

Richard Milburn Academy/TX, Inc.

Financial Statements

For The Year Ended June 30, 2016

TABLE OF CONTENTS

Certificate of Board	3
Independent Auditor's Report	4 - 5
Financial Statements:	6
Statement of Financial Position	7
Statement of Activities	8
Statement of Cash Flows	9
Notes to Financial Statements	10 - 17
Supplementary Information:	18
Schedule of Expenses	19
Schedule of Capital Assets	20
Budgetary Comparison Schedule	21
Compliance and Internal Controls Section:	22
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 <i>Government Auditing Standards</i>	23 - 24
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	25 - 26
Schedule of Findings and Questioned Costs	27 - 28
Summary Schedule of Prior Audit Findings	29
Schedule of Expenditures of Federal Awards	30
Notes to Schedule of Expenditures of Federal Awards	31

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, 2016 at a meeting of governing body of the Corporation on the 18th day of November, 2016.



Signature of Board Secretary



Signature of Board President



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

Certified Public Accountants

Fred R. Shavers III, C.P.A.

Paul J. Christensen, C.P.A.

Danny R. Wright, C.P.A.

Thomas C. Cunningham, C.P.A.

Partner Emeritus

MEMBERS:

- AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
- TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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. (the "Corporation") (a nonprofit organization) which comprise the statement of financial position as of June 30, 2016, 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, 2016, 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016, on our consideration of Richard Milburn Academy/TX, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Richard Milburn Academy/TX, Inc.'s internal control over financial reporting and compliance.



Waco, Texas

November 18, 2016

FINANCIAL STATEMENTS

RICHARD MILBURN ACADEMY/TX, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

Assets

Current Assets	
Cash and cash equivalents	\$ 2,735,162
Due from governments	3,082,345
Total current assets	5,817,507
Fixed Assets	
Building	391,070
Construction in progress	24,420
Vehicles	35,809
Furniture and equipment	1,733,984
	2,185,283
Less: Accumulated depreciation	(1,909,999)
	275,284
 Total Assets	 \$ 6,092,791

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 448,143
Accrued wages payable	837,845
Total current liabilities	1,285,988
 Total Liabilities	 1,285,988
Net Assets	
Unrestricted	481,956
Temporarily restricted	4,324,847
	4,806,803
 Total Net Assets	 4,806,803
 Total Liabilities and Net Assets	 \$ 6,092,791

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

RICHARD MILBURN ACADEMY/TX, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues			
Local support:			
Interest and other income	\$ 15,142	\$ -	\$ 15,142
Total local support	15,142	-	15,142
State program revenues:			
Foundation school program act	-	16,447,363	16,447,363
Other state aid	-	242,735	242,735
Total state program revenues	-	16,690,098	16,690,098
Federal program revenues:			
ESEA Title I, Part A	-	548,213	548,213
ESEA Title II, Part A	-	127,406	127,406
IDEA - Part B, Formula	-	207,931	207,931
National School Lunch and Breakfast Program	-	17,405	17,405
Total federal program revenues	-	900,955	900,955
Net assets released from restrictions:			
Restrictions satisfied by payments	17,629,175	(17,629,175)	-
Total Revenues	17,644,317	(38,122)	17,606,195
Expenses			
Program Services:			
Instruction and instructional - related services	8,797,049	-	8,797,049
Instructional and school leadership	2,427,248	-	2,427,248
Support services:			
Adminstrative support services	1,359,121	-	1,359,121
Ancillary servcies	141,883	-	141,883
Support services - non-student based	3,685,300	-	3,685,300
Support services - student (pupil)	1,218,574	-	1,218,574
Total Expenses	17,629,175	-	17,629,175
Change in Net Assets	15,142	(38,122)	(22,980)
Net Assets, Beginning of Year	466,814	4,362,969	4,829,783
Net Assets, End of Year	\$ 481,956	\$ 4,324,847	\$ 4,806,803

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

RICHARD MILBURN ACADEMY/TX, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

Cash Flows from Operating Activities:

Foundation school program payments	\$ 16,140,476
Other state aid	242,735
Grant payments	854,293
Miscellaneous sources	15,142
Payments to vendors for goods and services rendered	(6,297,571)
Payments to charter school personnel for services rendered	<u>(10,447,033)</u>
Net Cash Provided by Operating Activities	<u>508,042</u>

