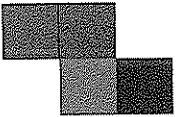




**RICHARD MILBURN ACADEMY, INC.
ANNUAL AND FINANCIAL COMPLIANCE
REPORT**

**AUGUST 31, 2008
(WITH SUMMARIZED COMPARATIVE
INFORMATION FOR 2007)**



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RICHARD MILBURN ACADEMY, 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, Inc. was reviewed and (check one) approved disapproved for the year ended August 31, 2008, at a meeting of the governing body of charter holder on the 21st day of January, 2009.

B. Anne Maples
Signature of Board Secretary
B. Anne Maples

Francis White
Signature of Board President
Francis White



Independent Auditors' Report

Board of Directors
Richard Milburn Academy, Inc.
McQueeney, Texas

Members of the Board of Directors:

We have audited the accompanying general-purpose financial statements of Richard Milburn Academy, Inc. (the "charter holder") as of and for the year ended August 31, 2008. These general-purpose financial statements are the responsibility of the charter holder's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. The prior year summarized comparative information has been derived from the charter holder's 2007 financial statements which were audited by us and upon which our report dated January 7, 2009 expressed an unqualified opinion on those statements.

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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the charter holder, as of August 31, 2008, and the respective changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2009 on our consideration of the School'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. The specific-purpose financial statements are likewise presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general-purpose financial statements taken as a whole.

BKHM, P.A.

Winter Park, Florida
January 7, 2009

RICHARD MILBURN ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2008 AND 2007

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 876,635	\$ 916,910
Due from governmental agencies	344,460	309,442
Prepaid assets	55,866	127,423
Due from affiliates	8,719	8,725
Total current assets	1,285,680	1,362,500
Furniture, fixtures and equipment, net	171,621	243,846
Other assets	107,155	20,172
Total assets	\$ 1,564,456	\$ 1,626,518
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 835,197	\$ 505,241
Accrued liabilities	279,335	340,808
Due to State	235,633	42,541
Total liabilities	1,350,165	888,590
Net assets:		
Unrestricted	214,291	737,928
Temporarily restricted	-	-
Total net assets	214,291	737,928
Total liabilities and net assets	\$ 1,564,456	\$ 1,626,518

The accompanying notes to financial statements are an integral part of this statement.

RICHARD MILBURN ACADEMY, INC.

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2007)**

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
REVENUES				
Local support:				
Interest and other revenue	\$ 7,969	\$ -	\$ 7,969	\$ 12,151
Total local support	<u>7,969</u>	<u>-</u>	<u>7,969</u>	<u>12,151</u>
State program revenues:				
Foundation School Program	7,070,143	-	7,070,143	6,583,606
Other state aid	<u>26,170</u>	<u>-</u>	<u>26,170</u>	<u>24,363</u>
Total state program revenues	<u>7,096,313</u>	<u>-</u>	<u>7,096,313</u>	<u>6,607,969</u>
Federal program revenues:				
ESEA Title I, Part A	661,446	-	661,446	407,446
ESEA Title II, Part A	26,888	-	26,888	32,378
ESEA Title II, Part D	1,200	-	1,200	4,378
ESEA Title IV, Part A	-	-	-	1,009
ESEA Title V, Part A	-	-	-	679
IDEA, Part B	51,458	-	51,458	52,618
E-Rate	<u>95,835</u>	<u>-</u>	<u>95,835</u>	<u>74,429</u>
Total federal program revenues	<u>836,827</u>	<u>-</u>	<u>836,827</u>	<u>572,937</u>
Net assets released from restrictions:				
Restrictions satisfied by payment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released from restrictions	<u>\$ 7,941,109</u>	<u>\$ -</u>	<u>\$ 7,941,109</u>	<u>\$ 7,193,057</u>

The accompanying notes to financial statements are an integral part of this statement.

RICHARD MILBURN ACADEMY, INC.

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2007)
(continued)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2008</u>	<u>2007</u>
EXPENSES				
Program services:				
Instruction and instruction-related	\$ 3,932,585	\$ -	\$ 3,932,585	\$ 3,288,358
Instructional and school leadership	1,020,507	-	1,020,507	878,048
Support services:				
Administrative support services	1,762,994	-	1,762,994	1,638,563
Support services - student	655,783	-	655,783	502,369
Support services - non-student based	<u>1,092,877</u>	<u>-</u>	<u>1,092,877</u>	<u>1,044,749</u>
Total expenses	<u>8,464,746</u>	<u>-</u>	<u>8,464,746</u>	<u>7,352,087</u>
Change in net assets	(523,637)	-	(523,637)	(159,030)
Net assets, beginning of year	<u>737,928</u>	<u>-</u>	<u>737,928</u>	<u>896,958</u>
Net assets, end of year	<u>\$ 214,291</u>	<u>\$ -</u>	<u>\$ 214,291</u>	<u>\$ 737,928</u>

The accompanying notes to financial statements are an integral part of this statement.

RICHARD MILBURN ACADEMY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 7,154,456	\$ 6,791,485
Grant payments	936,758	603,638
Miscellaneous sources	7,969	12,151
Payments to vendors for goods and services rendered	(3,376,820)	(3,010,328)
Payments to personnel for services rendered	(4,714,393)	(4,160,117)
Net cash provided by operating activities	7,970	236,829
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(48,245)	(65,730)
Net (decrease) increase in cash	(40,275)	171,099
Cash and cash equivalents, beginning of year	916,910	745,811
Cash and cash equivalents, end of year	\$ 876,635	\$ 916,910
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (523,637)	\$ (159,030)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	120,470	126,517
Loss on disposal of furniture, fixtures and equipment	-	23,421
(Increase) decrease in assets:		
Due from governmental agencies	(35,018)	171,676
Prepaid assets	71,557	(98,667)
Other assets	(86,983)	89
Due from affiliates	6	4,955
Increase (decrease) in liabilities:		
Accounts payable	329,956	73,066
Accrued liabilities	(61,473)	52,261
Due to State	193,092	42,541
Net cash provided by operating activities	\$ 7,970	\$ 236,829

The accompanying notes to financial statements are an integral part of this statement.

RICHARD MILBURN ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Richard Milburn Academy, Inc. (the "charter holder" or the "Organization") is a not-for-profit organization incorporated in the State of Virginia in 1998. The governing body of the Organization is the not-for-profit organization Board of Directors, which is composed of five members. The Board of Directors is selected pursuant to the bylaws of the Organization and has the authority to make decisions, appoint the chief executive officer of the Organization, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Organization.

The Organization provides general education services for students in grades nine through twelve in six individual charter schools in Texas. Each individual school operates under an open enrollment charter granted by the State of Texas Board of Education. Each charter was issued for a period of five years and is subject to review and renewal prior to the expiration date of the original charter. The Organization is part of the public school system of the State of Texas and, therefore, is entitled to distribution from the Foundation School Program, as well as other state grants and federal grants received through the State of Texas. The Organization does not have the authority to impose ad valorem taxes or to change the price of tuition.

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

Basis of presentation

The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with the *Audit and Accounting Guide – Not-for-Profit Organizations* issued by the American Institute of Certified Public Accountants. The accounting system is organized pursuant to the *Special Supplement to Financial Accounting and Reporting – Non-profit Charter School Chart of Accounts*, a module of the Texas Education Agency ("TEA") Financial Accountability Resource Guide.

