

Richard Milburn Academy, Inc.

Financial Statements

For the ten months ended June 30, 2014

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Richard Milburn Academy, Inc.
(Federal Employer Identification Number: 54-1864466)
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 ten months ended June 30, 2014, at a meeting of governing body of the charter holder on the 24 day of November, 2014.

Signature of Board Secretary

Ernest Chambers
Board Vice President

Francie A. White

Signature of Board President



Cunningham, Shavers, Christensen & Wright, L.L.P.

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Partner Emeritus

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Richard Milburn Academy, Inc. (a nonprofit organization) (the "charter holder") which comprise the Statement of Financial Position as of June 30, 2014, and the related statements of activities and cash flows for the ten months 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 of 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 entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richard Milburn Academy, Inc., as of June 30, 2014, and the changes in its net assets and its cash flows for the ten months then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Richard Milburn Academy, Inc. as of and for the year ended August 31, 2013 were audited by other auditors. Those auditors expressed an unmodified opinion on those financial statements in their report dated February 14, 2014.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the supplementary information is presented for purposes of additional analysis and is 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 24, 2014, on our consideration of Richard Milburn Academy, Inc.'s internal control over financial reporting and 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 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, Inc.'s internal control over financial reporting and compliance.


November 24, 2014

COMBINED SCHOOLS FINANCIAL STATEMENTS

RICHARD MILBURN ACADEMY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
(WITH COMPARATIVE TOTALS AS OF AUGUST 31, 2013)

	2014	2013
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 818,588	\$ 83,538
Due from affiliates	281,326	296,035
Due from other governments	838,826	651,687
Prepaid assets	17,749	876
Assets of discontinued school	-	71,905
Total current assets	1,956,489	1,104,041
Fixed Assets		
Building	104,662	104,662
Furniture and equipment	459,412	459,412
	564,074	564,074
Less: Accumulated depreciation	(506,864)	(473,002)
	57,210	91,072
Other Assets		
	-	6,136
Total Assets	\$ 2,013,699	\$ 1,201,249
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 774,214	\$ 509,852
Accrued payroll	201,670	131,455
Deferred tenant allowance	45,200	52,500
Liabilities of discontinued school	-	81,557
Total current liabilities	1,021,084	775,364
Total Liabilities	1,021,084	775,364
Net Assets		
Unrestricted	439,964	439,543
Unrestricted discontinued school	-	(13,658)
Temporarily restricted	552,651	-
Total Net Assets	992,615	425,885
Total Liabilities and Net Assets	\$ 2,013,699	\$ 1,201,249

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

RICHARD MILBURN ACADEMY, INC.
STATEMENT OF ACTIVITIES
FOR THE TEN MONTHS ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

	Unrestricted	Temporarily Restricted	Totals	
			2014	2013
Revenues and Other Support				
Local support:				
Interest and other income	\$ 14,079	\$ -	\$ 14,079	\$ 2,343
Total local support	14,079	-	14,079	2,343
State program revenues:				
Foundation school program act	-	4,756,426	4,756,426	4,865,602
Federal program revenues:				
ESEA Title I, Part A	-	450,204	450,204	241,993
ESEA Title II, Part A	-	48,109	48,109	54,169
ESEA School Improvement Plan	-	-	-	313,231
IDEA, Part B	-	63,843	63,843	97,791
Other Aid	-	-	-	10,000
Total federal program revenues	-	562,156	562,156	717,184
Net assets released from restrictions:				
Restrictions satisfied by payments	4,765,931	(4,765,931)	-	-
Total Revenues and net assets released from restrictions	4,780,010	552,651	5,332,661	5,585,129
Expenses				
Program Services:				
Instruction and instructional - related services	2,643,461	-	2,643,461	2,561,920
Instructional and school leadership	578,410	-	578,410	628,244
Support services:				
Administrative support services	546,299	-	546,299	856,015
Ancillary services	3,198	-	3,198	4,203
Support services non-student based	718,740	-	718,740	853,673
Support services student (pupil)	275,823	-	275,823	303,235
Total Expenses	4,765,931	-	4,765,931	5,207,290
Change in Net Assets	14,079	552,651	566,730	377,839
Net Assets, beginning of year	425,885	-	425,885	48,046
Net Assets, end of year	\$ 439,964	\$ 552,651	\$ 992,615	\$ 425,885

RICHARD MILBURN ACADEMY, INC.
STATEMENT OF CASH FLOWS
FOR THE TEN MONTHS ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

	2014	2013
Cash Flows from Operating Activities:		
Foundation school program payments	\$ 4,569,287	\$ 4,613,354
Grant payments	562,156	717,184
Miscellaneous sources	14,079	2,343
Payments to vendors for goods and services rendered	(1,600,575)	(2,598,221)
Payments to charter school personnel for services rendered	(2,809,897)	(3,231,855)
Net Cash Provided/(Used) by Operating Activities	735,050	(497,195)
Cash Flows from Investing Activities:		
Purchase of capital assets	-	(8,750)
Net Cash Provided/(Used) by Investing Activities	-	(8,750)
Net Increase (Decrease) in Cash	735,050	(505,945)
Cash at Beginning of Year	83,538	661,388
Cash at End of Year	818,588	155,443
Less cash of discontinued school, end of year	-	(71,905)
Cash of Continuing Operations, End of Year	\$ 818,588	\$ 83,538
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in Net Assets	\$ 566,730	\$ 377,839
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	33,862	49,794
Deferred tenant allowance amortization	(7,300)	(8,750)
(Increase) Decrease in assets:		
Due from affiliates	14,709	(261,981)
Due from governmental agencies	(187,139)	(431,133)
Prepaid assets	(16,873)	5,018
Assets of discontinued school	71,905	-
Other assets	6,136	9,733
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	264,362	(215,133)
Accrued payroll	70,215	(22,582)
Liabilities of discontinued school	(81,557)	-
Net Cash Provided/(Used) by Operating Activities	\$ 735,050	\$ (497,195)

The notes to the financial statements are an intergral part of this statement.

