



Richard Milburn Academy/TX, Inc.

Financial Statements

For the Year Ended June 30, 2018

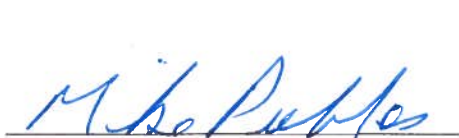
**Paul J. Christensen & Associates, LLC**  
Certified Public Accountants  
Waco, Texas

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

We, the undersigned, certify that the attached Financial and Compliance Report of Richard Milburn Academy/TX, Inc. was reviewed and (check one)  approved  disapproved for the year ended June 30, 2018 at a meeting of governing body of the charter holder on the 16<sup>th</sup> day of November, 2018



Signature of Board Secretary



Signature of Board President

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

# Paul J. Christensen & Associates, LLC

*Certified Public Accountants*

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## 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, 2018, 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 Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Richard Milburn Academy/TX, Inc. as of June 30, 2018, 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 accompanying supplementary information on pages 18 through 21 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, on our consideration of Richard Milburn Academy/TX, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Richard Milburn Academy/TX, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Richard Milburn Academy/TX, Inc.'s internal control over financial reporting and compliance.



Waco, Texas  
November 16, 2018

**FINANCIAL STATEMENTS**

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

Assets

|                                   |                   |
|-----------------------------------|-------------------|
| <b>Current Assets</b>             |                   |
| Cash and cash equivalents         | \$ 3,336,980      |
| Due from governments              | 3,040,810         |
| Total Current Assets              | 6,377,790         |
| <br><b>Property and Equipment</b> |                   |
| Land                              | 836,124           |
| Building and improvements         | 6,381,854         |
| Vehicles                          | 35,809            |
| Furniture and equipment           | 1,823,280         |
|                                   | 9,077,067         |
| Less: Accumulated depreciation    | (2,311,244)       |
| Net Property and Equipment        | 6,765,823         |
| <br><b>Other Assets</b>           |                   |
| Deferred expenses                 | 291,088           |
| Deposits                          | 20,000            |
| Total Other Assets                | 311,088           |
| <br>Total Assets                  | <br>\$ 13,454,701 |

Liabilities and Net Assets

|                                       |                   |
|---------------------------------------|-------------------|
| <b>Current Liabilities</b>            |                   |
| Accounts payable                      | \$ 377,295        |
| Accrued wages payable                 | 841,236           |
| Current portion of long-term debt     | 162,710           |
| Total Current Liabilities             | 1,381,241         |
| <br><b>Long-Term Liabilities</b>      |                   |
| Long-term debt net of current portion | 5,433,499         |
| Total Long-Term Liabilities           | 5,433,499         |
| Total Liabilities                     | 6,814,740         |
| <br><b>Net Assets</b>                 |                   |
| Unrestricted                          | 263,038           |
| Temporarily restricted                | 6,376,923         |
|                                       | 6,639,961         |
| <br>Total Net Assets                  | <br>6,639,961     |
| <br>Total Liabilities and Net Assets  | <br>\$ 13,454,701 |

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

RICHARD MILBURN ACADEMY/TX, INC.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018

|  | Unrestricted | Temporarily<br>Restricted | Total        |
|--|--------------|---------------------------|--------------|
| <b>Revenues</b>                                  |              |                           |              |
| Local support:                                   |              |                           |              |
| Interest and other income                        | \$ 280,663   | \$ -                      | \$ 280,663   |
| Total local support                              | 280,663      | -                         | 280,663      |
| State program revenues:                          |              |                           |              |
| Foundation school program act                    | -            | 17,741,836                | 17,741,836   |
| Other state aid                                  | -            | 206,782                   | 206,782      |
| Total state program revenues                     | -            | 17,948,618                | 17,948,618   |
| Federal program revenues:                        |              |                           |              |
| ESEA Title I, Part A                             | -            | 424,873                   | 424,873      |
| ESEA Title II, Part A                            | -            | 95,133                    | 95,133       |
| IDEA - Part B, Formula                           | -            | 320,651                   | 320,651      |
| Career and Technical                             | -            | 20,025                    | 20,025       |
| National School Lunch and Breakfast Program      | -            | 240,369                   | 240,369      |
| ESEA, Title III, Part A                          | -            | 7,069                     | 7,069        |
| ESEA, Title IV, Part A                           | -            | 2,585                     | 2,585        |
| Other Federal Revenue                            | -            | 21,056                    | 21,056       |
| Total federal program revenues                   | -            | 1,131,761                 | 1,131,761    |
| Net assets released from restrictions:           |              |                           |              |
| Restrictions satisfied by payments               | 17,028,303   | (17,028,303)              | -            |
| Total Revenues                                   | 17,308,966   | 2,052,076                 | 19,361,042   |
| <b>Expenses</b>                                  |              |                           |              |
| Program Services:                                |              |                           |              |
| Instruction and instructional - related services | 8,319,738    | -                         | 8,319,738    |
| Instructional and school leadership              | 2,811,978    | -                         | 2,811,978    |
| Support services:                                |              |                           |              |
| Administrative support services                  | 768,218      | -                         | 768,218      |
| Ancillary services                               | 356,025      | -                         | 356,025      |
| Support services - non-student based             | 3,649,704    | -                         | 3,649,704    |
| Support services - student (pupil)               | 1,565,028    | -                         | 1,565,028    |
| Debt service                                     | 196,382      | -                         | 196,382      |
| Total Expenses                                   | 17,667,073   | -                         | 17,667,073   |
| Change in Net Assets                             | (358,107)    | 2,052,076                 | 1,693,969    |
| Net Assets, Beginning of Year                    | 621,145      | 4,324,847                 | 4,945,992    |
| Net Assets, End of Year                          | \$ 263,038   | \$ 6,376,923              | \$ 6,639,961 |