The Organization has adopted the provisions of Statements of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* ("SFAS 116"), and No. 117, *Financial Statements of Not-For-Profit Organizations* ("SFAS 117").

SFAS 116 requires the organization to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. SFAS 117 establishes standards for general-purpose external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities, a statement of cash flows and a statement of functional expenses.

RICHARD MILBURN ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- **Unrestricted** – net assets that are not subject to donor-imposed restrictions.
- **Temporarily restricted** – net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time.
- **Permanently restricted** – net assets required to be maintained in perpetuity with only the income to be used for the Organization's activities due to donor-imposed restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues, which is a policy that has been applied consistently from period to period.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2007, from which the summarized information was derived.

Functional expenses

Since all expenses are incurred in connection with school operations, a statement of functional expenses is not presented.

Cash and cash equivalents

The Organization's cash consists primarily of demand deposits with financial institutions. All funds on deposit are continuously secured in accordance with the Texas Public Funds Collateral Act, Chapter 2257 of the Texas Government Code.

RICHARD MILBURN ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Capital assets and depreciation

Capital assets acquired, which include furniture, fixtures and equipment, are reported at cost, net of accumulated depreciation, in the general-purpose and specific-purpose financial statements. The Organization's policy is to capitalize assets costing over \$1,000 that have an estimated useful life of more than one year. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donated assets are recorded at fair value at the date of donation.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

	<u>Years</u>
Furniture, fixtures and equipment	3 – 5

Due to State

Due to State consists of overpayments from the Foundation School Program. Amounts will be amortized and repaid throughout the next fiscal year by reductions of fiscal year 2009 Foundation School Program payments.

Income taxes

The Organization has obtained a determination of tax-exempt status from the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial position and affect revenues and expenses for the periods presented. Actual results could differ significantly from those estimates. Foundation School Program revenue in the accompanying financial statements is based upon the allocation of these funds by the TEA at the time of issuance of these financial statements. The allocation by the TEA is subject to audit and adjustment in future years and, as such, all revisions to the allocation after issuance of the financial statements are adjusted prospectively.

RICHARD MILBURN ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

2 FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment, net as of August 31, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Furniture, fixtures and equipment	\$ 826,640	\$ 777,696
Less: accumulated depreciation	<u>(655,019)</u>	<u>(533,850)</u>
Furniture, fixtures and equipment, net	<u>\$ 171,621</u>	<u>\$ 243,846</u>

Capital assets acquired with public funds received by the Organization for the operation of the individual schools of Richard Milburn Academy, Inc. constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets for each individual charter school.

3 PENSION PLAN OBLIGATIONS

Defined Benefit Plan

The Organization contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. The System is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not borne by the Organization, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature.

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary, and the State of Texas contributes an amount equal to 6.0% of the Organization's covered payroll. The Organization's employees' contributions to the System for the fiscal years ending August 31, 2008 and 2007 were approximately \$221,000 and \$187,000, respectively, and were equal to the required contributions for each year.

RICHARD MILBURN ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

401(k) Plan

The Organization also participates in a profit-sharing plan of a related party. The plan operates under Section 401(k) of the Internal Revenue Code, whereby all eligible employees are entitled to defer up to \$15,500 on a calendar-year basis. Substantially all employees are eligible to participate in the plan depending on the length of service and attainment of minimum age requirements. Under the terms of the plan, the Organization contributes an amount to the plan at the discretion of the Board of Directors. Employer contributions to the plan in fiscal 2008 and 2007 were \$649 and \$1,495, respectively.

4 RELATED PARTY TRANSACTIONS

During the routine course of business, invoices and payroll, which apply to both the Organization and an affiliate, Richard Milburn Academy/TX, Inc., may be paid by a single entity creating an affiliate receivable or payable. The Organization tracks the amounts due to or from each affiliated school separately, and these amounts are presented separately in the accompanying financial statements. Amounts due from affiliates as of August 31, 2008 and 2007 were \$8,719 and \$8,725, respectively.

5 RISK MANAGEMENT PROGRAM

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

6 COMMITMENTS AND CONTINGENT LIABILITIES

Grants

The Organization participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of August 31, 2008 may be impaired.

RICHARD MILBURN ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

The Organization is required to expend a minimum amount of its allocation of special program grants from the TEA on a timely basis. Management has determined the period for timely expenditure of the funds allocated to the Organization in any year to be the three-year period beginning with that year. Management calculates its estimate of the amounts of special program funds to be returned to the TEA on a first-in, first-out basis by applying expenditures to the earliest year first to satisfy the spending requirements for that year. As of August 31, 2008, management does not believe there are any amounts due to the TEA for unexpended special program funds.

In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing these grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Lease commitments

The Organization leases its facilities under non-cancelable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of August 31, 2008 under these leases are summarized as follows:

<u>Fiscal Year Ending August 31,</u>	
2009	\$ 188,000
2010	81,000
2011	10,000
2012	<u>3,000</u>
Total	<u>\$ 282,000</u>

Rent expense for all operating leases for the fiscal years ending August 31, 2008 and 2007 was approximately \$571,000 and \$492,000, respectively.

RICHARD MILBURN ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Management fees

The Organization contracts with a management company for management and administrative services. The management agreements provide, among other things, for the payment of a management fee calculated based upon the gross revenues of each individual school within the Organization. The management agreements were executed following a full and open competition and were approved by the Board of Directors. For the fiscal years ending August 31, 2008 and 2007, the Organization has incurred approximately \$1,183,000 and \$1,088,000 of management fees, respectively. Amounts due to the management company as of August 31, 2008 and 2007 are approximately \$701,000 and \$406,000, respectively, and are included in accounts payable in the accompanying financial statements.

State funding

The Organization's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the Texas Education Agency by the state legislature.