Richard Milburn Academy, Inc.

Notes To Financial Statements
June 30, 2014

Note 1 Organization and Nature of Activities

Richard Milburn Academy, Inc. ("the organization") incorporated in the State of Virginia in 1998. It is a not for profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The organization is governed by a Board of Directors comprised of four 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.

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

The organization provides general education services for students in grades nine through twelve in three individual charter schools in Texas. Each individual school operates under an open enrollment charter granted by the Texas State Board of Education. The organization is part of the public school system of the State of Texas and, therefore, is entitled to distributions from the Foundation School Program, as well as other state and federal grants received through the State of Texas. However, the organization does not have the authority to impose taxes.

Note 2 Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of Richard Milburn Academy, Inc. were prepared in conformity with accounting principles generally accepted in the United States of America. Encumbrances representing outstanding purchase orders and other commitments for materials or services not yet received are not liabilities as of the reporting date.

Basis of Presentation

In order to comply with accounting principles generally accepted in the United States of America, the organization must prepare its external financial statements in accordance with statements issued by the Financial Accounting Standard Board as described in the AICPA Audit and Accounting Guide for not for profit organizations.

The Financial Accounting Standards Board requires classification of the organization's net assets and its revenues, expenses, gains, and losses based on the existence or absences of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

Unrestricted - net assets that are not subject to donor-imposed stipulations.

Temporarily restricted - net assets subject to donor-imposed stipulations that may or will be met, either by actions of the organization and/or the passage of time. 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. Temporarily restricted net assets, as of June 30, 2014, consists of unspent State Program Revenue of \$552,651.

Richard Milburn Academy, Inc.

Notes To Financial Statements

June 30, 2014

Note 2 Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

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. The organization does not have any permanently restricted net assets.

Cash and Cash Equivalents

For financial statement purposes, the organization 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 building improvements and furniture and equipment, are reported in the financial statements. Capital assets are defined by the organization 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 five 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.

Contributions

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor 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.

Use of Estimates

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

State Funding

The amount of state foundation school program act revenue the organization 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 ten months ended June 30, 2014 will change.

Richard Milburn Academy, Inc.

Notes To Financial Statements
June 30, 2014

Note 2 Summary of Significant Accounting Policies (continued)

Prior Year Information

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with organization's financial statements for the period ended August 31, 2013, from which the summarized information was derived.

Reporting Period

Previously, the organization has presented its financial statements on a fiscal year basis, September 1 through August 31. With the approval of the Texas Education Agency, the organization elected to change its year end from August 31 to June 30 beginning in fiscal year 2014. The current ten month reporting period is necessary to effectuate such change.

Note 3 Due from Other Governments

Amount due from other governments consist of:	
Foundations School Program Act Revenue	\$830,291
Federal Program Revenue	<u>8,535</u>
Total	<u>\$838,826</u>

Note 4 Capital Assets

A summary of changes in capital assets follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Building	\$ 104,662	\$ -	\$ -	\$104,662	\$ 50,072	\$54,590
Furniture and Equipment	<u>459,412</u>	<u>-</u>	<u>-</u>	<u>459,412</u>	<u>456,792</u>	<u>2,620</u>
Capital Assets, Net	<u>\$ 564,074</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$564,074</u>	<u>\$506,864</u>	<u>\$57,210</u>

Capital assets acquired with public funds received by the organization for the operation 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.

Depreciation expense for the ten months ended June 30, 2014 was \$33,862.

Richard Milburn Academy, Inc.

Notes To Financial Statements

June 30, 2014

Note 5 Pension Plan Obligations

Plan Description

The organization contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the organization, 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. It 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.

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% of the member's annual compensation and a state 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 1 year, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2012, 2013 and 2014, and a state contribution rate of 6.0% for fiscal year 2012 and 6.4% for fiscal years 2013 and 2014. The organization's employees' contributions to the System for the year ending August 31, 2013 were approximately \$62,000 and for the ten months ending June 30, 2014 were \$153,470, equal to the required contributions for each year. Other contributions made from federal and private grants and from the organization for salaries above the statutory minimum for the ten months ending June 30, 2014 were \$44,961.

Note 6 Health Care Coverage

During the ten months ended June 30, 2014, employees of the organization were covered by a Health Insurance Plan ("Plan"). The organization contributed \$668 per month per employee for the period from September 1, 2013 to June 30, 2014 to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Note 7 Related Party Transactions

During the routine course of business, invoices and payroll, which apply to both the organization and other related entities or schools, may be paid by a single entity creating a receivable or payable. The organization tracks the amounts due to or from each related entity or school separately. Amount due from related parties as of June 30, 2014 is \$281,326, and is included in due from affiliates in the accompanying statements of financial position.