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



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

|   |                            |
|---|----------------------------|
| <b>Cash Flows from Operating Activities:</b>  |                            |
| Foundation school program payments  | \$ 18,231,968              |
| Other state aid   | 206,782                    |
| Grant payments  | 918,029                    |
| Miscellaneous sources   | 280,663                    |
| Payments to vendors for goods and services rendered   | (6,137,479)                |
| Payments to charter school personnel for services rendered                                  | (11,310,460)               |
| Interest payments   | (196,382)                  |
| Net Cash Provided by Operating Activities   | <u>1,993,121</u>           |
| <b>Cash Flows from Investing Activities:</b>  |                            |
| Purchase of capital assets  | <u>(3,914,542)</u>         |
| Net Cash Used by Investing Activities   | <u>(3,914,542)</u>         |
| <b>Cash Flows from Financing Activities:</b>  |                            |
| Issuance of long-term debt  | 4,081,492                  |
| Repayment of long-term debt   | (389,736)                  |
| Net Cash Provided by Financing Activities   | <u>3,691,756</u>           |
| Net Increase in Cash  | 1,770,335                  |
| Cash at Beginning of Year   | <u>1,566,645</u>           |
| Cash at End of Year   | <u><u>\$ 3,336,980</u></u> |
| <b>Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:</b> |                            |
| Change in Net Assets  | \$ 1,693,969               |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |                            |
| Depreciation  | 253,364                    |
| (Increase) Decrease in assets:  |                            |
| Due from governments  | 276,400                    |
| Prepaid expenses  | 40,000                     |
| Other assets  | 111,245                    |
| Increase ( Decrease) in liabilities:  |                            |
| Accounts payable  | (346,935)                  |
| Accrued wages payable   | (34,922)                   |
| Net Cash Provided by Operating Activities   | <u><u>\$ 1,993,121</u></u> |

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

**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 five members. The Board of Directors is selected pursuant to the bylaws of the Corporation and has the authority to make decisions, appoint the chief executive officer of the Corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Corporation.

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

**Corporate Operations**

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

**Basis of Accounting and Presentation**

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

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. The Corporation did not have any permanently restricted net assets as of June 30, 2018.

**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.

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

**Due From Governments**

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

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

**Impairment of Long-Lived Assets**

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

**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, 2018 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. 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 an exercise of judgment. In assessing loss contingencies 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.

**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 value 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, 2018, 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, 2018 consist of the following:

|                       |                     |
|-----------------------|---------------------|
| Checking accounts     | \$ 2,592,121        |
| Money market accounts | <u>744,859</u>      |
|                       | <u>\$ 3,336,980</u> |

**Note 3 - Due from Governments**

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

|  |                     |
|--|---------------------|
| Texas Department of Education, Texas Education Agency              | \$ 2,716,643        |
| U.S. Department of Education passed through Texas Education Agency | <u>324,167</u>      |
| Total  | <u>\$ 3,040,810</u> |

