



RICHARD MILBURN ACADEMY/TX, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019 AND 2018

Paul J. Christensen & Associates, LLC
Certified Public Accountants
Waco, Texas

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Richard Milburn Academy/TX, Inc.
(Federal Employer Identification Number: 06-1585988)
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Richard Milburn Academy/TX, Inc. was reviewed and (check one) approved disapproved for the year ended June 30, 2019 at a meeting of governing body of the charter holder on the 8th day of November, 2019

M. H. Pughes

Signature of Board Secretary

Dotsy Hall Lender

Signature of Board President

If the governing body of the charter holder does not approve the Independent Auditor's Report, it must forward a written statement discussing the reason(s) for not approving the report.

Paul J. Christensen & Associates, LLC

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Richard Milburn Academy/TX, Inc.
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Richard Milburn Academy/TX, Inc. (the "Corporation") (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richard Milburn Academy/TX, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Richard Milburn Academy/TX, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 17 through 20 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2019, on our consideration of Richard Milburn Academy/TX, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Richard Milburn Academy/TX, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Richard Milburn Academy/TX, Inc.'s internal control over financial reporting and compliance.



Waco, Texas
November 8, 2019

FINANCIAL STATEMENTS

RICHARD MILBURN ACADEMY/TX, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 4,729,175	\$ 3,336,980
Due from governments	3,114,908	3,040,810
Other receivables	77,515	-
Total Current Assets	7,921,598	6,377,790
Property and Equipment		
Land	941,985	836,124
Building and improvements	7,012,168	6,381,854
Construction in progress	497,328	-
Vehicles	-	35,809
Furniture and equipment	1,823,280	1,823,280
	10,274,761	9,077,067
Less: Accumulated depreciation	(2,561,699)	(2,311,244)
Net Property and Equipment	7,713,062	6,765,823
Other Assets		
Deferred expenses	41,183	291,088
Deposits	-	20,000
Total Other Assets	41,183	311,088
Total Assets	\$ 15,675,843	\$ 13,454,701
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 606,337	\$ 377,295
Accrued wages payable	1,133,633	841,236
Due to other federal agencies	58,949	-
Current portion of long-term debt	185,354	162,710
Total Current Liabilities	1,984,273	1,381,241
Long-Term Liabilities		
Long-term debt net of current portion	5,828,145	5,433,499
Total Long-Term Liabilities	5,828,145	5,433,499
Total Liabilities	7,812,418	6,814,740
Net Assets		
Without donor restrictions	116,539	263,038
With donor restrictions	7,746,886	6,376,923
Total Net Assets	7,863,425	6,639,961
Total Liabilities and Net Assets	\$ 15,675,843	\$ 13,454,701

The accompanying notes are an integral part of these financial statements.

RICHARD MILBURN ACADEMY/TX, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(with comparative totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues				
Local support:				
Interest and other income	\$ 138,960	\$ -	\$ 138,960	\$ 280,663
Total local support	138,960	-	138,960	280,663
State program revenues:				
Foundation school program act	-	16,812,163	16,812,163	17,741,836
Other state aid	-	203,996	203,996	206,782
Total state program revenues	-	17,016,159	17,016,159	17,948,618
Federal program revenues:				
ESEA Title I, Part A	-	1,015,134	1,015,134	424,873
ESEA Title II, Part A	-	107,367	107,367	95,133
IDEA - Part B, Formula	-	369,197	369,197	320,651
Career and Technical	-	24,157	24,157	20,025
National School Lunch and Breakfast Program	-	62,051	62,051	240,369
ESEA, Title III, Part A	-	8,671	8,671	7,069
ESEA, Title IV, Part A	-	29,620	29,620	2,585
ESEA Title I, Part C, Migrant	-	4,149	4,149	-
Evaluation Capacity Grant	-	17,500	17,500	-
Other Federal Revenue	-	512	512	21,056
Total federal program revenues	-	1,638,358	1,638,358	1,131,761
Net assets released from restrictions:				
Restrictions satisfied by payments	17,284,554	(17,284,554)	-	-
Total Revenues	17,423,514	1,369,963	18,793,477	19,361,042
Expenses				
Program Services:				
11 Instruction	6,557,372	-	6,557,372	7,225,164
13 Curriculum development and instructional staff development	1,500,946	-	1,500,946	1,094,574
21 Instructional leadership	228,100	-	228,100	113,805
23 School leadership	2,437,705	-	2,437,705	2,698,173
Total Program Services	10,724,123	-	10,724,123	11,131,716
Support services:				
31 Guidance, counseling and evaluation services	1,245,070	-	1,245,070	989,672
33 Health services	407	-	407	3,002
34 Student (Pupil) Transportation	4,448	-	4,448	7,051
35 Food services	169,025	-	169,025	548,309
36 Cocurricular/extracurricular activities	1,980	-	1,980	16,994
41 General administration	862,744	-	862,744	768,218
51 Plant maintenance and operations	2,342,921	-	2,342,921	2,354,370
52 Security and monitoring services	232,246	-	232,246	289,883
53 Data processing services	1,036,167	-	1,036,167	1,005,451
61 Community services	677,787	-	677,787	356,025
71 Debt service	273,095	-	273,095	196,382
Total Support Services	6,845,890	-	6,845,890	6,535,357
Total Expenses	17,570,013	-	17,570,013	17,667,073
Change in Net Assets	(146,499)	1,369,963	1,223,464	1,693,969
Net Assets, Beginning of Year	263,038	6,376,923	6,639,961	4,945,992
Net Assets, End of Year	\$ 116,539	\$ 7,746,886	\$ 7,863,425	\$ 6,639,961