Richard Milburn Academy, Inc.

Notes To Financial Statements
June 30, 2014

Note 8 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 9 Leases

Richard Milburn Academy, Inc. leases its facilities under non-cancellable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of June 30, 2014 under these leases are summarized as follows:

<u>Fiscal Year Ending June 30,</u>	
2015	\$ 890,079
2016	902,490
2017	351,352
2018	359,384
2019	<u>142,170</u>
Total	<u>\$2,645,475</u>

Rent expense for all operating leases for the ten months ended June 30, 2014 was \$382,803.

Note 10 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. Amounts due to the management company as of June 30, 2014 are \$473,350 and are included in accounts payable in the accompanying statements of financial position.

Note 11 Income Tax

The organization 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 organization has no material unrelated business income for the ten months ended June 30, 2014.

Generally accepted accounting principles require that the organization 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 organization'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 organization has not recorded an income tax liability for uncertain tax benefits. For the ten months ended June 30, 2014, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of June 30, 2014, the organization's tax years 2011 through 2013 remain subject to examination.

Richard Milburn Academy/TX, Inc.

Notes To Financial Statements
June 30, 2014

Note 12 Commitments and Contingencies

The organization 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 organization have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

Note 13 Evaluation of Subsequent Events

The organization has evaluated subsequent events through November 24, 2014, the date which the financial statements were available to be issued.

At the request of the Board of Directors, the Texas Education Commissioner approved the merger of Richard Milburn Academy, Inc.'s assets and operations into an affiliate charter holder Richard Milburn Academy/TX, Inc. effective July 1, 2014. The merger has no effect on the financial statements of Richard Milburn Academy, Inc. for the ten months ended June 30, 2014.

SUPPLEMENTARY INFORMATION

RICHARD MILBURN ACADEMY, INC. - AMARILLO
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
(WITH COMPARATIVE TOTALS AS OF AUGUST 31, 2013)

	2014	2013
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 463,177	\$ 35,401
Due from affiliates	-	-
Due from other governments	308,804	299,651
Prepaid assets	-	876
Total current assets	771,981	335,928
Fixed Assets		
Building	82,624	82,624
Furniture and equipment	181,146	181,146
	263,770	263,770
Less: Accumulated depreciation	(208,271)	(193,437)
	55,499	70,333
Other Assets		
	-	-
Total Assets	\$ 827,480	\$ 406,261
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 316,749	\$ 164,154
Accrued payroll	85,411	40,748
Deferred tenant allowance	45,200	52,500
Due to affiliates	11,627	50,655
Total current liabilities	458,987	308,057
Total Liabilities	458,987	308,057
Net Assets		
Unrestricted	103,517	98,204
Temporarily restricted	264,976	-
Total Net Assets	368,493	98,204
Total Liabilities and Net Assets	\$ 827,480	\$ 406,261

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
(WITH COMPARATIVE TOTALS AS OF AUGUST 31, 2013)

	2014	2013
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 219,243	\$ 79,620
Due from affiliates	-	12,705
Due from other governments	321,741	199,600
Prepaid assets	17,749	-
Total current assets	558,733	291,925
Fixed Assets		
Building	-	-
Furniture and equipment	67,599	67,599
	67,599	67,599
Less: Accumulated depreciation	(67,599)	(67,599)
	-	-
Other Assets		
	-	6,136
Total Assets	\$ 558,733	\$ 298,061
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 162,938	\$ 93,310
Accrued payroll	80,724	15,902
Due to affiliates	50,858	76,933
Total current liabilities	294,520	186,145
Total Liabilities	294,520	186,145
Net Assets		
Unrestricted	116,268	111,916
Temporarily restricted	147,945	-
Total Net Assets	264,213	111,916
Total Liabilities and Net Assets	\$ 558,733	\$ 298,061

RICHARD MILBURN ACADEMY, INC. - KILLEEN
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014
(WITH COMPARATIVE TOTALS AS OF AUGUST 31, 2013)

	2014	2013
<u>Assets</u>		
Current Assets		
Cash and cash equivalents	\$ 127,567	\$ 25,927
Due from affiliates	320,455	281,326
Due from other governments	208,281	120,831
Prepaid assets	-	20,101
Total current asset:	656,303	448,185
Fixed Assets		
Building	22,038	22,038
Furniture and equipment	197,331	197,331
	219,369	219,369
Less: Accumulated depreciation	(217,658)	(198,630)
	1,711	20,739
Other Assets		
	-	-
Total Assets	\$ 658,014	\$ 468,924
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 262,570	\$ 169,882
Accrued payroll	35,535	69,619
Due to affiliates	-	-
Total current liabilities:	298,105	239,501
Total Liabilities	298,105	239,501
Net Assets		
Unrestricted	220,179	229,423
Temporarily restricted	139,730	-
Total Net Assets	359,909	229,423
Total Liabilities and Net Assets	\$ 658,014	\$ 468,924

RICHARD MILBURN ACADEMY, INC. - AMARILLO
STATEMENT OF ACTIVITIES BY OBJECT AND FUNCTION
FOR THE TEN MONTHS ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