Richard Milburn Academy/TX, Inc.  
Notes To Financial Statements  
June 30, 2018

**Note 4 - Capital Assets**

A summary of changes in capital assets is as follows:

|                               | Beginning<br>Balance | Additions           | Retirements         | Ending<br>Balance   | Accumulated<br>Depreciation | Net Capital<br>Assets |
|-------------------------------|----------------------|---------------------|---------------------|---------------------|-----------------------------|-----------------------|
| Land                          | \$ 391,540           | \$ 444,584          | \$ -                | \$ 836,124          | \$ -                        | \$ 836,124            |
| Buildings and<br>Improvements | 1,537,368            | 4,844,486           | -                   | 6,381,854           | 567,019                     | 5,814,835             |
| Construction in<br>Progress   | 1,374,530            | -                   | 1,374,530           | -                   | -                           | -                     |
| Vehicles                      | 35,809               | -                   | -                   | 35,809              | 19,098                      | 16,711                |
| Furniture and<br>Equipment    | 1,823,280            | -                   | -                   | 1,823,280           | 1,725,127                   | 98,153                |
| Capital Assets, Net           | <u>\$ 5,162,527</u>  | <u>\$ 5,289,070</u> | <u>\$ 1,374,530</u> | <u>\$ 9,077,067</u> | <u>\$ 2,311,244</u>         | <u>\$ 6,765,823</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, 2018 was \$253,364.

**Note 5 - Pension Plan Obligations**

The Corporation contributes to the Teacher Retirement System of Texas (TRS), a public employee retirement system. It is a cost-sharing, multiemployer defined benefit pension plan with one exception: all risks and costs are not shared by the Corporation but are the liability of the state of Texas. TRS provides service retirement, disability retirement, and death benefits to plan members and beneficiaries. TRS 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. TRS's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River Austin, Texas 78701-2698 or by calling (800) 877-0123.

The TRS plan differs from a single-employer plan as follows:

- Charter schools are legally separate entities from the state and each other.
- Assets contributed by one charter school or independent school district (ISD) may be used for the benefit of an employee of another ISD or charter school.
- The unfunded obligations get passed along to the other charter schools and ISDs.
- There is no withdrawal penalty for leaving the TRS system.

Total plan assets, accumulated benefit obligations, and % funded are as follows:

|                                 |                    |
|---------------------------------|--------------------|
| Total Plan Assets               | \$ 165,379,341,964 |
| Accumulated Benefit Obligations | \$ 179,336,535,000 |
| % Funded                        | 82.17%             |

There are no collective-bargaining agreements.



**Note 5 - Pension Plan Obligations (continued)**

**Funding Policy**

Under provisions in state law, plan members are required to contribute 7.7% of their annual covered salary, and the state of Texas contributes an amount equal to 6.8% of the Corporation's covered payroll. The Corporation's contribution to TRS for the year ended June 30, 2018 was \$168,334, which includes \$12,116 in Non-OASDI participation surcharges. The Corporation's contributions did not represent more than 5% of the total contributions to the plan (i.e., total plan assets). There have been no changes that would affect the comparison of employer contributions from year to year.

**Note 6 - Health Care Coverage**

During the year ended June 30, 2018, 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, 2017 to June 30, 2018 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, 2018 under these leases are summarized as follows:

| <u>Fiscal Year Ending June 30,</u> |                     |
|------------------------------------|---------------------|
| 2019                               | \$ 1,132,288        |
| 2020                               | 497,696             |
| 2021                               | 352,699             |
| 2022                               | 17,447              |
| Total                              | <u>\$ 2,000,130</u> |

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

Richard Milburn Academy/TX, Inc.  
Notes To Financial Statements  
June 30, 2018

**Note 9 - Long Term Debt**

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

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

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

Future requirements to service the notes are as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Principal</u>    | <u>Interest</u>   | <u>Total</u>        |
|------------------------------------|---------------------|-------------------|---------------------|
| 2019                               | \$ 162,710          | \$ 246,243        | \$ 408,953          |
| 2020                               | 169,487             | 239,466           | 408,953             |
| 2021                               | 177,889             | 231,064           | 408,953             |
| 2022                               | 2,064,838           | 147,695           | 2,212,533           |
| 2023-therafter                     | 3,021,285           | 45,742            | 3,067,027           |
|                                    | <u>\$ 5,596,209</u> | <u>\$ 910,210</u> | <u>\$ 6,506,419</u> |

**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, 2018.

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, 2018, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of June 30, 2018, the Corporation's tax years 2014 through 2017 remain subject to examination.



