

**Richard Milburn Academy/TX, Inc.**

**Financial Statements**

**For The Year Ended June 30, 2015**

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

We, the undersigned, certify that the attached Financial and Compliance Report of Richard Milburn Academy/TX, Inc. was reviewed and (check one)  approved  disapproved for the year ended June 30, 2015, at a meeting of governing body of the charter holder on the 13 day of November 2015.

  
Signature of Board Secretary

  
Signature of Board President



**Cunningham, Shavers, Christensen & Wright, L.L.P.**  
*Certified Public Accountants*

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Partner Emeritus

INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of Richard Milburn Academy/TX, Inc. (a nonprofit organization) (the "charter holder") which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richard Milburn Academy/TX, Inc., as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 12 to the financial statements, at the request of the Board of Directors, the Texas Education Commissioner approved the merger of an affiliate charter holder, Richard Milburn Academy, Inc.'s assets and operations into Richard Milburn Academy/TX, Inc. effective July 1, 2014.

## Other Matters

### Other Information

Our audit was conducted- for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards 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 also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2015, on our consideration of Richard Milburn Academy/TX, 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/TX, Inc.'s internal control over financial reporting and compliance.

  
November 13, 2015

COMBINED SCHOOLS FINANCIAL STATEMENTS

RICHARD MILBURN ACADEMY/TX, INC.  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2015

Assets

Current Assets	
Cash and cash equivalents	\$ 2,342,505
Due from governments	2,728,754
Deferred expenses	202,470
Total current assets	<u>5,273,729</u>
Fixed Assets	
Building	391,070
Furniture and equipment	1,678,828
	<u>2,069,898</u>
Less: Accumulated depreciation	(1,728,363)
	<u>341,535</u>
 Total Assets	 <u>\$ 5,615,264</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 223,004
Accrued wages payable	562,477
Total current liabilities	<u>785,481</u>
Total Liabilities	<u>785,481</u>
Net Assets	
Unrestricted	466,814
Temporarily restricted	4,362,969
	<u>4,829,783</u>
Total Net Assets	<u>4,829,783</u>
Total Liabilities and Net Assets	<u>\$ 5,615,264</u>

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

RICHARD MILBURN ACADEMY/TX, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Total
<b>Revenues and Other Support</b>			
Local support:			
Interest and other income	\$ 14,328	\$ -	\$ 14,328
Total local support	14,328	-	14,328
State program revenues:			
Foundation school program act	-	13,947,927	13,947,927
Other state aid	-	268,328	268,328
Total state program revenues	-	14,216,255	14,216,255
Federal program revenues:			
ESEA Title I, Part A	-	603,096	603,096
ESEA Title II, Part A	-	38,052	38,052
IDEA, Part B	-	266,740	266,740
Total federal program revenues	-	907,888	907,888
Net assets released from restrictions:			
Restrictions satisfied by payments	12,877,452	(12,877,452)	-
Total Revenues and net assets released from restrictions	12,891,780	2,246,691	15,138,471
<b>Expenses</b>			
Program Services:			
Instruction and instructional - related services	6,007,263	-	6,007,263
Instructional and school leadership	1,956,295	-	1,956,295
Support services:			
Administrative support services	779,517	-	779,517
Ancillary services	66,490	-	66,490
Support services non-student based	3,227,144	-	3,227,144
Support services student (pupil)	840,743	-	840,743
Total expenses	12,877,452	-	12,877,452
Change in Net Assets	14,328	2,246,691	2,261,019
Net Assets, beginning of year	452,486	2,116,278	2,568,764
Net Assets, end of year	\$ 466,814	\$ 4,362,969	\$ 4,829,783

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



RICHARD MILBURN ACADEMY/TX, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2015

**Cash Flows from Operating Activities:**

Foundation school program payments	\$ 13,944,568
Other state aid	268,328
Grant payments	677,861
Miscellaneous sources	14,328
Payments to vendors for goods and services rendered	(6,634,424)
Payments to charter school personnel for services rendered	<u>(7,758,918)</u>
Net Cash Provided by Operating Activities	511,743