	Unrestricted	Temporarily Restricted	Totals	
			2014	2013
Revenues and Other Support				
Local support:				
5740 Interest and other income	\$ 5,313	\$ -	\$ 5,313	\$ 45
State program revenues:				
5810 Foundation school program act	-	1,733,111	1,733,111	1,597,559
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	-	220,001	220,001	258,447
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>1,688,136</u>	<u>(1,688,136)</u>	<u>-</u>	<u>-</u>
Total Revenues and net assets released from restrictions	<u>1,693,449</u>	<u>264,976</u>	<u>1,958,425</u>	<u>1,856,051</u>
Expenses				
11 Instruction	944,574	-	944,574	837,732
12 Instructional resources and media services	-	-	-	4,483
13 Curriculum development and instructional staff development	3,548	-	3,548	39,381
21 Instructional leadership	22,267	-	22,267	-
23 School leadership	154,682	-	154,682	166,020
31 Guidance, counseling and evaluation services	108,278	-	108,278	108,929
32 Social work services	-	-	-	-
33 Health Services	-	-	-	2,992
34 Student Transportation	-	-	-	-
35 Food Services	-	-	-	-
36 Cocurricular/extracurricular activities	-	-	-	983
41 General administration	257,782	-	257,782	321,388
51 Plant maintenance and operations	159,223	-	159,223	159,615
52 Security and monitoring services	2,734	-	2,734	46,219
53 Data processing services	33,900	-	33,900	20,343
61 Community services	1,148	-	1,148	-
Total Expenses	<u>1,688,136</u>	<u>-</u>	<u>1,688,136</u>	<u>1,708,085</u>
Change in Net Assets	5,313	264,976	270,289	147,966
Net Assets, beginning of year	<u>98,204</u>	<u>-</u>	<u>98,204</u>	<u>(49,762)</u>
Net Assets, end of year	<u>\$ 103,517</u>	<u>\$ 264,976</u>	<u>\$ 368,493</u>	<u>\$ 98,204</u>

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI
STATEMENT OF ACTIVITIES BY OBJECT AND FUNCTION
FOR THE TEN MONTHS ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2014</u>	<u>2013</u>
Revenues and Other Support				
Local support:				
5740 Interest and other income	\$ 4,352	\$ -	\$ 4,352	\$ 2,289
State program revenues:				
5810 Foundation school program act	-	1,837,903	1,837,903	1,893,394
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	-	188,973	188,973	263,906
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>1,878,931</u>	<u>(1,878,931)</u>	<u>-</u>	<u>-</u>
Total Revenues and net assets released from restrictions	<u>1,883,283</u>	<u>147,945</u>	<u>2,031,228</u>	<u>2,159,589</u>
Expenses				
11 Instruction	1,038,441	-	1,038,441	973,708
12 Instructional resources and media services	-	-	-	15,664
13 Curriculum development and instructional staff development	1,979	-	1,979	24,159
21 Instructional leadership	22,883	-	22,883	-
23 School leadership	199,464	-	199,464	200,806
31 Guidance, counseling and evaluation services	77,583	-	77,583	77,015
32 Social work services	19,729	-	19,729	31,959
33 Health services	12,831	-	12,831	131
34 Student Transportation	9,022	-	9,022	-
35 Food services	-	-	-	-
36 Cocurricular/extracurricular activities	6,984	-	6,984	9,900
41 General administration	169,295	-	169,295	188,258
51 Plant maintenance and operations	260,220	-	260,220	308,807
52 Security and monitoring services	40,063	-	40,063	32,090
53 Data processing services	19,248	-	19,248	24,243
61 Community services	1,189	-	1,189	3,367
Total Expenses	<u>1,878,931</u>	<u>-</u>	<u>1,878,931</u>	<u>1,890,107</u>
Change in Net Assets	4,352	147,945	152,297	269,482
Net Assets, beginning of year	<u>111,916</u>	<u>-</u>	<u>111,916</u>	<u>(157,566)</u>
Net Assets, end of year	<u>\$ 116,268</u>	<u>\$ 147,945</u>	<u>\$ 264,213</u>	<u>\$ 111,916</u>

RICHARD MILBURN ACADEMY, INC. - KILLEEN
STATEMENT OF ACTIVITIES BY OBJECT AND FUNCTION
FOR THE TEN MONTHS ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

	Unrestricted	Temporarily Restricted	Totals	
			2014	2013
Revenues and Other Support				
Local support:				
5740 Interest and other income	\$ 4,415	\$ -	\$ 4,415	\$ 9
State program revenues:				
5810 Foundation school program act	-	1,185,412	1,185,412	1,374,649
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	-	153,182	153,182	194,831
Net assets released from restrictions:				
Restrictions satisfied by payments	1,198,864	(1,198,864)	-	-
Total Revenues and net assets released from restrictions	1,203,279	139,730	1,343,009	1,569,489
Expenses				
11 Instruction	660,446	-	660,446	723,057
12 Instructional resources and media services	-	-	-	7,276
13 Curriculum development and instructional staff development	1,812	-	1,812	33,988
21 Instructional leadership	17,097	-	17,097	296
23 School leadership	154,678	-	154,678	163,594
31 Guidance, counseling and evaluation services	39,443	-	39,443	61,664
32 Social work services	-	-	-	(32)
33 Health services	-	-	-	558
34 Student Transportation	-	-	-	-
35 Food services	-	-	-	-
36 Cocurricular/extracurricular activities	1,953	-	1,953	9,136
41 General administration	119,222	-	119,222	346,369
51 Plant maintenance and operations	143,712	-	143,712	160,028
52 Security and monitoring services	39,161	-	39,161	62,206
53 Data processing services	20,479	-	20,479	40,122
61 Community services	861	-	861	836
Total Expenses	1,198,864	-	1,198,864	1,609,098
Change in Net Assets	4,415	139,730	144,145	(39,609)
Transfer of discontinued school	(13,659)	-	(13,659)	-
Net Assets, beginning of year	229,423	-	229,423	269,032
Net Assets, end of year	\$ 220,179	\$ 139,730	\$ 359,909	\$ 229,423