The accompanying notes are an integral part of these financial statements.

RICHARD MILBURN ACADEMY/TX, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash Flows from Operating Activities:		
Foundation school program payments	\$ 16,894,593	\$ 18,231,968
Other state aid	27,461	206,782
Grant payments	1,685,076	918,029
Miscellaneous sources	93,683	280,663
Payments to vendors for goods and services rendered	(5,120,034)	(6,137,479)
Payments to charter school personnel for services rendered	(11,113,276)	(11,310,460)
Interest payments	(273,095)	(196,382)
Net Cash Provided by Operating Activities	2,194,408	1,993,121
Cash Flows from Investing Activities:		
Purchase of capital assets	(1,233,503)	(3,914,542)
Proceeds from sale of assets	14,000	-
Net Cash Used by Investing Activities	(1,219,503)	(3,914,542)
Cash Flows from Financing Activities:		
Issuance of long-term debt	580,000	4,081,492
Repayment of long-term debt	(162,710)	(389,736)
Net Cash Provided by Financing Activities	417,290	3,691,756
Net Increase in Cash	1,392,195	1,770,335
Cash at Beginning of Year	3,336,980	1,566,645
Cash at End of Year	\$ 4,729,175	\$ 3,336,980
Reconciliation of Change in Net Assets		
to Net Cash Provided by Operating Activities:		
Change in Net Assets	\$ 1,223,464	\$ 1,693,969
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	269,553	253,364
Loss on sale of assets	2,711	-
(Increase) Decrease in assets:		
Due from governments	(74,098)	276,400
Other receivables	(77,515)	
Prepaid expenses	-	40,000
Other assets	269,905	111,245
Increase (Decrease) in liabilities:		
Accounts payable	229,042	(346,935)
Accrued wages payable	292,397	(34,922)
Due to other federal agencies	58,949	-
Net Cash Provided by Operating Activities	\$ 2,194,408	\$ 1,993,121

The accompanying notes are an integral part of these financial statements.

RICHARD MILBURN ACADEMY/TX, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 - Summary of Significant Accounting Policies

The financial statements of Richard Milburn Academy/TX, Inc. (the "Corporation") (a nonprofit organization) were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The Corporation is a not-for-profit organization incorporated in the State of Texas in 2000 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Corporation is operated as a single charter school and does not conduct any other charter or non-charter activities. The Corporation is governed by a Board of Directors comprised of five members. The Board of Directors is selected pursuant to the bylaws of the Corporation and has the authority to make decisions, appoint the chief executive officer of the Corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Corporation.

Since the Corporation received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

The State Board of Education of the State of Texas granted the Corporation an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, Richard Milburn Academy/TX, Inc. was opened. Richard Milburn Academy/TX, Inc. was organized to provide educational services to at-risk students and their programs, services, activities and functions are governed by the Corporation's Board of Directors.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The more significant of the Corporation's accounting policies are described below:

The Corporation is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions - net assets available for use in the general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Directors are reported as net assets without donor restrictions, board-designated.