**Cash Flows from Investing Activities:**

Purchase of capital assets	<u>(112,991)</u>
Net Cash Used by Investing Activities	<u>(112,991)</u>

Net Increase in Cash 398,752

**Cash at Beginning of Year** 1,943,753

**Cash at End of Year** \$ 2,342,505

**Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:**

Change in Net Assets	\$ 2,261,019
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	159,108
(Increase) Decrease in assets:	
Due from governments	(233,386)
Deferred expenses	(170,333)
Increase ( Decrease) in liabilities:	
Accounts payable	(1,488,275)
Accrued wages payable	28,810
Other accrued expenses	<u>(45,200)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 511,743</u></u>

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

Richard Milburn Academy/TX, Inc.  
Notes To Financial Statements  
June 30, 2015

Note 2 Summary of Significant Accounting Policies (continued)

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.

Due From Governments

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

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

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.

Impairment of Long-Lived Assets

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Organization did not recognize an impairment loss during the year ended June 30, 2015.

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.

Richard Milburn Academy/TX, Inc.  
Notes To Financial Statements  
June 30, 2015

Note 2 Summary of Significant Accounting Policies (continued)

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 year ended June 30, 2015 will change.

Revenue Recognition

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

Donated Services and Assets

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

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

Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities and net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Contingencies

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

Richard Milburn Academy/TX, Inc.  
Notes To Financial Statements  
June 30, 2015

Note 2 Summary of Significant Accounting Policies (continued)

Contingencies (continued)

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

Fair Value Measurements and Disclosures

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification ("ASC") apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair valued is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Fair Value Measurements and Disclosures* also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets of liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets or liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

At June 30, 2015, the Organization had no investments.

The fair value of the Organization's cash and cash equivalents, due from government agencies, deferred expenses, accounts payable, accrued wages payable approximate the carrying amounts of such instruments due to their short-term maturity.

Note 3 Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2015 consist of the following:

Checking accounts	\$ 711,517
Money market accounts	1,600,102
Certificates of Deposits	<u>30,886</u>
	<u>\$2,342,505</u>

Richard Milburn Academy/TX, Inc.  
Notes To Financial Statements  
June 30, 2015

Note 4 Due from Governments

Amounts due from governments consist of the following:

Amount due from other governments consist of:

Texas Department of Education, Texas Education Agency	\$2,490,192
United States Department of Education passed through Texas Education Agency	<u>238,562</u>
Total	<u>\$2,728,754</u>

Note 5 Capital Assets

A summary of changes in capital assets is as 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	\$ 391,070	\$ -	\$ -	\$391,070	\$ 323,880	\$ 67,390
Furniture and Equipment	<u>1,565,837</u>	<u>112,991</u>	<u>-</u>	<u>1,678,828</u>	<u>1,404,683</u>	<u>274,145</u>
Capital Assets, Net	<u>\$1,956,907</u>	<u>\$112,991</u>	<u>\$ -</u>	<u>\$2,069,898</u>	<u>\$1,728,363</u>	<u>\$341,535</u>

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

Depreciation expense for the year ended June 30, 2015 was \$159,108.

Note 6 Retirement Benefits

Plan Description - The Organization contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan. 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.

Participating employers in the System are legal separate entities from the State and from each other. Contributions to the System by one employer may be used for the benefit of a plan member of another participating employer. The unfunded obligations are passed along to the participating employers. There is no withdrawal penalty for a plan member for leaving the System.

Richard Milburn Academy/TX, Inc.  
Notes To Financial Statements  
June 30, 2015

Note 6 Retirement Benefits (continued)

Information with respect to the System is shown in the following table:

Name of Plan	Federal Employer ID/Plan Number	Certified Zone Status	Expiration Date of Collective Bargaining Agreement	Improvement or Rehabilitation Plan	Surcharge Paid	Contributions Made 2014-2015
Teacher Retirements System of Texas	n/a	Unknown	n/a	n/a	<u>\$12,220</u>	<u>\$116,637</u>
Total contributions made					<u>\$12,220</u>	<u>\$116,637</u>

Notes to the table:

1. Certified Zone Status (as defined by the Pension Protection Act) represents the level at which the plan is funded. Details of the funding status are as follows:
  - i. Total plan assets- \$157,261,707,241
  - ii. Accumulated benefit obligations - \$159,496,075,886
  - iii. The System is 83.25% funded.
2. There is no collective-bargaining agreement.
3. Based on the audited GASB 68 allocation schedules from the TRS website as of August 31, 2014, the year-end of the System, contributions made to the System did not represent more than 5% of the total contributions received by the System.
4. Contribution rates:
 

Member	6.7%
State	6.8%
Employer	6.8%

There have been no changes that would affect the comparison of employer contributions from year to year. The System's annual financial report and other required disclosure information are available by writing the General Accounting Department, Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698.

In addition, employees may contribute 0.65% of their salary and the Organization must contribute 0.55% of the salary of each active employee to TRS-Care (the TRS health plan for retired employees). The total amount contributed to TRS-Care for the year was \$89,937 which is equal to the employees' contributions and the Organization's required contributions for the year.

Note 7 Health Care Coverage

During the year ended June 30, 2015, employees of the Organization were covered by a Health Insurance Plan ("Plan"). The Organization contributed \$390 per month per employee for the period from July 1, 2014 to June 30, 2015 to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Richard Milburn Academy/TX, Inc.  
Notes To Financial Statements  
June 30, 2015

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/TX, Inc. leases its facilities under non-cancellable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of June 30, 2015 under these leases are summarized as follows:

<u>Fiscal Year Ending June 30,</u>	
2016	\$ 1,346,252
2017	1,036,592
2018	880,401
2019	357,471
2020 - 2028	<u>2,079,441</u>
Total	<u>\$5,700,156</u>

Rent expense for all operating leases for the year ended June 30, 2015 was \$1,376,467.

Note 10 Back Office Services

The Organization contracts with a company for back office services. The agreement provides, among other things, for the payment of a fee calculated based upon the gross revenues of the Organization. The expense for the services for the year ended June 30, 2015 was \$620,723.

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 year ended June 30, 2015.

Generally accepted accounting principles requires 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 year ended June 30, 2015, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of June 30, 2015, the Organization's tax years 2012 through 2014 remain subject to examination.

Richard Milburn Academy/TX, Inc.  
Notes To Financial Statements  
June 30, 2015

Note 12 Merger of Operations

At the request of the Board of Directors, the Texas Education Commissioner approved the merger of Richard Milburn Academy, Inc.'s (consisting of three open-enrollment charter schools) assets, liabilities, and operations into its affiliate, Richard Milburn Academy/TX, Inc. (consisting of three open-enrollment charter schools), effective July 1, 2014. The merger was directly related to providing a more effective and streamlined manner of administrating and providing a consistent instructional program to the six open- enrollment charter schools. As of July 1, 2014, the major classes of assets, liabilities, and net assets of Richard Milburn Academy, Inc. and Richard Milburn Academy/TX, Inc. were as follows:

	<u>Richard Milburn Academy, Inc.</u>	<u>Richard Milburn Academy/TX, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
<u>Assets</u>				
Current Assets				
Cash and equivalents	\$818,588	\$1,125,165	\$ -	\$1,943,753
Due from affiliates	281,326	-	(281,326)	-
Due from governments	838,826	1,656,542	-	2,495,368
Deferred expenses	<u>17,749</u>	<u>14,388</u>	<u>-</u>	<u>32,137</u>
Total current assets	<u>1,956,489</u>	<u>2,796,095</u>	<u>(281,326)</u>	<u>4,471,258</u>
Fixed Assets				
Building	104,662	286,408	-	391,070
Furniture and equipment	<u>459,412</u>	<u>1,106,425</u>	<u>-</u>	<u>1,565,837</u>
	564,074	1,392,833	-	1,956,907
Less: Accumulated depreciation	<u>(506,864)</u>	<u>(1,062,390)</u>	<u>-</u>	<u>(1,569,254)</u>
	<u>57,210</u>	<u>330,443</u>	<u>-</u>	<u>387,653</u>
Total Assets	<u>\$2,013,699</u>	<u>\$3,126,538</u>	<u>\$(281,326)</u>	<u>\$4,858,911</u>
<u>Liabilities and Net Assets</u>				
Current Liabilities				
Accounts payable	\$774,214	\$957,066	\$ -	\$1,711,280
Accrued wages payable	201,670	331,997	-	533,667
Due to affiliates	-	281,326	(281,326)	-
Other accrued expenses	<u>45,200</u>	<u>-</u>	<u>-</u>	<u>45,200</u>
Total current liabilities	<u>1,021,084</u>	<u>1,550,389</u>	<u>(281,326)</u>	<u>2,290,147</u>
Total Liabilities	<u>1,021,084</u>	<u>1,550,389</u>	<u>(281,326)</u>	<u>2,290,147</u>
Net Assets				
Unrestricted	439,964	12,522	-	452,486
Temporarily restricted	<u>552,651</u>	<u>1,563,627</u>	<u>-</u>	<u>2,116,278</u>
Total Net Assets	<u>992,615</u>	<u>1,576,149</u>	<u>-</u>	<u>2,568,764</u>
Total Liabilities and Net Assets	<u>\$2,013,699</u>	<u>\$3,126,538</u>	<u>\$(281,326)</u>	<u>\$4,858,911</u>



Richard Milburn Academy/TX, Inc.  
Notes To Financial Statements  
June 30, 2015

Note 13 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 14 Evaluation of Subsequent Events

The Organization has evaluated subsequent events through November 13, 2015, the date which the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

RICHARD MILBURN ACADEMY/TX, INC.  
SCHEDULE OF EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2015

**Expenses**

6100 Payroll Cost	\$ 7,787,728
6200 Professional and contracted services	3,600,994
6300 Supplies and materials	869,526
6400 Other operating costs	619,204
	<u>\$ 12,877,452</u>

RICHARD MILBURN ACADEMY/TX, INC.  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2015

	Ownership Interest		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
1520 Building	\$ -	\$ 391,070	\$ -
1539 Furniture and equipment	-	1,678,828	-
	\$ -	\$ 2,069,898	\$ -

RICHARD MILBURN ACADEMY/TX, INC.  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues and Other Support</b>				
Local support:				
5740 Other revenues from local sources	\$ -	\$ 166,113	\$ 14,328	\$ (151,785)
State program revenues:				
5810 Foundation school program act	13,628,500	13,458,152	13,947,927	489,775
5820 Other State Aid	-	268,328	268,328	-
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	-	1,137,350	907,888	(229,462)
<b>Total Revenues</b>	<u>13,628,500</u>	<u>15,029,943</u>	<u>15,138,471</u>	<u>108,528</u>
<b>Expenses</b>				
11 Instruction	5,809,982	6,039,348	5,644,954	394,394
12 Instructional resources and media services	-	-	-	-
13 Curriculum development and instructional staff development	121,000	417,287	362,309	54,978
21 Instructional leadership	131,746	87,374	64,416	22,958
23 School leadership	1,638,764	1,911,181	1,891,879	19,302
31 Guidance, counseling and evaluation services	992,453	961,851	794,654	167,197
32 Social work services	-	-	-	-
33 Health services	-	-	-	-
34 Student (Pupil) Transportation	46,000	52,000	24,700	27,300
35 Food services	-	-	-	-
36 Cocurricular/extracurricular activities	-	31,927	21,389	10,538
41 General administration	1,364,538	1,046,807	779,517	267,290
51 Plant maintenance and operations	1,887,300	2,526,864	2,299,496	227,368
52 Security and monitoring services	354,000	289,000	198,726	90,274
53 Data processing services	571,977	882,913	728,922	153,991
61 Community services	49,000	70,595	66,490	4,105
<b>Total Expenses</b>	<u>12,966,760</u>	<u>14,317,147</u>	<u>12,877,452</u>	<u>1,439,695</u>
Change in Net Assets	661,740	712,796	2,261,019	1,548,223
Net Assets, beginning of year	<u>2,568,764</u>	<u>2,568,764</u>	<u>2,568,764</u>	<u>-</u>
Net Assets, end of year	<u>\$ 3,230,504</u>	<u>\$ 3,281,560</u>	<u>\$ 4,829,783</u>	<u>\$ 1,548,223</u>