RICHARD MILBURN ACADEMY, INC. - AMARILLO
STATEMENT OF CASH FLOWS
FOR THE TEN MONTHS ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

	2014	2013
Cash Flows from Operating Activities:		
Foundation school program payments	\$ 1,723,958	\$ 1,597,559
Grant payments	220,001	258,447
Miscellaneous sources	5,313	50,000
Payments to vendors for goods and services rendered	(525,374)	(1,002,305)
Payments to charter school personnel for services rendered	(996,122)	(1,068,820)
Net Cash Provided/(Used) by Operating Activities	427,776	(165,119)
Cash Flows from Investing Activities:		
Purchase of capital assets	-	(8,750)
Net Cash Provided/(Used) by Investing Activities	-	(8,750)
Net Increase (Decrease) in Cash	427,776	(173,869)
Cash at Beginning of Year	35,401	209,270
Cash at End of Year	\$ 463,177	\$ 35,401
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in Net Assets	\$ 270,289	\$ 147,966
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,834	23,351
Deferred tenant allowance amortization	(7,300)	(8,750)
(Increase) Decrease in assets:		
Due from affiliates	-	-
Due from governmental agencies	(9,153)	(230,878)
Prepaid assets	876	772
Other assets	-	-
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	152,595	(146,641)
Accrued payroll	44,663	(894)
Due to affiliates	(39,028)	49,955
Net Cash Provided/(Used) by Operating Activities	\$ 427,776	\$ (165,119)

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI
STATEMENT OF CASH FLOWS
FOR THE TEN MONTHS ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

	2014	2013
Cash Flows from Operating Activities:		
Foundation school program payments	\$ 1,715,762	\$ 1,890,431
Grant payments	188,973	263,906
Miscellaneous sources	4,352	2,289
Payments to vendors for goods and services rendered	(726,896)	(939,037)
Payments to charter school personnel for services rendered	(1,042,568)	(1,290,707)
Net Cash Provided/(Used) by Operating Activities	139,623	(73,118)
Cash Flows from Investing Activities:		
Purchase of capital assets	-	-
Net Cash Provided/(Used) by Investing Activities	-	-
Net Increase (Decrease) in Cash	139,623	(73,118)
Cash at Beginning of Year	79,620	152,738
Cash at End of Year	\$ 219,243	\$ 79,620
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in Net Assets	\$ 152,297	\$ 269,482
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	-	-
Deferred tenant allowance amortization	-	-
(Increase) Decrease in assets:		
Due from affiliates	12,705	(11,267)
Due from governmental agencies	(122,141)	(104,410)
Prepaid assets	(17,749)	2,110
Other assets	6,136	8,304
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	69,628	(264,888)
Accrued payroll	64,822	(36,670)
Due to affiliates	(26,075)	64,221
Net Cash Provided/(Used) by Operating Activities	\$ 139,623	\$ (73,118)

RICHARD MILBURN ACADEMY, INC. - KILLEEN
STATEMENT OF CASH FLOWS
FOR THE TEN MONTHS ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

	2014	2013
Cash Flows from Operating Activities:		
Foundation school program payments	\$ 1,097,962	\$ 1,121,300
Grant payments	153,182	194,831
Miscellaneous sources	4,415	9
Payments to vendors for goods and services rendered	(387,898)	(639,607)
Payments to charter school personnel for services rendered	(766,021)	(875,858)
Net Cash Provided/(Used) by Operating Activities	101,640	(199,325)
Cash Flows from Investing Activities:		
Purchase of capital assets	-	-
Net Cash Provided/(Used) by Investing Activities	-	-
Net Increase (Decrease) in Cash	101,640	(199,325)
Cash at Beginning of Year	25,927	225,252
Cash at End of Year	\$ 127,567	\$ 25,927
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in Net Assets	\$ 144,145	\$ (39,609)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	19,028	24,231
Deferred tenant allowance amortization	-	-
(Increase) Decrease in assets:		
Due from affiliates	(39,129)	(253,349)
Due from governmental agencies	(87,450)	(64,240)
Prepaid assets	20,101	1,636
Other assets	-	-
Increase (Decrease) in liabilities:		
Accounts payable and accrued expenses	79,029	136,049
Accrued payroll	(34,084)	11,452
Due to affiliates	-	(15,495)
Net Cash Provided/(Used) by Operating Activities	\$ 101,640	\$ (199,325)

RICHARD MILBURN ACADEMY, INC. - AMARILLO
 SCHEDULE OF EXPENSES
 FOR THE TEN MONTHS ENDED JUNE 30, 2014
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

Expenses	Totals	
	2014	2013
6100 Payroll costs	\$ 1,040,785	\$ 1,067,926
6200 Professional and contracted services	393,751	432,663
6300 Supplies and materials	172,400	111,068
6400 Other operating costs	81,200	96,428
Total Expenses	\$ 1,688,136	\$ 1,708,085