Net Assets With Donor Restrictions - net assets subject to donor-imposed restrictions that are more restrictive than the Corporation's mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RICHARD MILBURN ACADEMY/TX, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Contributions

The Corporation accounts for contributions as support without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Cash and Cash Equivalents

For financial statement purposes, the Corporation considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets, which include land, buildings and improvements, construction in progress, vehicles, and furniture and equipment are reported in the financial statements. Capital assets are defined by the Corporation as assets with an estimated useful life of more than one year. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to thirty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

Due From Governments

The Corporation considers all government grants and contracts as exchange transactions rather than contributions. The Corporation recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Advances from government agencies are recorded as deferred revenues. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables.

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with terms of the grant of contract.

Impairment of Long-Lived Assets

The Corporation reviews the carrying value of capital assets for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Corporation did not recognize an impairment loss during the year ended June 30, 2019 and 2018.

State Funding

The amount of state foundation school program act revenue the Corporation earns may vary until the time when final values for all factors in the state aid formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation school program act revenue estimate for the year ended June 30, 2019 will change.

RICHARD MILBURN ACADEMY/TX, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue Recognition

Revenues from the state of Texas are based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

Donated Services and Assets

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills that are provided by individuals possessing those skills and which would typically need to be purchased if not provided by donation are recorded at the estimated fair market value in the period received.

Contributions of donated noncash assets are recorded at the estimated fair market value in the period received.

Functional Allocation of Expenses

The Corporation provides educational services to at-risk students. The relationship between functional expense classifications as summarized on the statement of activities and their natural expense classifications is presented in the table below:

	2019			2018		
	Program Services	Support Services	Total	Program Services	Support Services	Total
<u>Expenses</u>						
Payroll Cost	\$ 8,470,441	\$2,935,230	\$ 11,405,671	\$ 9,095,239	\$2,180,299	\$ 11,275,538
Professional and contracted services	767,123	3,001,004	3,768,127	764,020	3,544,890	4,308,910
Supplies and materials	780,595	324,902	1,105,497	769,461	306,314	1,075,775
Other operating costs	705,964	308,948	1,014,912	502,996	307,472	810,468
Debt Service	-	273,095	273,095	-	196,382	196,382
Losses/Net assets released from temporary restrictions	-	2,711	2,711	-	-	-
	<u>\$10,724,123</u>	<u>\$6,845,890</u>	<u>\$ 17,570,013</u>	<u>\$11,131,716</u>	<u>\$6,535,357</u>	<u>\$ 17,667,073</u>

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Corporation which will only be resolved when one or more future events occur or fail to occur. The Corporation's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingences related to legal proceedings that are pending against the Corporation or unasserted claims that may result in such proceedings, the Corporation's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is possible that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Corporation's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

RICHARD MILBURN ACADEMY/TX, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 - Summary of Significant Accounting Policies (continued)

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Corporation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively.

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2019 and 2018 consist of the following:

	2019	2018
Checking accounts	\$ 3,958,872	\$ 2,592,121
Money market accounts	770,303	744,859
	\$ 4,729,175	\$ 3,336,980

Note 3 - Due from Governments

Amounts due from governments as of June 30, 2019 and 2018 consist of the following:

	2019	2018
Texas Department of Education, Texas Education Agency	\$ 2,810,748	\$ 2,716,643
U.S. Department of Education passed through Texas Education Agency	304,160	324,167
Total	\$ 3,114,908	\$ 3,040,810

Note 4 - Capital Assets

A summary of changes in capital assets is as follows:

	Balance 2018	Additions	Retirements	Balance 2019	Accumulated Depreciation	Net Capital Assets
Land	\$ 836,124	\$ 105,861	\$ -	\$ 941,985	\$ -	\$ 941,985
Buildings and Improvements	6,381,854	630,314	-	7,012,168	790,575	6,221,593
Construction in Progress	-	497,328	-	497,328	-	497,328
Vehicles	35,809	-	35,809	-	-	-
Furniture and Equipment	1,823,280	-	-	1,823,280	1,771,124	52,156
	\$ 9,077,067	\$ 1,233,503	\$ 35,809	\$ 10,274,761	\$ 2,561,699	\$ 7,713,062

RICHARD MILBURN ACADEMY/TX, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 4 - Capital Assets (continued)

Capital assets acquired with public funds received by the Corporation for the operation of Richard Milburn Academy/TX, Inc. constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

Depreciation expense for the year ended June 30, 2019 and 2018, was \$269,553 and \$253,364, respectively.