Subsequent event

In November 2008, an agreement was reached between the Organization, Richard Milburn Academy/TX, Inc., an entity related by common board membership, and the Texas Education Agency (TEA). Pursuant to this agreement, the Organization agreed to surrender the open-enrollment charter of its Midland and Lubbock campuses to the TEA. The purpose of the surrender was to consolidate the campuses under a single charter with the Odessa campus of Richard Milburn Academy/TX, Inc. In applying for and receiving the Midland and Lubbock campuses as expansion campuses, Richard Milburn Academy/TX, Inc. assumed all liabilities and responsibility for all debts, obligations, liabilities and other lawful duties and obligations of the two open-enrollment charters surrendered.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 168,470	\$ 132,449
Due from governmental agencies	78,846	53,560
Prepaid assets	<u>10,534</u>	<u>20,285</u>
Total current assets	257,850	206,294
Furniture, fixtures and equipment, net	<u>5,597</u>	<u>9,567</u>
Total assets	<u>\$ 263,447</u>	<u>\$ 215,861</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 34,271	\$ 72,109
Accrued liabilities	57,066	56,366
Due to State	90,668	-
Due to affiliates	<u>2,937</u>	<u>398</u>
Total liabilities	<u>184,942</u>	<u>128,873</u>
Net assets:		
Unrestricted	78,505	86,988
Temporarily restricted	<u>-</u>	<u>-</u>
Total net assets	<u>78,505</u>	<u>86,988</u>
Total liabilities and net assets	<u>\$ 263,447</u>	<u>\$ 215,861</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 284,449	\$ 324,172
Due from governmental agencies	62,892	100,040
Prepaid assets	11,078	25,864
Due from affiliates	<u>10,004</u>	<u>8,725</u>
Total current assets	368,423	458,801
Furniture, fixtures and equipment, net	<u>59,260</u>	<u>90,392</u>
Total assets	<u>\$ 427,683</u>	<u>\$ 549,193</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 38,120	\$ 46,956
Accrued liabilities	63,523	101,038
Due to State	28,191	19
Due to affiliates	<u>-</u>	<u>300</u>
Total liabilities	<u>129,834</u>	<u>148,313</u>
Net assets:		
Unrestricted	297,849	400,880
Temporarily restricted	<u>-</u>	<u>-</u>
Total net assets	<u>297,849</u>	<u>400,880</u>
Total liabilities and net assets	<u>\$ 427,683</u>	<u>\$ 549,193</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 113,179	\$ 140,932
Due from governmental agencies	55,912	38,869
Prepaid assets	<u>10,570</u>	<u>18,733</u>
Total current assets	179,661	198,534
Furniture, fixtures and equipment, net	25,112	16,023
Other assets	<u>27,646</u>	<u>5,891</u>
Total assets	<u>\$ 232,419</u>	<u>\$ 220,448</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 155,027	\$ 42,682
Accrued liabilities	37,480	49,804
Due to State	27,547	16,391
Due to affiliates	<u>2,313</u>	<u>555</u>
Total liabilities	<u>222,367</u>	<u>109,432</u>
Net assets:		
Unrestricted	10,052	111,016
Temporarily restricted	<u>-</u>	<u>-</u>
Total net assets	<u>10,052</u>	<u>111,016</u>
Total liabilities and net assets	<u>\$ 232,419</u>	<u>\$ 220,448</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 145,695	\$ 122,873
Due from governmental agencies	37,449	43,041
Prepaid assets	<u>8,374</u>	<u>19,836</u>
Total current assets	191,518	185,750
Furniture, fixtures and equipment, net	28,220	33,847
Other assets	<u>39,812</u>	<u>3,281</u>
Total assets	<u>\$ 259,550</u>	<u>\$ 222,878</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 55,987	\$ 33,299
Accrued liabilities	58,375	48,259
Due to State	6,889	19
Due to affiliates	<u>5,824</u>	<u>1,996</u>
Total liabilities	<u>127,075</u>	<u>83,573</u>
Net assets:		
Unrestricted	132,475	139,305
Temporarily restricted	<u>-</u>	<u>-</u>
Total net assets	<u>132,475</u>	<u>139,305</u>
Total liabilities and net assets	<u>\$ 259,550</u>	<u>\$ 222,878</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 147,254	\$ 104,602
Due from governmental agencies	50,492	26,580
Prepaid assets	<u>8,748</u>	<u>24,483</u>
Total current assets	206,494	155,665
Furniture, fixtures and equipment, net	12,395	19,947
Other assets	<u>19,899</u>	<u>5,000</u>
Total assets	<u>\$ 238,788</u>	<u>\$ 180,612</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 366,622	\$ 232,133
Accrued liabilities	34,764	44,419
Due to State	15,295	-
Due to affiliates	<u>6,555</u>	<u>1,785</u>
Total liabilities	<u>423,236</u>	<u>278,337</u>
Net assets:		
Unrestricted	(184,448)	(97,725)
Temporarily restricted	<u>-</u>	<u>-</u>
Total net assets	<u>(184,448)</u>	<u>(97,725)</u>
Total liabilities and net assets	<u>\$ 238,788</u>	<u>\$ 180,612</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2008 AND 2007

	2008	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,586	\$ 81,623
Due from governmental agencies	58,373	47,352
Prepaid assets	6,562	18,222
Total current assets	76,521	147,197
Furniture, fixtures and equipment, net	39,645	71,397
Other assets	19,798	6,000
Total assets	\$ 135,964	\$ 224,594
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 161,942	\$ 64,359
Accrued liabilities	25,247	35,492
Due to State	67,043	26,112
Due to affiliates	1,874	1,167
Total liabilities	256,106	127,130
Net assets:		
Unrestricted	(120,142)	97,464
Temporarily restricted	-	-
Total net assets	(120,142)	97,464
Total liabilities and net assets	\$ 135,964	\$ 224,594

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2007)**

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 2,431	\$ -	\$ 2,431	\$ 4,741
State program revenues:				
5810 Foundation School Program Act	1,291,021	-	1,291,021	1,052,399
5820 State program revenues distributed by Texas Education Agency	4,977	-	4,977	4,100
Total state program revenues	<u>1,295,998</u>	<u>-</u>	<u>1,295,998</u>	<u>1,056,499</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	194,009	-	194,009	73,359
Net assets released from restrictions:				
Restrictions satisfied by payment	-	-	-	-
Total revenues and net assets released from restrictions	<u>1,492,438</u>	<u>-</u>	<u>1,492,438</u>	<u>1,134,599</u>
EXPENSES				
11 Instruction	657,992	-	657,992	495,759
12 Instructional resources and media	9,176	-	9,176	8,790
13 Curriculum development and instructional staff development	52,225	-	52,225	41,457
23 School leadership	184,044	-	184,044	152,061
31 Guidance, counseling and evaluation	110,913	-	110,913	70,179
32 Social work services	12,714	-	12,714	17,794
33 Health services	2,079	-	2,079	234
36 Cocurricular/extracurricular activities	5,785	-	5,785	2,510
41 General administration	316,222	-	316,222	257,488
51 Plant maintenance and operation	127,062	-	127,062	119,816
52 Security and monitoring services	7,641	-	7,641	3,002
53 Data processing services	15,068	-	15,068	25,863
61 Community services	-	-	-	469
Total expenses	<u>1,500,921</u>	<u>-</u>	<u>1,500,921</u>	<u>1,195,422</u>
Change in net assets	(8,483)	-	(8,483)	(60,823)
Net assets, beginning of year	86,988	-	86,988	147,811
Net assets, end of year	<u>\$ 78,505</u>	<u>\$ -</u>	<u>\$ 78,505</u>	<u>\$ 86,988</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2007)**

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 177	\$ -	\$ 177	\$ -
State program revenues:				
5810 Foundation School Program Act	1,462,092	-	1,462,092	1,299,983
5820 State program revenues distributed by Texas Education Agency	4,967	-	4,967	4,325
Total state program revenues	<u>1,467,059</u>	<u>-</u>	<u>1,467,059</u>	<u>1,304,308</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	98,432	-	98,432	134,900
Net assets released from restrictions:				
Restrictions satisfied by payment	-	-	-	-
Total revenues and net assets released from restrictions	<u>1,565,668</u>	<u>-</u>	<u>1,565,668</u>	<u>1,439,208</u>
EXPENSES				
11 Instruction	698,596	-	698,596	532,460
12 Instructional resources and media	9,750	-	9,750	9,023
13 Curriculum development and instructional staff development	51,098	-	51,098	47,448
23 School leadership	172,898	-	172,898	149,111
31 Guidance, counseling and evaluation	79,187	-	79,187	76,338
32 Social work services	-	-	-	255
33 Health services	11,246	-	11,246	-
36 Cocurricular/extracurricular activities	37,656	-	37,656	25,458
41 General administration	336,362	-	336,362	323,831
51 Plant maintenance and operation	182,307	-	182,307	162,234
52 Security and monitoring services	928	-	928	3,703
53 Data processing services	79,895	-	79,895	111,948
61 Community services	8,776	-	8,776	19,463
Total expenses	<u>1,668,699</u>	<u>-</u>	<u>1,668,699</u>	<u>1,461,272</u>
Change in net assets	(103,031)	-	(103,031)	(22,064)
Net assets, beginning of year	<u>400,880</u>	<u>-</u>	<u>400,880</u>	<u>422,944</u>
Net assets, end of year	<u>\$ 297,849</u>	<u>\$ -</u>	<u>\$ 297,849</u>	<u>\$ 400,880</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2007)**