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI
SCHEDULE OF EXPENSES
FOR THE TEN MONTHS ENDED JUNE 30, 2014
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

	Totals	
	2014	2013
Expenses		
6100 Payroll costs	\$ 1,107,390	\$ 1,254,037
6200 Professional and contracted services	434,260	433,440
6300 Supplies and materials	234,895	78,677
6400 Other operating costs	102,386	123,953
 Total Expenses	 \$ 1,878,931	 \$ 1,890,107

RICHARD MILBURN ACADEMY, INC. - KILLEEN
 SCHEDULE OF EXPENSES
 FOR THE TEN MONTHS ENDED JUNE 30, 2014
 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2013)

Expenses	Totals	
	2014	2013
6100 Payroll costs	\$ 731,937	\$ 887,310
6200 Professional and contracted services	258,478	483,027
6300 Supplies and materials	131,910	124,478
6400 Other operating costs	76,539	114,283
 Total Expenses	 <u>\$ 1,198,864</u>	 <u>\$ 1,609,098</u>

RICHARD MILBURN ACADEMY, INC. - AMARILLO
 SCHEDULE OF CAPITAL ASSETS
 FOR THE TEN MONTHS ENDED JUNE 30, 2014

		Ownership Interest		
		Local	State	Federal
1110	Cash and cash equivalents	\$ -	\$ 463,177	\$ -
1520	Building	-	82,624	-
1539	Furniture and equipment	-	181,146	-
		<u>\$ -</u>	<u>\$ 726,947</u>	<u>\$ -</u>

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI
 SCHEDULE OF CAPITAL ASSETS
 FOR THE TEN MONTHS ENDED JUNE 30, 2014

		Ownership Interest		
		Local	State	Federal
1110	Cash and cash equivalents	\$ -	\$ 219,243	\$ -
1520	Building	-	-	-
1539	Furniture and equipment	-	48,368	19,231
		<u>\$ -</u>	<u>\$ 267,611</u>	<u>\$ 19,231</u>

RICHARD MILBURN ACADEMY, INC. - KILLEEN
 SCHEDULE OF CAPITAL ASSETS
 FOR THE TEN MONTHS ENDED JUNE 30, 2014

		Ownership Interest		
		<u>Local</u>	<u>State</u>	<u>Federal</u>
1110	Cash and cash equivalents	\$ -	\$ 127,567	\$ -
1520	Building	-	22,038	-
1539	Furniture and equipment	-	91,905	105,426
		<u>\$ -</u>	<u>\$ 241,510</u>	<u>\$ 105,426</u>

RICHARD MILBURN ACADEMY, INC. - CORPORATE
 SCHEDULE OF CAPITAL ASSETS
 FOR THE TEN MONTHS ENDED JUNE 30, 2014

		Ownership Interest		
		Local	State	Federal
1110	Cash and cash equivalents	\$ -	\$ 8,601	\$ -
1520	Building	-	-	-
1539	Furniture and equipment	-	13,336	-
		\$ -	\$ 21,937	\$ -

RICHARD MILBURN ACADEMY, INC. - AMARILLO
 BUDGETARY COMPARISON SCHEDULE
 FOR THE TEN MONTHS ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues and Other Support				
Local support:				
5740 Interest income and other income	\$ -	\$ -	\$ 5,313	\$ 5,313
State program revenues:				
5810 Foundation school program act	1,707,050	1,707,077	1,733,111	26,034
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	<u>142,685</u>	<u>338,721</u>	<u>220,001</u>	<u>(118,720)</u>
Total Revenues	<u>1,849,735</u>	<u>2,045,798</u>	<u>1,958,425</u>	<u>(87,373)</u>
Expenses				
11 Instruction	793,004	1,137,797	944,574	193,223
12 Instructional resources and media services	-	4,000	-	4,000
13 Curriculum development and instructional staff development	32,808	10,700	3,548	7,152
21 Instructional leadership	-	28,800	22,267	6,533
23 School leadership	158,986	191,555	154,682	36,873
31 Guidance, counseling and evaluation services	129,664	126,346	108,278	18,068
32 Social work services	-	-	-	-
33 Health services	2,500	500	-	500
34 Student transportation	-	-	-	-
35 Food services	-	-	-	-
36 Cocurricular/extracurricular activities	12,000	-	-	-
41 General administration	325,926	237,663	257,782	(20,119)
51 Plant maintenance and operations	202,684	198,777	159,223	39,554
52 Security and monitoring services	8,696	52,142	2,734	49,408
53 Data processing services	39,089	60,592	33,900	26,692
61 Community services	<u>1,000</u>	<u>4,000</u>	<u>1,148</u>	<u>2,852</u>
Total Expenses	<u>1,706,357</u>	<u>2,052,872</u>	<u>1,688,136</u>	<u>364,736</u>
Change in Net Assets	143,378	(7,074)	270,289	277,363
Net Assets, beginning of year	<u>98,204</u>	<u>98,204</u>	<u>98,204</u>	<u>-</u>
Net Assets, end of year	<u>\$ 241,582</u>	<u>\$ 91,130</u>	<u>\$ 368,493</u>	<u>\$ 277,363</u>