Note 5 - Pension Plan Obligations

Plan Description

The Corporation contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiemployer defined benefit pension plan with one exception; all risks and costs are not shared by the Corporation, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas.

The plan operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement.

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas State legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Contributions

State law provides for a member contribution rate of 7.7% for fiscal year 2018 and 2019. The state's contribution rate as a non-employer contributing entity was 6.8% for fiscal year 2019.

The corporation's employees' contributions to the System for the years ending June 30, 2019 and 2018 were \$159,640 and \$168,334, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants and from the Corporation for salaries above the statutory minimum for the years ending June 30, 2019 and 2018 were \$6,891 and \$12,116, respectively, equal to the required contributions for each year. The Corporation's contributions into this plan do not represent more than 5% of the total contributions to the plan.

Note 6 - Health Care Coverage

During the year ended June 30, 2019 and 2018, employees of the Corporation were covered by a Health Insurance Plan ("Plan"). The Corporation contributed \$465 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

RICHARD MILBURN ACADEMY/TX, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 7 - Risk Management Program

Worker's compensation coverage, general liability, professional liability and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have historically not exceeded commercial coverage.

Note 8 - Leases

Richard Milburn Academy/TX, Inc. leases its facilities under non-cancellable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of June 30, 2019 under these leases are summarized as follows:

<u>Fiscal Year Ending June 30,</u>	
2020	\$ 953,309
2021	777,342
2022	511,847
2023	498,624
2024	373,646
2025	21,350
	<u>\$3,136,118</u>

Rent expense for all operating leases for the year ended June 30, 2019 and 2018 was \$1,235,863 and \$1,368,966.

Note 9 - Long Term Debt

On July 6, 2016, the Corporation signed a promissory note with a bank for \$2,120,000 to finance the purchase of property and improvements located in Pasadena, Texas. The note bears interest at 4.24% and matures July 6, 2021. Monthly interest only payments are required through July 6, 2017 at which time it will convert into monthly installments of \$11,473 and one balloon payment of the entire unpaid balance of principal and interest on July 6, 2021. The note is secured by the property and improvements.

On June 30, 2017, the Corporation signed a promissory note with a bank for \$307,700 to finance the purchase of property located in Killeen, Texas. The note bears interest at 4.5% and matures June 30, 2029 and is payable in monthly installments of \$2,779. The note is secured by the property. The Corporation consolidated this note with the promissory note signed on January 8, 2018.

On January 8, 2018, the Corporation signed a promissory note with a bank for \$3,556,812 to finance the purchase of property and improvements located in Killeen, Lubbock, and Odessa, Texas. The note bears interest at 4.49% and matures October 3, 2022 and is payable in monthly installments of \$22,606 including one balloon payment of the entire unpaid balance of principal and interest on October 3, 2022. The note is secured by the property and improvements.

On July 26, 2019, the Corporation signed a promissory note with a bank for \$580,000 to finance the purchase of property and improvements located in Corpus Christi, Texas. The note bears interest at 4.99% and matures July 26, 2023 and is payable in monthly installments of \$3,825 including one balloon payment of the entire unpaid balance of principal and interest on July 26, 2023. The note is secured by the property and improvements.

Future requirements to service the notes are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 185,354	\$ 265,669	\$ 451,023
2021	196,045	258,803	454,848
2022	2,083,920	174,506	2,258,426
2023	3,042,921	71,579	3,114,500
2024-therafter	505,259	2,108	507,367
	<u>\$ 6,013,499</u>	<u>\$ 772,665</u>	<u>\$ 6,786,164</u>

RICHARD MILBURN ACADEMY/TX, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 10 - Income Tax

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business taxable income. The Corporation has no material unrelated business income for the year ended June 30, 2019.

Generally accepted accounting principles requires that the Corporation recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. The new requirements also provide guidance on measurement, classification, interest and penalties, and disclosure.

Tax positions taken related to the Corporation's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. Accordingly, the Corporation has not recorded an income tax liability for uncertain tax benefits. For the year ended June 30, 2019 and 2018, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of June 30, 2019, the Corporation's tax years 2015 through 2018 remain subject to examination.

