properly submitted and is in accordance with generally accepted accounting standards. The auditor expressed no issues over the school's ability to continue as a going concern.

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly financial reports, as well as providing notice of any significant changes in management or board governance. Escuela Verde has complied with those reporting requirements for the 2015-16 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, 2016, 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 submission of monthly and quarterly reports, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

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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

TBD

Current Financial Position

TBD

Review of Annual Audit

TBD

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 submitted all required reports, except for the June 2016 report.

Conclusion

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Rocketship Southside Community Prep

Rocketship Southside Community Prep (Rocketship) completed its third year of operations as a City of Milwaukee charter school in 2015-16. Below is a summary of the financial results and financial contract compliance for their fiscal year ended June 30, 2016.

Current Year Financial Results

As in its prior two years of operation, Rocketship has once again showed unfavorable results financially in 2015-16. Rocketship, as part of its business plan, had projected significant deficits in its first four years of operation, and through the first three years, those deficits have materialized. 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. In addition, Rocketship Education has extended additional cash flow funding of \$660,000 which is classified as a related party short-term liability.

Per review of the annual audit, the school showed a deficit of \$475,000 in its third full year of operations following losses of \$666,000 in FY 2015 and a \$679,000 loss in FY 2014. Even though the school increased operating revenues by \$400,000, it was well short of covering operating expenses. Revenues totaled \$4.2 million while expenses totaled \$4.65 million, resulting in the deficit. To alleviate this deficit, the school had to borrow an additional \$300,000 as a short term obligation from Rocketship Education.

Current Financial Position

After three years of operations, the school has an unrestricted net deficit of \$1.9 million. Its ratio of cash and receivables to current liabilities other than loans payable is approximately 0.7:1, a decrease from the prior year. Current assets totaled \$530,000 and current liabilities totaled \$786,000, thus resulting in the ratio. Rocketship also has a \$1.5 million outstanding long-term line of credit with Rocketship Education, available to them for cash flow. The balance on the line of credit was the full \$1,500,000 as of June 30, 2016.

Per review of the 2016-17 budget, the school is projecting an operating deficit of approximately \$350,000, which would bring the accumulated deficit to \$2.2 million.

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

Review of Annual Audit

The annual audit for Rocketship for the fiscal year ended June 30, 2016 was completed as of October 5, 2016 by the firm Reilly, Penner & Benton LLP. Per review of the report, there were no internal control or compliance findings identified by the auditor. The audit appears to have been properly submitted and is in accordance with generally accepted accounting standards, and the auditor expressed no issues over the school's ability to continue as a going concern, even with the large accumulated deficit.

Other Reporting Requirements

The school is required under its contract with the City of Milwaukee to provide various monthly financial reports, as well as providing notice of any significant changes in management or board governance. Rocketship has complied with those reporting requirements for the 2015-16 school year, however, earlier in the year, there were several reports that were not submitted on a timely basis. That issue appears to have been corrected as of the end of the school year.

Conclusion

Based on our review of the management policies, procedures, compliance and the annual audit of the 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. We believe the organization has a reasonable plan in place, and has the ability to turn around the current financial deficit. Other than the late submission of monthly reports earlier in the school year, the school appears to be in compliance with the financial management provisions of its contract with the City of Milwaukee.

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