Cash Flows from Investing Activities:

Purchase of capital assets	<u>(115,385)</u>
Net Cash Used by Investing Activities	<u>(115,385)</u>

Net Increase in Cash	392,657
Cash at Beginning of Year	<u>2,342,505</u>

Cash at End of Year	<u><u>\$ 2,735,162</u></u>
----------------------------	----------------------------

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

Change in Net Assets	\$ (22,980)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	181,636
(Increase) Decrease in assets:	
Due from governments	(353,591)
Deferred expenses	202,470
Increase (Decrease) in liabilities:	
Accounts payable	225,139
Accrued wages payable	275,368
Net Cash Provided by Operating Activities	<u><u>\$ 508,042</u></u>

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

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Corporate Operations

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

Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

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 Corporation, the charter school, 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.

Permanently restricted - net assets required to be maintained in perpetuity with only the income to be used for the Corporation's activities due to donor-imposed 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

Contributions

The Corporation accounts for contributions 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.

Cash and Cash Equivalents

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

Capital Assets

Capital assets, which include building improvements, furniture and equipment, and a vehicle are reported in the financial statements. Capital assets are defined by the Corporation as assets with an estimated useful life of more than one year. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to 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.

Due From Governments

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

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

Impairment of Long-Lived Assets

The Corporation reviews the carrying value of capital assets for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Corporation did not recognize an impairment loss during the year ended June 30, 2016.

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

State Funding

The amount of state foundation school program act revenue the Corporation earns may vary until the time when final values for all factors in the state aid formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation school program act revenue estimate for the year ended June 30, 2016 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 require specialized skills that are provided by individuals possessing those skills and which would typically need to be purchased if not provided by donation are recorded at the estimated fair market value in the period received.

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

Functional Allocation of Expenses

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

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

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

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 or 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, 2016, the Corporation had no investments.

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

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents as of June 30, 2016 consist of the following:

Checking accounts	\$ 1,003,625
Money market accounts	1,700,642
Certificates of Deposits	<u>30,895</u>
	\$ <u>2,735,162</u>

Note 3 - Due from Governments

Amounts due from governments consist of the following:

Amount due from governments consist of:	
Texas Department of Education, Texas Education Agency	\$2,797,079
U. S. Department of Education passed through Texas Education Agency	284,214
U. S. Department of Agriculture passed through Texas Education Agency	<u>1,052</u>
Total	<u>\$3,082,345</u>

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2016

Note 4 - 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	\$ 355,647	\$ 35,423
Construction in progress	-	24,420	-	24,420	-	24,420
Vehicles	-	35,809	-	35,809	4,775	31,034
Furniture and Equipment	<u>1,678,828</u>	<u>55,156</u>	<u>-</u>	<u>1,733,984</u>	<u>1,549,577</u>	<u>184,407</u>
Capital Assets, Net	<u>\$2,069,898</u>	<u>\$115,385</u>	<u>\$ -</u>	<u>\$2,185,288</u>	<u>\$1,909,999</u>	<u>\$275,289</u>

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

Depreciation expense for the year ended June 30, 2016 was \$181,636.

Note 5 - Pension Plan Obligations

Plan Description

The Corporation participates in a cost-sharing multiple employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas ("TRS"). TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the IRC. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms. TRS' plan does not include a collective-bargaining agreement.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by TRS.

TRS' plan differs from single-employer plans in the following ways:

1. Charters are legally separate entities from the state and each other.
2. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another charter or ISD.
3. The unfunded obligations get passed along to other charters or ISDs.
4. There is not a withdrawal penalty for leaving the TRS system.

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2016

Note 5 - Pension Plan Obligations (continued)

Pension Plan Fiduciary Net Position

At August 31, 2015, TRS total plan assets were \$149,780,061,824, accumulated benefit obligation was \$163,887,375,172, and the plan was 78.43% funded.

Detailed information about TRS' fiduciary net position is available in a separately issued Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, Texas 78701-2698; or by calling (512) 542-6592.

Contributions

Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of TRS during the fiscal year. Texas Government Code, Section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code, Section 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance ("OASDI") on certain employees effective for fiscal year 2015, as discussed in Note 1 of TRS' 2015 CAFR. The 83rd Texas Legislature, General Appropriations Act ("GAA") established the employer contribution rates for fiscal years 2015 and 2016.