Note 11 - Credit Risk

Financial instruments that potentially subject the Corporation to credit risk consist of cash at financial institutions. At times, the balances in cash accounts may be in excess of FDIC insurance limits. The financial institution pledges investment securities to compensate for deposits in excess of FDIC insurance limits.

Note 12 - Commitments and Contingencies

The Corporation receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the Corporation have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency. The Corporation is economically dependent on these charter school funds.

From time to time, the Corporation is subject to certain claims and contingent liabilities that arise in the normal course of business. After consultation with legal counsel, management is of the opinion that liabilities, if any, arising from such litigation and examinations would not have a material effect on the Corporation's financial position.

Certain federal grants which the Corporation administers and for which it receives reimbursements are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although the Corporation expects such amounts, if any, would not have a significant impact on the financial position of the Corporation.

Note 13 - Evaluation of Subsequent Events

The Corporation has evaluated subsequent events through November 8, 2019, the date which the financial statements were available to be issued.

Note 14 - Liquidity and Availability of Financial Resources

The Corporation has approximately \$6,122,679 of financial assets available within one year of the statements of financial position date to meet cash needs for general expenditures. This consist of cash and cash equivalents of \$4,729,175 and receivables of \$3,192,423, net of accounts payable of \$606,337, accrued wages of \$1,133,633, and amounts due to federal agencies of \$58,949 as of year-end. Although some of the financial assets are subject to donor or other contractual restrictions, restrictions are part of the Corporation's mission that make them available for general expenditure within one year of the statement of financial position date.

SUPPLEMENTARY INFORMATION

RICHARD MILBURN ACADEMY/TX, INC.
 SCHEDULE OF EXPENSES
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

Expenses	2019	2018
6100 Payroll Cost	\$ 11,405,670	\$ 11,275,538
6200 Professional and contracted services	3,768,127	4,308,910
6300 Supplies and materials	1,105,497	1,075,775
6400 Other operating costs	1,014,912	810,468
6500 Debt Service	273,095	196,382
8900 Losses/Net assets released from temporary restrictions	2,711	-
	\$ 17,570,013	\$ 17,667,073

RICHARD MILBURN ACADEMY/TX, INC.
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2019

	Ownership Interest		
	Local	State	Federal
1510 Land	\$ -	\$ 941,985	\$ -
1520 Building	-	7,012,168	-
1521 Construction in progress		497,328	
1531 Vehicles	-	-	-
1549 Furniture and equipment	-	1,768,124	55,156
	\$ -	\$10,219,605	\$ 55,156

RICHARD MILBURN ACADEMY/TX, INC.
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 3,000	\$ 153,961	\$ 138,960	\$ (15,001)
5750 Cocurricular, enterprising services or activities	600	-	-	-
State program revenues:				
5810 Foundation school program act	18,440,585	16,752,215	16,812,163	59,948
5820 Other State Aid	1,606	229,895	203,996	(25,899)
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	232,027	1,731,927	1,620,346	(111,581)
5930 Federal revenues distributed by Other State of Texas Government Agencies		18,012	18,012	-
Total Revenues	<u>18,677,818</u>	<u>18,886,009</u>	<u>18,793,477</u>	<u>(92,532)</u>
Expenses				
11 Instruction	7,274,029	6,669,182	6,557,372	111,810
13 Curriculum development and instructional staff development	922,522	1,516,660	1,500,946	15,714
21 Instructional leadership	122,314	228,825	228,100	726
23 School leadership	2,711,875	2,440,356	2,437,705	2,651
31 Guidance, counseling and evaluation services	984,746	1,244,582	1,245,070	(489)
33 Health services	1,680	407	407	-
34 Student (Pupil) Transportation	5,576	5,972	4,448	1,524
35 Food services	534,233	169,493	169,025	468
36 Cocurricular/extracurricular activities	-	1,980	1,980	-
41 General administration	838,779	862,454	862,744	(290)
51 Plant maintenance and operations	2,469,216	2,330,836	2,342,921	(12,085)
52 Security and monitoring services	179,829	232,962	232,246	716
53 Data processing services	791,943	1,019,245	1,036,167	(16,922)
61 Community services	258,967	681,134	677,787	3,347
71 Debt service	427,548	306,202	273,095	33,107
Total Expenses	<u>17,523,257</u>	<u>17,710,291</u>	<u>17,570,013</u>	<u>140,277</u>
Change in Net Assets	1,154,561	1,175,719	1,223,464	47,745
Net Assets, Beginning of Year	<u>6,639,961</u>	<u>6,639,961</u>	<u>6,639,961</u>	
Net Assets, End of Year	<u>\$ 7,794,522</u>	<u>\$ 7,815,680</u>	<u>\$ 7,863,425</u>	<u>\$ 47,745</u>