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI
 BUDGETARY COMPARISON SCHEDULE
 FOR THE TEN MONTHS ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues and Other Support				
Local support:				
5740 Interest and other income	\$ -	\$ -	\$ 4,352	\$ 4,352
State program revenues:				
5810 Foundation school program act	1,757,440	1,757,440	1,837,903	80,463
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	238,584	245,867	188,973	(56,894)
Total Revenues	1,996,024	2,003,307	2,031,228	27,921
Expenses				
11 Instruction	780,558	1,012,694	1,038,441	(25,747)
12 Instructional resources and media services	11,000	11,000	-	11,000
13 Curriculum development and instructional staff development	7,412	2,955	1,979	976
21 Instructional leadership	-	28,900	22,883	6,017
23 School leadership	218,608	224,350	199,464	24,886
31 Guidance, counseling and evaluation services	95,528	99,454	77,583	21,871
32 Social work services	-	4,400	19,729	(15,329) *
33 Health services	12,090	16,090	12,831	3,259
34 Student transportation	-	15,000	9,022	5,978
35 Food services	-	-	-	-
36 Cocurricular/extracurricular activities	10,500	21,000	6,984	14,016
41 General administration	366,202	260,213	169,295	90,918
51 Plant maintenance and operations	302,181	302,181	260,220	41,961
52 Security and monitoring services	33,622	40,822	40,063	759
53 Data processing services	15,792	25,792	19,248	6,544
61 Community services	1,500	6,500	1,189	5,311
Total Expenses	1,854,993	2,071,351	1,878,931	192,420
Change in Net Assets	141,031	(68,044)	152,297	220,341
Net Assets, beginning of year	111,916	111,916	111,916	-
Net Assets, end of year	\$ 252,947	\$ 43,872	\$ 264,213	\$ 220,341

* The school changed from a management company to a back office service in March of 2014. Significant work was extended to accurately state the budget and the financials for the 2013-2014 school year. Adjustments were found late in the year and during the audit that would move expenses to the correct function.

RICHARD MILBURN ACADEMY, INC. - KILLEEN
 BUDGETARY COMPARISON SCHEDULE
 FOR THE TEN MONTHS ENDED JUNE 30, 2014

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues and Other Support				
Local support:				
5740 Interest and other income	\$ -	\$ -	\$ 4,415	\$ 4,415
State program revenues:				
5810 Foundation school program act	1,180,464	1,180,464	1,185,412	4,948
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	86,626	275,030	153,182	(121,848)
Total Revenues	1,267,090	1,455,494	1,343,009	(112,485)
Expenses				
11 Instruction	474,792	859,545	660,446	199,099
12 Instructional resources and media services	7,896	7,896	-	7,896
13 Curriculum development and instructional staff development	15,420	3,596	1,812	1,784
21 Instructional leadership	-	18,804	17,097	1,707
23 School leadership	185,871	185,871	154,678	31,193
31 Guidance, counseling and evaluation services	74,148	42,148	39,443	2,705
32 Social work services	1,500	1,500	-	1,500
33 Health services	2,500	1,500	-	1,500
34 Student transportation	-	-	-	-
35 Food Services	-	-	-	-
36 Cocurricular/extracurricular activities	1,500	2,500	1,953	547
41 General administration	243,518	107,518	119,222	(11,704) *
51 Plant maintenance and operations	158,118	158,118	143,712	14,406
52 Security and monitoring services	16,340	31,340	39,161	(7,821) *
53 Data processing services	14,937	24,937	20,479	4,458
61 Community services	3,000	3,000	861	2,139
Total Expenses	1,199,540	1,448,273	1,198,864	249,409
Change in Net Assets	67,550	7,221	144,145	136,924
Transfer of discontinued school	(13,659)	(13,659)	(13,659)	-
Net Assets, beginning of year	229,423	229,423	229,423	-
Net Assets, end of year	\$ 283,314	\$ 222,985	\$ 359,909	\$ 136,924

* The school changed from a management company to a back office service in March of 2014. Significant work was extended to accurately state the budget and the financials for the 2013-2014 school year. Adjustments were found late in the year and during the audit that would move expenses to the correct function.

COMPLIANCE AND INTERNAL CONTROLS SECTION



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Thomas C. Cunningham, C.P.A.
Partner Emeritus

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, Inc.
McQueeney, 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, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the ten months then ended, and the related notes to the financial statements, and have issued our report thereon dated November 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Richard Milburn Academy, 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, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Richard Milburn Academy, 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, 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 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 2014-1 and 2014-2.

Richard Milburn Academy, Inc.'s Response to Findings

Richard Milburn Academy, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Richard Milburn Academy, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 the organization's internal control or on compliance. This report is in integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


November 24, 2014



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance For Each Major Federal Program

We have audited Richard Milburn Academy, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Richard Milburn Academy, Inc.'s major federal programs for the ten months ended June 30, 2014. Richard Milburn Academy, 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Richard Milburn Academy, 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 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 Richard Milburn Academy, 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, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Richard Milburn Academy, 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 ten months ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Richard Milburn Academy, 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, 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of Richard Milburn Academy, Inc.'s internal control over compliance. Accordingly we do not express an opinion on the effectiveness of Richard Milburn Academy, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


November 24, 2014

Richard Milburn Academy, Inc.