**Note 11 - Credit Risk**

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

**Note 12 - Commitments and Contingencies**

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

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

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

**Note 13 - Evaluation of Subsequent Events**

The Corporation has evaluated subsequent events through November 16, 2018, 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, 2018

**Expenses**

|   |                      |
|---|----------------------|
| 6100 Payroll Cost                         | \$ 11,275,538        |
| 6200 Professional and contracted services | 4,308,910            |
| 6300 Supplies and materials               | 1,075,775            |
| 6400 Other operating costs                | 810,468              |
| 6500 Debt Service                         | 196,382              |
|   | <u>\$ 17,667,073</u> |

RICHARD MILBURN ACADEMY/TX, INC.  
 SCHEDULE OF CAPITAL ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2018

|                              | Ownership Interest |              |                |
|------------------------------|--------------------|--------------|----------------|
|                              | <u>Local</u>       | <u>State</u> | <u>Federal</u> |
| 1510 Land                    | \$ -               | \$ 836,124   | \$ -           |
| 1520 Building                | -                  | 6,381,854    | -              |
| 1531 Vehicles                | -                  | 35,809       | -              |
| 1549 Furniture and equipment | -                  | 1,768,124    | 55,156         |
|                              | \$ -               | \$ 9,021,911 | \$ 55,156      |

RICHARD MILBURN ACADEMY/TX, INC.  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2018

|  | <u>Budgeted Amounts</u> |                     | <u>Actual<br/>Amounts</u> | <u>Variance<br/>from Final<br/>Budget<br/>Positive<br/>(Negative)</u> |
|--|-------------------------|---------------------|---------------------------|---|
|  | <u>Original</u>         | <u>Final</u>        |                           |   |
| <b>Revenues</b>  |                         |                     |                           |   |
| Local support:   |                         |                     |                           |   |
| 5740 Other revenues from local sources   | \$ 1,500                | \$ 262,500          | \$ 263,038                | \$ 538  |
| 5750 Cocurricular, enterprising services<br>or activities                        | 7,874                   | 27,717              | 17,625                    | (10,092)  |
| State program revenues:  |                         |                     |                           |   |
| 5810 Foundation school program act   | 20,150,400              | 17,811,693          | 17,741,836                | (69,857)  |
| 5820 Other State Aid   | 140                     | 211,659             | 206,782                   | (4,877)   |
| Federal program revenues:  |                         |                     |                           |   |
| 5920 Federal revenues distributed by the<br>Texas Education Agency               | 288,582                 | 1,479,072           | 1,110,705                 | (368,367)   |
| 5930 Federal revenues distributed by Other<br>State of Texas Government Agencies | -                       | 21,055              | 21,056                    | 1   |
| <b>Total Revenues</b>  | <u>20,448,496</u>       | <u>19,813,696</u>   | <u>19,361,042</u>         | <u>(452,654)</u>  |
| <b>Expenses</b>  |                         |                     |                           |   |
| 11 Instruction   | 7,819,356               | 7,909,878           | 7,225,164                 | 684,714   |
| 12 Instructional resources and<br>media services                                 | -                       | -                   | -                         | -   |
| 13 Curriculum development and<br>instructional staff development                 | 897,977                 | 1,209,808           | 1,094,574                 | 115,234   |
| 21 Instructional leadership  | 118,408                 | 114,305             | 113,805                   | 500   |
| 23 School leadership   | 2,992,730               | 2,832,456           | 2,698,173                 | 134,283   |
| 31 Guidance, counseling and<br>evaluation services                               | 1,021,251               | 1,102,336           | 989,672                   | 112,664   |
| 32 Social work services  | -                       | -                   | -                         | -   |
| 33 Health services   | 16,685                  | 16,070              | 3,002                     | 13,068  |
| 34 Student (Pupil) Transportation  | 6,834                   | 8,378               | 7,051                     | 1,327   |
| 35 Food services   | 594,596                 | 587,266             | 548,309                   | 38,957  |
| 36 Cocurricular/extracurricular activities                                       | -                       | 27,123              | 16,994                    | 10,129  |
| 41 General administration  | 846,873                 | 827,435             | 768,218                   | 59,217  |
| 51 Plant maintenance and operations  | 3,210,906               | 2,814,980           | 2,354,370                 | 460,610   |
| 52 Security and monitoring services  | 331,363                 | 316,475             | 289,883                   | 26,592  |
| 53 Data processing services  | 836,833                 | 1,068,650           | 1,005,451                 | 63,199  |
| 61 Community services  | 277,795                 | 420,373             | 356,025                   | 64,348  |
| 71 Debt service  | 135,000                 | 432,929             | 196,382                   | 236,547   |
| <b>Total Expenses</b>  | <u>19,106,607</u>       | <u>19,688,462</u>   | <u>17,667,073</u>         | <u>2,021,389</u>  |
| Change in Net Assets   | 1,341,889               | 125,234             | 1,693,969                 | 1,568,735   |
| Net Assets, Beginning of Year  | <u>4,945,992</u>        | <u>4,945,992</u>    | <u>4,945,992</u>          | <u>-</u>  |
| Net Assets, End of Year  | <u>\$ 6,287,881</u>     | <u>\$ 5,071,226</u> | <u>\$ 6,639,961</u>       | <u>\$ 1,568,735</u>   |