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 274	\$ -	\$ 274	\$ -
State program revenues:				
5810 Foundation School Program Act	1,341,724	-	1,341,724	1,211,793
5820 State program revenues distributed by Texas Education Agency	5,179	-	5,179	4,531
Total state program revenues	<u>1,346,903</u>	<u>-</u>	<u>1,346,903</u>	<u>1,216,324</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	246,215	-	246,215	117,890
Net assets released from restrictions:				
Restrictions satisfied by payment	-	-	-	-
Total revenues and net assets released from restrictions	<u>1,593,392</u>	<u>-</u>	<u>1,593,392</u>	<u>1,334,214</u>
EXPENSES				
11 Instruction	795,489	-	795,489	550,171
12 Instructional resources and media	11,640	-	11,640	2,202
13 Curriculum development and instructional staff development	73,621	-	73,621	53,741
23 School leadership	185,314	-	185,314	151,789
31 Guidance, counseling and evaluation	69,065	-	69,065	68,990
33 Health services	5,502	-	5,502	6,046
34 Pupil transportation	-	-	-	32
36 Cocurricular/extracurricular activities	5,396	-	5,396	1,362
41 General administration	334,065	-	334,065	298,922
51 Plant maintenance and operation	185,999	-	185,999	121,952
52 Security and monitoring services	10,064	-	10,064	10,222
53 Data processing services	7,311	-	7,311	7,888
61 Community services	10,890	-	10,890	4,423
Total expenses	<u>1,694,356</u>	<u>-</u>	<u>1,694,356</u>	<u>1,277,740</u>
Change in net assets	(100,964)	-	(100,964)	56,474
Net assets, beginning of year	<u>111,016</u>	<u>-</u>	<u>111,016</u>	<u>54,542</u>
Net assets, end of year	<u>\$ 10,052</u>	<u>\$ -</u>	<u>\$ 10,052</u>	<u>\$ 111,016</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2007)**

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 1,991	\$ -	\$ 1,991	\$ 1,805
State program revenues:				
5810 Foundation School Program Act	1,087,423	-	1,087,423	1,003,827
5820 State program revenues distributed by Texas Education Agency	4,194	-	4,194	3,908
Total state program revenues	1,091,617	-	1,091,617	1,007,735
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	104,074	-	104,074	81,747
Net assets released from restrictions:				
Restrictions satisfied by payment	-	-	-	-
Total revenues and net assets released from restrictions	1,197,682	-	1,197,682	1,091,287
EXPENSES				
11 Instruction	532,419	-	532,419	543,434
12 Instructional resources and media	6,858	-	6,858	3,284
13 Curriculum development and instructional staff development	9,277	-	9,277	28,166
23 School leadership	148,002	-	148,002	151,037
31 Guidance, counseling and evaluation	72,545	-	72,545	42,360
32 Social work services	21,093	-	21,093	16,539
33 Health services	1,532	-	1,532	-
36 Cocurricular/extracurricular activities	16,443	-	16,443	6,722
41 General administration	273,824	-	273,824	252,995
51 Plant maintenance and operation	103,086	-	103,086	102,353
52 Security and monitoring services	14,325	-	14,325	15,713
53 Data processing services	5,108	-	5,108	9,483
61 Community services	-	-	-	323
Total expenses	1,204,512	-	1,204,512	1,172,409
Change in net assets	(6,830)	-	(6,830)	(81,122)
Net assets, beginning of year	139,305	-	139,305	220,427
Net assets, end of year	\$ 132,475	\$ -	\$ 132,475	\$ 139,305

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2007)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2008</u>	<u>2007</u>
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 1,939	\$ -	\$ 1,939	\$ 3,415
State program revenues:				
5810 Foundation School Program Act	1,130,245	-	1,130,245	1,029,096
5820 State program revenues distributed by Texas Education Agency	<u>3,906</u>	<u>-</u>	<u>3,906</u>	<u>3,544</u>
Total state program revenues	<u>1,134,151</u>	<u>-</u>	<u>1,134,151</u>	<u>1,032,640</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	<u>130,914</u>	<u>-</u>	<u>130,914</u>	<u>63,797</u>
Net assets released from restrictions:				
Restrictions satisfied by payment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released from restrictions	<u>1,267,004</u>	<u>-</u>	<u>1,267,004</u>	<u>1,099,852</u>
EXPENSES				
11 Instruction	598,095	-	598,095	429,163
12 Instructional resources and media	3,682	-	3,682	5,587
13 Curriculum development and instructional staff development	33,285	-	33,285	43,454
23 School leadership	158,730	-	158,730	130,325
31 Guidance, counseling and evaluation	96,943	-	96,943	101,107
32 Social work services	3,725	-	3,725	344
34 Pupil transportation	-	-	-	140
36 Cocurricular/extracurricular activities	2,923	-	2,923	1,070
41 General administration	284,095	-	284,095	252,177
51 Plant maintenance and operation	128,894	-	128,894	116,533
52 Security and monitoring services	23,979	-	23,979	20,823
53 Data processing services	16,225	-	16,225	35,131
61 Community services	<u>3,151</u>	<u>-</u>	<u>3,151</u>	<u>7,540</u>
Total expenses	<u>1,353,727</u>	<u>-</u>	<u>1,353,727</u>	<u>1,143,394</u>
Change in net assets	(86,723)	-	(86,723)	(43,542)
Net assets, beginning of year	<u>(97,725)</u>	<u>-</u>	<u>(97,725)</u>	<u>(54,183)</u>
Net assets, end of year	<u>\$ (184,448)</u>	<u>\$ -</u>	<u>\$ (184,448)</u>	<u>\$ (97,725)</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2008
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2007)**