COMBINED SCHOOLS FINANCIAL STATEMENTS



Cunningham, Shavers, Christensen & Wright, L.L.P.  
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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/TX, 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/TX, Inc. (a nonprofit Organization) which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2015.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 13, 2015





**Cunningham, Shavers, Christensen & Wright, L.L.P.**  
*Certified Public Accountants*

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Partner Emeritus

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/TX, Inc.  
McQueeney, Texas

**Report on Compliance For Each Major Federal Program**

We have audited Richard Milburn Academy/TX, 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/TX, Inc.'s major federal programs for the year ended June 30, 2015. Richard Milburn Academy/TX, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with 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/TX, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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/TX, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

In our opinion, Richard Milburn Academy/TX, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## Report on Internal Control Over Compliance

Management of Richard Milburn Academy/TX, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Richard Milburn Academy/TX, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of Richard Milburn Academy/TX, Inc.'s internal control over compliance. Accordingly we do not express an opinion on the effectiveness of Richard Milburn Academy/TX, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



November 13, 2015

Richard Milburn Academy/TX, Inc.  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2015

**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditor's report issued: Unmodified  
 Internal Control over Financial Reporting:

Material weakness(es) identified?  Yes  No

Significant deficiencies(s) identified  
 that are not considered to be material  
 weaknesses?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

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

Internal Control over Major Programs:  
 Material weakness(es) identified?  Yes  No

Significant deficiencies(s) identified that are  
 not considered to be material weaknesses?  Yes  No

Any audit findings disclosed that are  
 required to be reported in accordance with  
 section 510(a) of Circular A-133?  Yes  No

Identification of Major Programs:

CFDA Number(s)

Name of Federal Program

84.010A

ESEA, Title I, Part A – Improving Basic  
 Programs

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

Auditee qualified as low-risk auditee?  Yes  No

Richard Milburn Academy/TX, Inc.  
Schedule of Findings and Questioned Costs (continued)  
For the Year Ended June 30, 2015

**II. FINANCIAL STATEMENT FINDINGS**

None Noted

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None noted.

Richard Milburn Academy/TX, Inc.  
Schedule of Status of Prior Findings  
For the Year Ended June 30, 2015

**FINANCIAL STATEMENT FINDINGS**

**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.

Status: The Organization began preparing due to/due from reconciliations on a monthly basis.

**Finding 2014-2**

Condition: Expenses exceeded budgeted amounts in several functions.

Criteria: State law requires the Organization 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 Organization should more closely monitor expenses as to amount and classification in accordance with the Texas Education Agency Special Supplement to the Financial Accountability System Resource Guide.

Status: The Organization more closely monitored expenses as to account classification and amount ensuring adequate budgetary compliance.

RICHARD MILBURN ACADEMY/TX, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015

<u>Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Education:</b>			
<u>Passed Through State Department of Education:</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	15610101014801	\$ 445,326
ESEA, Title I, 1003(A), Priority and Focus School Grant	84.010A	1561011201480100001	<u>157,770</u>
Total Title I, Part A Cluster			603,096
IDEA - Part B, Formula	84.027A	156600011619506600	266,740
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	15694501014801	<u>38,052</u>
 Total Expenditures of Federal Awards			 <u><u>\$ 907,888</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

Richard Milburn Academy/TX, Inc.  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2015

**Note 1 Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Richard Milburn Academy/TX, Inc. under programs of the Federal Government for the year ended June 30, 2015. The information in the Schedule is presented in accordance with the requirements of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Richard Milburn Academy/TX, Inc., it is not intended to, and does not, present the financial position, change in net assets, or cash flows of Richard Milburn Academy/TX, Inc.

**Note 2 Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**Note 3 Standard Financial Accounting System**

For all federal programs, Richard Milburn Academy/TX, Inc. used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, No-Profit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by the grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.