**COMPLIANCE AND INTERNAL CONTROLS SECTION**

# Paul J. Christensen & Associates, LLC

## *Certified Public Accountants*

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

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

Board of Directors  
Richard Milburn Academy/TX, Inc.  
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, 2018, 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 16, 2018.

#### **Internal Control Over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

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

## Purpose of this Report

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

*Paul J. Otter + Partner, LLC*

Waco, Texas  
November 16, 2018



Paul J. Christensen & Associates, LLC  
*Certified Public Accountants*

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

Board of Directors  
Richard Milburn Academy/TX, Inc.  
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, 2018. 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, 2018.

## 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 16, 2018

RICHARD MILBURN ACADEMY/TX, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2018

**I. Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified? \_\_\_ Yes X No

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

Noncompliance material to financial statements noted? \_\_\_ Yes X No

Federal Awards

Internal Control over Major Programs:

Material weakness(es) identified? \_\_\_ Yes X No

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

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

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

Identification of Major Programs:

| <u>CFDA Number(s)</u> | Name of Federal Program       |
|-----------------------|-------------------------------|
| 10.553                | School Breakfast Program      |
| 10.555                | National School Lunch Program |

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

Auditee qualified as low-risk auditee? X Yes \_\_\_ No

Richard Milburn Academy/TX, Inc.  
Summary Schedule of Prior Audit Findings  
For the Year Ended June 30, 2018

**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, 2018

| <u>Federal Grantor/Pass-Through/Program Title</u>       | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through Entity<br/>Identifying Number</u> | <u>Federal<br/>Expenditures</u> |
|---|------------------------------------|---|---------------------------------|
| <b><u>U.S. Department of Education:</u></b>             |                                    |   |                                 |
| Passed-Through Texas Education Agency                   |                                    |   |                                 |
| ESEA, Title I, Part A - Improving Basic Programs        | 84.010A                            | 18610101014801                                    | \$ 357,054                      |
| ESEA, Title I, 1003(A), Priority and Focus School Grant | 84.010A                            | 17610112014801000                                 | <u>67,819</u>                   |
| Total Title I, Part A Cluster                           |                                    |   | 424,873                         |
| IDEA - Part B, Formula                                  | 84.027A                            | 186600010148016000                                | 320,651                         |
| ESEA, Title III, Part A                                 | 84.365A                            | 1842006015950                                     | 7,069                           |
| ESEA, Title II, Part A - Teacher and Principal Training | 84.367A                            | 17694501014801                                    | 95,133                          |
| Career and Technical                                    | 84.048A                            | 18671001015950                                    | 20,025                          |
| ESEA, Title IV, Part A                                  | 84.424A                            | 18680101014801                                    | <u>2,585</u>                    |
| Total U.S. Department of Education                      |                                    |   | <u>870,336</u>                  |
| <b><u>U.S. Department of Agriculture:</u></b>           |                                    |   |                                 |
| Passed-Through Texas Education Agency                   |                                    |   |                                 |
| School Breakfast Program                                | 10.553                             | 71401801  | 72,038                          |
| National School Lunch Program                           | 10.555                             | 71301801  | <u>168,331</u>                  |
| Passed-Through Texas Department of Agriculture          |                                    |   | <u>240,369</u>                  |
| Total U.S. Department of Agriculture                    |                                    |   | <u>240,369</u>                  |
| Total Expenditures of Federal Awards                    |                                    |   | <u><u>\$ 1,110,705</u></u>      |

Richard Milburn Academy/TX, Inc.  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

**Note 1 Basis of Presentation**

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

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

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

**Note 2 Indirect Cost Rate**

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

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

|  |                     |
|--|---------------------|
| Federal Program Revenues per Statement of Activities   | \$ 1,131,761        |
| Less: Medicaid reimbursements not considered to be federal awards<br>for inclusion on the schedule of expenditures of federal awards | <u>(21,056)</u>     |
| Federal expenditures per the Schedule of Expenditures of<br>Federal Awards   | <u>\$ 1,110,705</u> |