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 1,157	\$ -	\$ 1,157	\$ 2,190
State program revenues:				
5810 Foundation School Program Act	757,638	-	757,638	986,508
5820 State program revenues distributed by Texas Education Agency	2,947	-	2,947	3,955
Total state program revenues	<u>760,585</u>	<u>-</u>	<u>760,585</u>	<u>990,463</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	63,183	-	63,183	101,244
Net assets released from restrictions:				
Restrictions satisfied by payment	-	-	-	-
Total revenues and net assets released from restrictions	<u>824,925</u>	<u>-</u>	<u>824,925</u>	<u>1,093,897</u>
EXPENSES				
11 Instruction	379,216	-	379,216	457,700
12 Instructional resources and media	1,601	-	1,601	1,020
13 Curriculum development and instructional staff development	6,628	-	6,628	35,483
23 School leadership	154,318	-	154,318	143,725
31 Guidance, counseling and evaluation	70,067	-	70,067	38,508
32 Social work services	32,614	-	32,614	23,809
33 Health services	1,514	-	1,514	13
36 Cocurricular/extracurricular activities	2,647	-	2,647	2,559
41 General administration	218,516	-	218,516	253,150
51 Plant maintenance and operation	141,469	-	141,469	131,776
52 Security and monitoring services	33,916	-	33,916	1,109
53 Data processing services	25	-	25	12,916
61 Community services	-	-	-	82
Total expenses	<u>1,042,531</u>	<u>-</u>	<u>1,042,531</u>	<u>1,101,850</u>
Change in net assets	(217,606)	-	(217,606)	(7,953)
Net assets, beginning of year	<u>97,464</u>	<u>-</u>	<u>97,464</u>	<u>105,417</u>
Net assets, end of year	<u>\$ (120,142)</u>	<u>\$ -</u>	<u>\$ (120,142)</u>	<u>\$ 97,464</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 1,303,265	\$ 1,073,299
Grant payments	252,124	67,228
Miscellaneous sources	2,431	4,741
Payments to vendors for goods and services rendered	(675,615)	(394,018)
Payments to personnel for services rendered	(846,184)	(706,323)
Net cash provided by operating activities	36,021	44,927
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	-	(6,686)
Net increase in cash	36,021	38,241
Cash and cash equivalents, beginning of year	132,449	94,208
Cash and cash equivalents, end of year	\$ 168,470	\$ 132,449
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (8,483)	\$ (60,823)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,970	8,965
Loss on disposal of fixed assets	-	2,139
(Increase) decrease in assets:		
Due from governmental agencies	(25,286)	10,669
Prepaid assets	9,751	(16,249)
Due from affiliates	-	59,376
Increase (decrease) in liabilities:		
Accounts payable	(37,838)	36,558
Accrued liabilities	700	3,894
Due to State	90,668	-
Due to affiliates	2,539	398
Net cash provided by operating activities	\$ 36,021	\$ 44,927

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 1,519,746	\$ 1,306,084
Grant payments	111,065	136,337
Miscellaneous sources	177	-
Payments to vendors for goods and services rendered	(743,687)	(632,397)
Payments to personnel for services rendered	(918,811)	(721,059)
Net cash (used for) provided by operating activities	(31,510)	88,965
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(8,213)	(47,674)
Net (decrease) increase in cash	(39,723)	41,291
Cash and cash equivalents, beginning of year	324,172	282,881
Cash and cash equivalents, end of year	\$ 284,449	\$ 324,172
Reconciliation of change in net assets to net cash (used for) provided by operating activities:		
Change in net assets	\$ (103,031)	\$ (22,064)
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:		
Depreciation	39,345	41,376
Loss on disposal of furniture, fixtures and equipment	-	-
(Increase) decrease in assets:		
Due from governmental agencies	37,148	3,194
Prepaid assets	14,786	(20,706)
Due from affiliates	(1,279)	25,825
Increase (decrease) in liabilities:		
Accounts payable	(8,836)	17,680
Accrued liabilities	(37,515)	43,341
Due to State	28,172	19
Due to affiliates	(300)	300
Net cash (used for) provided by operating activities	\$ (31,510)	\$ 88,965

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 1,345,084	\$ 1,252,359
Grant payments	242,147	140,750
Miscellaneous sources	274	-
Payments to vendors for goods and services rendered	(729,844)	(555,670)
Payments to personnel for services rendered	<u>(865,406)</u>	<u>(791,551)</u>
Net cash (used for) provided by operating activities	(7,745)	45,888
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	<u>(20,008)</u>	<u>-</u>
Net (decrease) increase in cash	(27,753)	45,888
Cash and cash equivalents, beginning of year	<u>140,932</u>	<u>95,044</u>
Cash and cash equivalents, end of year	<u>\$ 113,179</u>	<u>\$ 140,932</u>
Reconciliation of change in net assets to net cash (used for) provided by operating activities:		
Change in net assets	\$ (100,964)	\$ 56,474
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:		
Depreciation	10,919	9,554
(Increase) decrease in assets:		
Due from governmental agencies	(17,043)	42,504
Prepaid assets	8,163	(13,321)
Other assets	(21,755)	-
Due from affiliates	-	1,700
Increase (decrease) in liabilities:		
Accounts payable	112,345	(10,777)
Accrued liabilities	(12,324)	(1,910)
Due to State	11,156	16,391
Due to affiliates	<u>1,758</u>	<u>(54,727)</u>
Net cash (used for) provided by operating activities	<u>\$ (7,745)</u>	<u>\$ 45,888</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 1,092,893	\$ 1,058,876
Grant payments	115,260	71,922
Miscellaneous sources	1,991	1,805
Payments to vendors for goods and services rendered	(459,658)	(475,243)
Payments to personnel for services rendered	(710,063)	(651,203)
Net cash provided by operating activities	40,423	6,157
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(17,601)	(4,761)
Net increase in cash	22,822	1,396
Cash and cash equivalents, beginning of year	122,873	121,477
Cash and cash equivalents, end of year	\$ 145,695	\$ 122,873
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (6,830)	\$ (81,122)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	23,228	25,052
Loss on disposal of fixed assets	-	21,282
(Increase) decrease in assets:		
Due from governmental agencies	5,592	41,297
Prepaid assets	11,462	(15,460)
Other assets	(36,531)	89
Due from affiliates	-	4,586
Increase (decrease) in liabilities:		
Accounts payable	22,688	6,861
Accrued liabilities	10,116	1,857
Due to State	6,870	19
Due to affiliates	3,828	1,696
Net cash provided by operating activities	\$ 40,423	\$ 6,157

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 1,124,832	\$ 1,078,812
Grant payments	131,616	65,586
Miscellaneous sources	1,939	3,415
Payments to vendors for goods and services rendered	(440,175)	(441,162)
Payments to personnel for services rendered	(775,560)	(669,914)
Net cash provided by operating activities	42,652	36,737
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	-	(3,122)
Net increase in cash	42,652	33,615
Cash and cash equivalents, beginning of year	104,602	70,987
Cash and cash equivalents, end of year	\$ 147,254	\$ 104,602
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (86,723)	\$ (43,542)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	7,552	6,778
(Increase) decrease in assets:		
Due from governmental agencies	(23,912)	47,961
Prepaid assets	15,735	(20,370)
Other assets	(14,899)	-
Increase (decrease) in liabilities:		
Accounts payable	134,489	77,436
Accrued liabilities	(9,655)	4,064
Due to State	15,295	-
Due to affiliates	4,770	(35,590)
Net cash provided by operating activities	\$ 42,652	\$ 36,737

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 769,132	\$ 1,020,857
Grant payments	84,546	121,815
Miscellaneous sources	1,157	2,190
Payments to vendors for goods and services rendered	(326,630)	(513,620)
Payments to personnel for services rendered	(595,819)	(626,308)
Net (used for) provided by operating activities	(67,614)	4,934
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(2,423)	(3,487)
Net (decrease) increase in cash	(70,037)	1,447
Cash and cash equivalents, beginning of year	81,623	80,176
Cash and cash equivalents, end of year	\$ 11,586	\$ 81,623
Reconciliation of change in net assets to net cash (used for) provided by operating activities:		
Change in net assets	\$ (217,606)	\$ (7,953)
Adjustments to reconcile change in net assets to net cash (used for) provided by operating activities:		
Depreciation	34,175	33,510
(Increase) decrease in assets:		
Due from governmental agencies	(11,021)	24,853
Prepaid assets	11,660	(12,561)
Other assets	(13,798)	-
Increase (decrease) in liabilities:		
Accounts payable	97,583	(50,411)
Accrued liabilities	(10,245)	(5,226)
Due to State	40,931	26,112
Due to affiliates	707	(3,390)
Net cash (used for) provided by operating activities	\$ (67,614)	\$ 4,934