Contributors to the plan include members, the School, and the state of Texas as the only nonemployer contributing entity ("NECE"). The state is the employer for senior colleges, medical schools, and state agencies, including TRS. In each respective role, the state contributes to the plan in accordance with state statutes and the GAA.

As the NECE for public education and junior colleges, the state of Texas contributes to TRS an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the School. The School is required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from noneducational and general, or local funds.
- When the employing district is a public junior college or junior college district, the district shall contribute to TRS an amount equal to 50% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2016

Note 5 - Pension Plan Obligations (continued)

Contributions (continued)

In addition to the Corporation's employer contributions listed below, when employing a retiree of TRS, the Corporation shall pay both the member contribution and the state contribution as an employment after retirement surcharge. The Corporation's contribution to TRS does not represent more than 5% of the total contributions to the TRS plan. There have been no changes that would affect the comparison of employer contributions from year to year.

	<u>2016</u>
Member	7.2%
NECE	6.8%
Employers	6.8%
Employer contributions	\$769,927
Member contributions	\$575,509
Non-OASDI contributions	\$ 3,149

Note 6 - Health Care Coverage

During the year ended June 30, 2016, employees of the Corporation were covered by a Health Insurance Plan ("Plan"). The Corporation contributed \$435 per month per employee for the period from July 1, 2015 to June 30, 2016 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 - Risk Management Program

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

Note 8 - Leases

Richard Milburn Academy/TX, Inc. leases its facilities under non-cancellable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of June 30, 2016 under these leases are summarized as follows:

<u>Fiscal Year Ending June 30,</u>	
2017	\$ 1,298,470
2018	1,263,789
2019	742,997
2020	490,287
2021 - 2028	<u>2,016,865</u>
Total	<u>\$ 5,812,408</u>

Rent expense for all operating leases for the year ended June 30, 2016 was \$1,618,309.

Note 9 - Back Office Services

The Corporation 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 Corporation. The expense for the services for the year ended June 30, 2016 was \$754,764.

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2016

Note 10 - Income Tax

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business taxable income. The Corporation has no material unrelated business income for the year ended June 30, 2016.

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

Tax positions taken related to the Corporation's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. Accordingly, the Corporation has not recorded an income tax liability for uncertain tax benefits. For the year ended June 30, 2016, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of June 30, 2016, the Corporation's tax years 2013 through 2015 remain subject to examination.

Note 11 - Credit Risk

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

Note 12 - Commitments and Contingencies

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

The Corporation entered into a construction loan agreement on July 6, 2016 for a building located in Pasadena, Texas, in the amount of \$2,120,000. The cost of the building was \$1,100,000, with the additional loan balance to be used for improvements to the building for the preparation of a campus to begin operations in the 2016-2017 school year.

Note 13 - Evaluation of Subsequent Events

The Corporation has evaluated subsequent events through November 18, 2016, 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, 2016

Expenses

6100 Payroll Cost	\$ 10,722,401
6200 Professional and contracted services	3,919,919
6300 Supplies and materials	1,885,687
6400 Other operating costs	<u>1,101,168</u>
	<u>\$ 17,629,175</u>

RICHARD MILBURN ACADEMY/TX, INC.
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED JUNE 30, 2016

	Ownership Interest		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
1520 Building	\$ -	\$ 391,070	\$ -
1520 Construction in progress	-	24,420	-
1531 Vehicles	-	35,809	-
1539 Furniture and equipment	-	1,678,828	55,156
	<u>\$ -</u>	<u>\$ 2,130,127</u>	<u>\$ 55,156</u>