COMPLIANCE AND INTERNAL CONTROLS SECTION

Paul J. Christensen & Associates, LLC

Certified Public Accountants

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Paul J. Christensen, C.P.A.
Gary L. Sauls, C.P.A.
Andrew W. Sauls, C.P.A.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Richard Milburn Academy/TX, Inc.
San Antonio, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Richard Milburn Academy/TX, Inc. (the "Corporation") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Richard Milburn Academy/TX, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Richard Milburn Academy/TX, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Richard Milburn Academy/TX, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Richard Milburn Academy/TX, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Richard Milburn Academy/TX, Inc.'s internal control or on compliance. This report is in integral part of an audit performed in accordance with *Government Auditing Standards* in considering Richard Milburn Academy/TX, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Paul J. Utter & Co., LLC

Waco, Texas
November 8, 2019

Paul J. Christensen & Associates, LLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Richard Milburn Academy/TX, Inc.
San Antonio, Texas

Report on Compliance For Each Major Federal Program

We have audited Richard Milburn Academy/TX, Inc.'s (the "Corporation") (a nonprofit organization), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Richard Milburn Academy/TX, Inc.'s major federal programs for the year ended June 30, 2019. Richard Milburn Academy/TX, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Richard Milburn Academy/TX, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Richard Milburn Academy/TX, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Richard Milburn Academy/TX, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Richard Milburn Academy/TX, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Richard Milburn Academy/TX, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Richard Milburn Academy/TX, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Richard Milburn Academy/TX, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Waco, Texas
November 8, 2019

RICHARD MILBURN ACADEMY/TX, INC.
 SCHEUDLE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2019

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified? ___ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___ Yes X No

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal Control over Major Programs:

Material weakness(es) identified? ___ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? ___ Yes X No

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? ___ Yes X No

Identification of Major Programs:

<u>CFDA Number(s)</u>	Name of Federal Program
84.010A	ESEA, Title I, Part A - Improving Basic Programs

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes ___ No

RICHARD MILBURN ACADEMY/TX, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

I. FINANCIAL STATEMENT FINDINGS

None

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

RICHARD MILBURN ACADEMY/TX, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education:</u>			
Passed-Through Texas Education Agency			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	19610141014801	\$ 1,015,134
ESEA, Title I, Part C, Migrant	84.011A	19615001015950	4,149
Special Education Cluster (IDEA)			
IDEA - Part B, Formula	84.027A	196600010148016000	369,197
Evaluation Capacity Grant	84.027A	2265431920044	17,500
Total Special Education Cluster (IDEA)			<u>386,697</u>
ESEA, Title III, Part A	84.365A	1967100105950	8,671
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	19694501014801	107,367
Career and Technical	84.048A	19420006105950	24,157
ESEA, Title IV, Part A	84.424A	19680101014801	<u>29,620</u>
Total U.S. Department of Education			<u>1,575,795</u>
<u>U.S. Department of Agriculture:</u>			
Passed-Through Texas Education Agency			
Child Nutrition Cluster			
School Breakfast Program	10.553	71401901	62,051
Total Child Nutrition Cluster			<u>62,051</u>
Total U.S. Department of Agriculture			<u>62,051</u>
Total Expenditures of Federal Awards			<u>\$ 1,637,846</u>

RICHARD MILBURN ACADEMY/TX, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) presents the activity of all applicable federal award programs of Richard Milburn Academy/TX, Inc. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Corporation.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in Uniform Guidance, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 - Indirect Cost Rate

Richard Milburn Academy/TX, Inc. has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - Reconciliation of Federal Program Revenues and Schedule of Expenditures of Federal Awards

Federal Program Revenues per Statement of Activities	\$ 1,638,358
Less: Medicaid reimbursements not considered to be federal awards for inclusion on the schedule of expenditures of federal awards	<u>(512)</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 1,637,846</u>