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

		<u>2008</u>	<u>2007</u>
EXPENSES			
6100	Payroll costs	\$ 849,423	\$ 710,615
6200	Professional and contracted services	404,503	352,635
6300	Supplies and materials	165,137	67,114
6400	Other operating costs	<u>81,858</u>	<u>65,058</u>
	Total expenses	<u>\$ 1,500,921</u>	<u>\$ 1,195,422</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT
SCHEDULES OF EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

EXPENSES	<u>2008</u>	<u>2007</u>
6100 Payroll costs	\$ 880,996	\$ 764,700
6200 Professional and contracted services	466,639	485,431
6300 Supplies and materials	171,393	92,825
6400 Other operating costs	<u>149,671</u>	<u>118,316</u>
Total expenses	<u>\$ 1,668,699</u>	<u>\$ 1,461,272</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

		<u>2008</u>	<u>2007</u>
EXPENSES			
6100	Payroll costs	\$ 854,840	\$ 734,914
6200	Professional and contracted services	575,613	410,550
6300	Supplies and materials	188,364	76,466
6400	Other operating costs	<u>75,539</u>	<u>55,810</u>
	Total expenses	<u>\$ 1,694,356</u>	<u>\$ 1,277,740</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

		<u>2008</u>	<u>2007</u>
EXPENSES			
6100	Payroll costs	\$ 724,007	\$ 654,756
6200	Professional and contracted services	338,086	369,042
6300	Supplies and materials	49,140	74,466
6400	Other operating costs	<u>93,279</u>	<u>74,145</u>
	Total expenses	<u>\$ 1,204,512</u>	<u>\$ 1,172,409</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

		<u>2008</u>	<u>2007</u>
EXPENSES			
6100	Payroll costs	\$ 770,767	\$ 638,388
6200	Professional and contracted services	420,683	374,082
6300	Supplies and materials	82,690	57,029
6400	Other operating costs	<u>79,587</u>	<u>73,895</u>
	Total expenses	<u>\$ 1,353,727</u>	<u>\$ 1,143,394</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

		<u>2008</u>	<u>2007</u>
EXPENSES			
6100	Payroll costs	\$ 615,451	\$ 617,692
6200	Professional and contracted services	294,585	367,803
6300	Supplies and materials	47,628	34,251
6400	Other operating costs	84,867	82,104
	Total expenses	<u>\$ 1,042,531</u>	<u>\$ 1,101,850</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2008

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 168,470	\$ -
1539	Furniture and equipment	-	113,346	3,131
	Total	\$ -	\$ 281,816	\$ 3,131

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2008

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 284,449	\$ -
1539	Furniture and equipment	-	141,493	152,931
Total		<u>\$ -</u>	<u>\$ 425,942</u>	<u>\$ 152,931</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2008

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 113,179	\$ -
1539	Furniture and equipment	-	48,368	19,231
	Total	\$ -	\$ 161,547	\$ 19,231

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2008

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 145,695	\$ -
1539	Furniture and equipment	-	31,614	105,426
	Total	\$ -	\$ 177,309	\$ 105,426

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2008

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 147,254	\$ -
1539	Furniture and equipment	-	28,476	13,704
	Total	<u>\$ -</u>	<u>\$ 175,730</u>	<u>\$ 13,704</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2008

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 11,586	\$ -
1539	Furniture and equipment	-	129,064	34,246
	Total	\$ -	\$ 140,650	\$ 34,246

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary	Final Budget-
			Basis)	Positive
				(Negative)
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 2,431	\$ 2,431
State program revenues:				
5810 Foundation School Program Act	1,070,700	1,070,700	1,291,021	220,321
5820 State program revenues distributed by Texas Education Agency	-	-	4,977	4,977
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	<u>143,904</u>	<u>143,904</u>	<u>194,009</u>	<u>50,105</u>
Total revenues	<u>1,214,604</u>	<u>1,214,604</u>	<u>1,492,438</u>	<u>277,834</u>
EXPENSES				
11 Instruction	545,774	552,423	657,992	(105,569)
12 Instructional resources and media	9,200	9,200	9,176	24
13 Curriculum development and instructional staff development	31,750	31,750	52,225	(20,475)
21 Instructional leadership	1,700	-	-	-
23 School leadership	142,323	142,323	184,044	(41,721)
31 Guidance, counseling and evaluation	77,317	100,989	110,913	(9,924)
32 Social work services	37,660	15,289	12,714	2,575
33 Health services	4,200	4,200	2,079	2,121
35 Food services	2,250	-	-	-
36 Cocurricular/extracurricular activities	7,450	4,450	5,785	(1,335)
41 General administration	229,093	229,093	316,222	(87,129)
51 Plant maintenance and operation	95,700	95,700	127,062	(31,362)
52 Security and monitoring services	9,600	9,600	7,641	1,959
53 Data processing services	16,416	16,416	15,068	1,348
61 Community services	<u>2,450</u>	<u>1,450</u>	<u>-</u>	<u>1,450</u>
Total expenses	<u>1,212,883</u>	<u>1,212,883</u>	<u>1,500,921</u>	<u>(288,038)</u>
Change in net assets	1,721	1,721	(8,483)	(10,204)
Net assets, beginning of year	<u>86,988</u>	<u>86,988</u>	<u>86,988</u>	<u>-</u>
Net assets, end of year	<u>\$ 88,709</u>	<u>\$ 88,709</u>	<u>\$ 78,505</u>	<u>\$ (10,204)</u>

See independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 177	\$ 177
State program revenues:				
5810 Foundation School Program Act	1,312,891	1,312,891	1,462,092	149,201
5820 State program revenues distributed by Texas Education Agency	-	-	4,967	4,967
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	185,584	185,584	98,432	(87,152)
Total revenues	<u>1,498,475</u>	<u>1,498,475</u>	<u>1,565,668</u>	<u>67,193</u>
EXPENSES				
11 Instruction	599,696	599,696	698,596	(98,900)
12 Instructional resources and media	13,500	13,500	9,750	3,750
13 Curriculum development and instructional staff development	56,000	56,000	51,098	4,902
21 Instructional leadership	10,050	10,050	-	10,050
23 School leadership	151,360	151,360	172,898	(21,538)
31 Guidance, counseling and evaluation	78,304	78,304	79,187	(883)
32 Social work services	23,500	23,500	-	23,500
33 Health services	6,550	6,550	11,246	(4,696)
34 Pupil transportation	7,500	7,500	-	7,500
35 Food services	350	350	-	350
36 Cocurricular/extracurricular activities	30,000	30,000	37,656	(7,656)
41 General administration	276,564	276,564	336,362	(59,798)
51 Plant maintenance and operation	152,500	152,500	182,307	(29,807)
52 Security and monitoring services	52,780	52,780	928	51,852
53 Data processing services	24,000	24,000	79,895	(55,895)
61 Community services	1,000	1,000	8,776	(7,776)
Total expenses	<u>1,483,654</u>	<u>1,483,654</u>	<u>1,668,699</u>	<u>(185,045)</u>
Change in net assets	14,821	14,821	(103,031)	(117,852)
Net assets, beginning of year	<u>400,880</u>	<u>400,880</u>	<u>400,880</u>	<u>-</u>
Net assets, end of year	<u>\$ 415,701</u>	<u>\$ 415,701</u>	<u>\$ 297,849</u>	<u>\$ (117,852)</u>

See independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 274	\$ 274
State program revenues:				
5810 Foundation School Program Act	1,286,834	1,286,834	1,341,724	54,890
5820 State program revenues distributed by Texas Education Agency	-	-	5,179	5,179
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	241,717	241,717	246,215	4,498
Total revenues	<u>1,528,551</u>	<u>1,528,551</u>	<u>1,593,392</u>	<u>64,841</u>
EXPENSES				
11 Instruction	516,242	516,242	795,489	(279,247)
12 Instructional resources and media	3,600	3,600	11,640	(8,040)
13 Curriculum development and instructional staff development	4,700	13,000	73,621	(60,621)
21 Instructional leadership	6,400	2,300	-	2,300
23 School leadership	81,250	81,250	185,314	(104,064)
31 Guidance, counseling and evaluation	53,000	53,500	69,065	(15,565)
32 Social work services	7,500	2,800	-	2,800
33 Health services	4,400	4,400	5,502	(1,102)
34 Pupil transportation	300	300	-	300
36 Cocurricular/extracurricular activities	3,300	3,300	5,396	(2,096)
41 General administration	355,521	355,521	334,065	21,456
51 Plant maintenance and operation	155,700	155,700	185,999	(30,299)
52 Security and monitoring services	25,620	25,620	10,064	15,556
53 Data processing services	12,500	12,500	7,311	5,189
61 Community services	3,000	3,000	10,890	(7,890)
Total expenses	<u>1,233,033</u>	<u>1,233,033</u>	<u>1,694,356</u>	<u>(461,323)</u>
Change in net assets	295,518	295,518	(100,964)	(396,482)
Net assets, beginning of year	<u>111,016</u>	<u>111,016</u>	<u>111,016</u>	<u>-</u>
Net assets, end of year	<u>\$ 406,534</u>	<u>\$ 406,534</u>	<u>\$ 10,052</u>	<u>\$ (396,482)</u>

See independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 1,991	\$ 1,991
State program revenues:				
5810 Foundation School Program Act	1,040,449	1,040,449	1,087,423	46,974
5820 State program revenues distributed by Texas Education Agency	-	-	4,194	4,194
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	144,999	144,999	104,074	(40,925)
Total revenues	<u>1,185,448</u>	<u>1,185,448</u>	<u>1,197,682</u>	<u>12,234</u>
EXPENSES				
11 Instruction	474,357	483,857	532,419	(48,562)
12 Instructional resources and media	10,000	8,684	6,858	1,826
13 Curriculum development and instructional staff development	13,900	13,900	9,277	4,623
21 Instructional leadership	25,436	21,313	-	21,313
23 School leadership	164,439	168,783	148,002	20,781
31 Guidance, counseling and evaluation	94,161	81,415	72,545	8,870
32 Social work services	27,733	27,733	21,093	6,640
33 Health services	7,500	14,869	1,532	13,337
34 Pupil transportation	3,000	3,000	-	3,000
36 Cocurricular/extracurricular activities	8,500	5,472	16,443	(10,971)
41 General administration	223,634	223,634	273,824	(50,190)
51 Plant maintenance and operation	104,577	104,577	103,086	1,491
52 Security and monitoring services	13,000	13,000	14,325	(1,325)
53 Data processing services	9,000	9,000	5,108	3,892
61 Community services	2,100	2,100	-	2,100
81 Fundraising	100	100	-	100
Total expenses	<u>1,181,437</u>	<u>1,181,437</u>	<u>1,204,512</u>	<u>(23,075)</u>
Change in net assets	4,011	4,011	(6,830)	(10,841)
Net assets, beginning of year	<u>139,305</u>	<u>139,305</u>	<u>139,305</u>	<u>-</u>
Net assets, end of year	<u>\$ 143,316</u>	<u>\$ 143,316</u>	<u>\$ 132,475</u>	<u>\$ (10,841)</u>

See independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 1,939	\$ 1,939
State program revenues:				
5810 Foundation School Program Act	1,079,506	1,079,506	1,130,245	50,739
5820 State program revenues distributed by Texas Education Agency	-	-	3,906	3,906
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	115,460	115,460	130,914	15,454
Total revenues	<u>1,194,966</u>	<u>1,194,966</u>	<u>1,267,004</u>	<u>72,038</u>
EXPENSES				
11 Instruction	509,713	517,889	598,095	(80,206)
12 Instructional resources and media	11,875	3,699	3,682	17
13 Curriculum development and instructional staff development	12,557	14,497	33,285	(18,788)
23 School leadership	140,069	140,069	158,730	(18,661)
31 Guidance, counseling and evaluation	56,959	62,221	96,943	(34,722)
32 Social work services	-	-	3,725	(3,725)
33 Health services	500	50	-	50
36 Cocurricular/extracurricular activities	2,000	2,000	2,923	(923)
41 General administration	240,316	240,316	284,095	(43,779)
51 Plant maintenance and operation	105,216	105,216	128,894	(23,678)
52 Security and monitoring services	44,500	44,500	23,979	20,521
53 Data processing services	28,171	21,773	16,225	5,548
61 Community services	5,790	5,436	3,151	2,285
Total expenses	<u>1,157,666</u>	<u>1,157,666</u>	<u>1,353,727</u>	<u>(196,061)</u>
Change in net assets	37,300	37,300	(86,723)	(124,023)
Net assets, beginning of year	<u>(97,725)</u>	<u>(97,725)</u>	<u>(97,725)</u>	<u>-</u>
Net assets, end of year	<u>\$ (60,425)</u>	<u>\$ (60,425)</u>	<u>\$ (184,448)</u>	<u>\$ (124,023)</u>

See independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 1,157	\$ 1,157
State program revenues:				
5810 Foundation School Program Act	1,055,840	1,055,840	757,638	(298,202)
5820 State program revenues distributed by Texas Education Agency	-	-	2,947	2,947
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	<u>145,411</u>	<u>145,411</u>	<u>63,183</u>	<u>(82,228)</u>
Total revenues	<u>1,201,251</u>	<u>1,201,251</u>	<u>824,925</u>	<u>(376,326)</u>
EXPENSES				
11 Instruction	426,120	388,920	379,216	9,704
12 Instructional resources and media	30,000	28,000	1,601	26,399
13 Curriculum development and instructional staff development	12,425	18,425	6,628	11,797
21 Instructional leadership	1,500	1,500	-	1,500
23 School leadership	114,394	125,194	154,318	(29,124)
31 Guidance, counseling and evaluation	79,000	79,000	70,067	8,933
32 Social work services	27,300	27,300	32,614	(5,314)
33 Health services	6,800	6,800	1,514	5,286
34 Pupil transportation	2,000	2,000	-	2,000
36 Cocurricular/extracurricular activities	7,100	15,100	2,647	12,453
41 General administration	233,390	233,390	218,516	14,874
51 Plant maintenance and operation	113,800	113,800	141,469	(27,669)
52 Security and monitoring services	20,100	40,500	33,916	6,584
53 Data processing services	44,980	38,980	25	38,955
61 Community services	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total expenses	<u>1,119,909</u>	<u>1,119,909</u>	<u>1,042,531</u>	<u>77,378</u>
Change in net assets	81,342	81,342	(217,606)	(298,948)
Net assets, beginning of year	<u>97,464</u>	<u>97,464</u>	<u>97,464</u>	<u>-</u>
Net assets, end of year	<u>\$ 178,806</u>	<u>\$ 178,806</u>	<u>\$ (120,142)</u>	<u>\$ (298,948)</u>

See independent auditors' report.