Schedule of Findings and Questioned Costs
For the Ten Months Ended June 30, 2014

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal Control over Financial Reporting:

Material weakness (es) identified? Yes X No

Significant deficiencies(s) identified
That are not considered to be material
weaknesses? X Yes 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 deficiencies(s) identified that are
not considered to be material weaknesses? 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
section 510(a) of Circular A-133? Yes X No

Identification of Major Programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010A

ESEA, Title I, Part A – Improving Basic
Programs

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X No

Schedule of Findings and Questioned Costs (continued)
For the Ten Months Ended June 30, 2014

II. FINANCIAL STATEMENT FINDINGS

A. Significant Deficiencies in Internal Control over Financial Reporting

Finding 2014-1

Condition: Due to/due from reconciliations were not reconciled to determine that they balanced between each school.

Cause: The due to/ due from reconciliations were not reconciled.

Effect: The lack of preparing the due to/due from reconciliations on a regular basis can affect the accuracy of financial reporting for each school.

Recommendation: Due to/ due from reconciliations should be prepared on a monthly basis to ensure that all activity between schools has been properly recorded.

Management Response: The Charter will begin preparing due to/due from reconciliations on a monthly basis.

Finding 2014-2

Condition: Expenditures exceeded budgeted amounts in several functions.

Criteria: State law requires the Charter School to adopt a budget through the passage of a resolution by the board. Once the budget is adopted, it can only be amended at the function and fund level by approval of a majority of the members of the Board. As required by law, such amendments are made before the fact and reflected in the official minutes of the Board.

Effect: Expenses exceeded final budgeted amounts in several functions.

Recommendation: The Charter School should continue to monitor expenditures as to amount and classification in accordance with the Texas Education Agency Special Supplement to the Financial Accountability System Resource Guide.

Management Response: The Charter School will continue to monitor expenses as to account classification and amount to ensure adequate budget is provided.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None noted.

Richard Milburn Academy, Inc.

Schedule of Status of Prior Findings
For the Ten Months Ended June 30, 2014

2013-1 Unspent Allotments

Condition: The organization did not spend the required amount of allotments of Foundation School Program ("FSP") funding. The amount of unspent allotments is summarized below:

<u>Career & Technology</u>	<u>Special Education</u>	<u>Compensatory Education</u>	<u>High School Allotment</u>
\$109,399	\$414,126	\$385,013	\$64,972

Criteria: The organization receives FSP allotments, which support various strategic goals. The organization is required to spend a certain percentage of the funding in the year the allotment is awarded.

Cause: The organization failed to track the amount spent on each of the above listed programs on an ongoing basis.

Effect: The organization was not in compliance with state requirements concerning the amount of FSP allotments which are to be spent in the year the allotment is awarded.

Recommendation: The organization should implement monitoring controls over minimum expenditure requirements for allotment spending to ensure that all required expenditures are made timely.

Status: The organization more closely monitored its control over minimum expenditure requirements for FSP allotment spending resulting in adequate spending of required percentages for the ten months ended June 30, 2014.

2013-2 Due to/Due from Reconciliations

Condition: Due to/due from reconciliations were not prepared on a regular basis to determine that they balance when all balances are combined.

Cause: Due to/due from reconciliations were not completed on a regular basis.

Effect: Due to/due from balances did not balance with each other when all balances were combined for reporting purposes. Several adjusting entries were necessary after year end to reconcile the due to/due forms.

Recommendation: Due to/due from reconciliations should be prepared on a monthly basis to ensure they balance with each other when all balances are combined at year end.

Status: Due to/due from reconciliations were not sufficiently prepared for the ten months ended June 30, 2014.

Richard Milburn Academy, Inc.

Schedule of Status of Prior Findings (continued)
For the Ten Months Ended June 30, 2014

2013-3 Budget Efficiency

Condition: Expenditures exceeded budgeted amounts in several functions.

Criteria: State law requires the Charter School to adopt a budget through the passage of resolution by the board. Once the budget is adopted, it can only be amended at the function and fund level by approval of a majority of the members of the Board. As required by law, such amendments are made before the fact and reflected in the official minutes of the board.

Effect: Expenses exceeded final budgeted amounts in several functions.

Recommendation: The Charter School should continue to monitor expenditures as to amount and classification in accordance with the Texas Education Agency Special Supplement to the Financial Accountability System Resource Guide.

Status: The Charter School more closely monitored expenditures as to amount and classification resulting in fewer unfavorable variances.

RICHARD MILBURN ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE TEN MONTHS ENDED JUNE 30, 2014

<u>Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education:			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	14610112188801	\$ 174,973
ESEA, Title I, Part A - Improving Basic Programs	84.010A	14610101178804	143,491
ESEA, Title I, Part A - Improving Basic Programs	84.010A	14610112014801	<u>131,740</u>
Total Title I, Part A Cluster			<u>450,204</u>
IDEA - Part B, Formula	84.027A	146600011888016000	27,839
IDEA - Part B, Formula	84.027A	146600011788046000	27,469
IDEA - Part B, Formula	84.027A	146600010148016000	<u>8,535</u>
Total IDEA - Part B Cluster			<u>63,843</u>
ESEA, Title II, Part A - Teacher and Principial Training	84.367A	14694501188801	17,190
ESEA, Title II, Part A - Teacher and Principial Training	84.367A	14694501178804	18,012
ESEA, Title II, Part A - Teacher and Principial Training	84.367A	14694501014801	<u>12,907</u>
Total Title II, Part A Cluster			<u>48,109</u>
Total Expenditures of Federal Awards			<u>\$ 562,156</u>

Note to the Schedule of Expenditure of Federal Awards:

Standard Financial Accounting System

For all federal programs, the organization used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.