RICHARD MILBURN ACADEMY/TX, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		Actual Amounts	Variance from Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 2,000	\$ 2,150	\$ 15,142	\$ 12,992
5750 Cocurricular, enterprising services or activities	-	13,274		(13,274)
State program revenues:				
5810 Foundation school program act	14,784,557	16,551,926	16,447,363	(104,563)
5820 Other State Aid	-	293,961	242,735	-
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	-	1,041,306	900,955	(140,351)
Total Revenues	<u>14,786,557</u>	<u>17,902,617</u>	<u>17,606,195</u>	<u>(245,196)</u>
Expenses				
11 Instruction	5,683,765	8,070,506	7,896,161	174,345
12 Instructional resources and media services	-	-	-	-
13 Curriculum development and instructional staff development	414,694	916,396	900,888	15,508
21 Instructional leadership	51,423	72,685	65,732	6,953
23 School leadership	2,354,464	2,377,006	2,361,516	15,490
31 Guidance, counseling and evaluation services	1,136,445	1,046,663	1,039,411	7,252
32 Social work services	-	-	-	-
33 Health services	30,000	1,784	1,784	-
34 Student (Pupil) Transportation	50,500	5,126	4,254	872
35 Food services	-	171,614	170,810	804
36 Cocurricular/extracurricular activities	-	6,413	2,315	4,098
41 General administration	958,812	1,281,337	1,359,121	(77,784)
51 Plant maintenance and operations	2,579,179	2,448,260	2,451,274	(3,014)
52 Security and monitoring services	366,661	424,104	418,875	5,229
53 Data processing services	794,615	920,551	815,151	105,400
61 Community services	66,000	141,976	141,883	93
Total Expenses	<u>14,486,558</u>	<u>17,884,420</u>	<u>17,629,175</u>	<u>255,245</u>
Change in Net Assets	299,999	18,197	(22,980)	(41,177)
Net Assets, Beginning of Year	<u>4,829,783</u>	<u>4,829,783</u>	<u>4,829,783</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 5,129,782</u>	<u>\$ 4,847,980</u>	<u>\$ 4,806,803</u>	<u>\$ (41,177)</u>

COMPLIANCE AND INTERNAL CONTROLS SECTION



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

Certified Public Accountants

Fred R. Shavers III, C.P.A.
Paul J. Christensen, C.P.A.
Danny R. Wright, C.P.A.

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

MEMBERS:

- AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
- TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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. (the "Corporation") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, 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 18, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Lambert, Shum, Clifton & Wright, LLP

Waco, Texas

November 18, 2016



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

Fred R. Shavers III, C.P.A.
Paul J. Christensen, C.P.A.
Danny R. Wright, C.P.A.

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

MEMBERS:

- AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
- TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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

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

Report on Compliance For Each Major Federal Program

We have audited Richard Milburn Academy/TX, Inc.'s (the "Corporation") (a nonprofit organization), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Richard Milburn Academy/TX, Inc.'s major federal programs for the year ended June 30, 2016. Richard Milburn Academy/TX, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Richard Milburn Academy/TX, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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



Waco, Texas

November 18, 2016

Richard Milburn Academy/TX, Inc.
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2016

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal Control over Financial Reporting:	
Material weakness(es) identified?	___ Yes <u>X</u> No
Significant deficiencies(s) identified that are not considered to be material weaknesses?	___ Yes <u>X</u> No
Noncompliance material to financial statements noted?	___ Yes <u>X</u> No

Federal Awards

Internal Control over Major Programs:	
Material weakness(es) identified?	___ Yes <u>X</u> No
Significant deficiencies(s) identified that are not considered to be material weaknesses?	___ Yes <u>X</u> No
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	___ Yes <u>X</u> No

Identification of Major Programs:

<u>CFDA Number(s)</u>	Name of Federal Program
84.010A	ESEA, Title I, Part A – Improving Basic Programs
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	___ Yes <u>X</u> No

Richard Milburn Academy/TX, Inc.
Schedule of Findings and Questioned Costs
(continued)
For the Year Ended June 30, 2016

II. FINANCIAL STATEMENT FINDINGS

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

Richard Milburn Academy/TX, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2016

I. FINANCIAL STATEMENT FINDINGS

None

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

RICHARD MILBURN ACADEMY/TX, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education:</u>			
Passed Through Texas Education Agency			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101014801	\$ 354,052
ESEA, Title I, 1003(A), Priority and Focus School Grant	84.010A	16610112014801000	<u>194,161</u>
Total Title I, Part A Cluster			548,213
IDEA - Part B, Formula	84.027A	166600011619506600	207,931
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	15694501014801	61,103
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	16694501014801	<u>66,303</u>
Total U.S. Department of Education			<u>883,550</u>
<u>U.S. Department of Agriculture:</u>			
Passed Through Texas Education Agency			
School Breakfast Program	10.553	71401601	5,857
National School Lunch Program	10.555	71301601	<u>11,548</u>
Total U.S. Department of Agriculture			<u>17,405</u>
Total Expenditures of Federal Awards			<u>\$ 900,955</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, 2016

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, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit for Federal Awards (Uniform Guidance). 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 Uniform Guidance, 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.