RICHARD MILBURN ACADEMY, INC.
EXPLANATION OF BUDGET VARIANCES
FOR THE YEAR ENDED AUGUST 31, 2008

There were no variances over 10% between the original budgeted and final budgeted amounts for total revenues and total expenses in the current fiscal year.

The following are management's explanations of the variances between the final budgeted and actual amounts for total revenues and total expenses over 10% of the final budget as presented on pages 45-50 of this report:

All locations:

- ◆ The variance in final budgeted revenues and expenses to the actual amounts is due to Federal funds not included in the final budget amount,
- ◆ The variance in final budgeted revenues and expenses to the actual amounts is due to administrative expenditures not included in the final budget amount,
- ◆ The variance in final budgeted revenues and expenses to the actual amounts is due to additional expenditures for salaries not contemplated in the original or final budget,
- ◆ The variance in final budgeted revenues and expenses to the actual amounts is due to additional expenditures for travel not contemplated in the original or final budget,
- ◆ The variance in final budgeted revenues and expenses to the actual amounts is due to additional expenditures for building leases not contemplated in the original or final budget,
- ◆ The variance in final budgeted revenues and expenses to the actual amounts is due to asset purchases made in anticipation of Federal grant funds that were not available.

RICHARD MILBURN ACADEMY, INC.

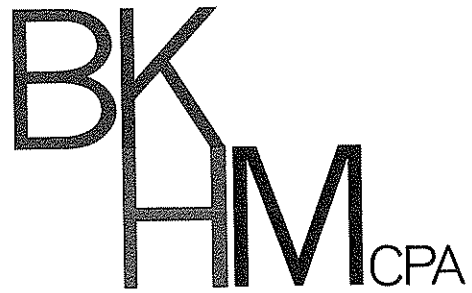
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>NOGA ID Numbers</u>	<u>Federal CFDA Number</u>	<u>Grant Period</u>	<u>Expenditures</u>
United States Department of Education / Texas Board of Education / Title I Improving Basic Programs	07610101188801, 07610104188801001 07610101123804, 07610101178804 07610104178804001, 07610101014801 07610104014801001, 07610101152801 07610101165801, 07610104165801000	84.010	8/31/07 - 8/31/08	\$ 661,446
United States Department of Education / Texas Board of Education / Title II Improving Teacher Quality State Grants	07694501188801, 07694501123804 07694501178804, 07694501152801 07694501165801	84.367	8/31/07 - 8/31/08	26,888
United States Department of Education / Texas Board of Education / Enhancing Education Through Technology - State Grants	07630001123804 07630001178804 07630001165801	84.318	8/31/07 - 8/31/08	1,200
United States Department of Education / Texas Board of Education / Special Education-Grants to States (IDEA, Part B)	076600011888016600 076600011238046600 076600011788046600 07663011619506800 076600011528016600	84.027	12/26/07 - 8/31/08	51,458
Federal Communications Commission / Federal Technological Assistance (E-Rate)	n/a	n/a	9/1/07 - 8/31/08	95,835
Total Expenditures of Federal Awards				<u>\$ 836,827</u>

NOTE: The schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

See independent auditors' report.



**Report of Independent Auditors 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, Inc.
McQueeney, Texas

Members of the Board of Directors:

We have audited the general-purpose financial statements of Richard Milburn Academy, Inc. (the "Organization") as of and for the year ended August 31, 2008, and have issued our report thereon dated January 7, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the

Organization's internal control. We consider the deficiencies described as items 2008-1 and 2008-2 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described as item 2008-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-4 and 2008-5.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the Organization, the Texas Education Agency and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
January 7, 2009



**Report of Independent Auditors on Compliance With Requirements Applicable to
Each Major Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133**

Board of Directors
Richard Milburn Academy, Inc.
McQueeney, Texas

Members of the Board of Directors:

Compliance

We have audited the compliance of Richard Milburn Academy, Inc. (the "Organization") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended August 31, 2008. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the Organization'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. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended August 31, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in

accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questions costs as item 2008-3.

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Organization's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of the Organization, the Texas Education Agency and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
January 7, 2009

RICHARD MILBURN ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

Identification of major federal programs:

<u>CFDA Number</u>	<u>Grant Period</u>	<u>Name of Federal Program</u>
84.010	8/31/07 - 6/30/08	Title I Improving Basic Programs

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as a low-risk auditee?	No
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RICHARD MILBURN ACADEMY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)**

Section II - Financial Statement Findings

Finding No. 2008-1

During our testing of the accuracy of the data reported through the PEIMS system during fiscal 2008, we noted discrepancies in the recording of student attendance as compared to the source documentation or the source documentation could not be located. The Organization's internal controls were able to detect and correct these discrepancies which were adjusted in the PEIMS submission. However, the errors produced a material adjustment to revenue and a liability due to the State of Texas in the current fiscal year. This item is considered to be a material weakness in internal control over financial reporting.

Finding No. 2008-2

During our audit, it came to our attention that fixed assets were ordered and delivered without the proper approval. The Organization's internal controls were able to detect and correctly record the purchase of unauthorized fixed assets. However, material adjustments to other assets and accrued liabilities were required in the current fiscal year. This item is considered to be a significant deficiency in internal control over financial reporting.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2008-3

Criteria:

The Department of Education requires that a percentage of grant expenditures should be spent on professional development.

Statement of condition:

During our audit procedures, we noted that the Organization received funds from the Department of Education under Title I, Part A which requires a percentage of grant expenditures to be spent on professional development activities. The Organization did not spend the required percentage of grant expenditures on professional development activities.

Questioned costs:

\$18,309

Effect of condition:

The Organization did not comply with the Department of Education requirement to spend a specified percentage on professional development activities.

Cause of condition:

There was a lack of monitoring of the program expenses in accordance with the grant requirements at the school level.

RICHARD MILBURN ACADEMY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)**

Recommendation:

We recommend that management implement policies and procedures to ensure compliance with grant requirements.

Management's response:

Management agreed with this finding and will implement procedures in order to ensure compliance.

Section IV – State Award Findings and Questioned Costs

Finding No. 2008-4

Reporting of PEIMS Data

During our testing of the accuracy of the data reported through the PEIMS system during fiscal 2008, we noted discrepancies in two of the submissions as compared to the corresponding source data, files and documents. The information as reported for student demographics, grading, course completion, compensatory education, and personnel data did not agree in certain instances to the source documentation or the source documentation could not be located.

Finding No. 2008-5

Appropriated Funds

During our testing of the maintenance of effort for each school, we noted the following expenditure shortage as of August 31, 2008:

Amarillo: Technology Allotment, \$1,894

RICHARD MILBURN ACADEMY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)**

Section V - Status of Prior Year Audit Findings

Finding No. 2007-1: Reporting of PEIMS Data

During our testing of the accuracy of the data reported through the PEIMS system during fiscal 2007, we noted discrepancies in all three of the submissions as compared to the corresponding source data, files and documents. The information as reported for the prior year financial data did not agree in certain instances to the prior year information. In addition, the student demographics, grading, course completion, compensatory education, and personnel data did not agree in certain instances to the source documentation or the source documentation could not be located.

This item is updated and repeated as Finding No. 2008-4 above.

Finding No. 2007-2: Appropriated Funds

During our testing of the maintenance of effort for each school, we noted the following expenditure shortage as of August 31, 2007:

Beaumont: Technology Allotment, \$661

This item is updated and repeated as Finding No. 2008-5 above.