

Richard Milburn Academy/TX, Inc.

Financial Statements

For The Year Ended June 30, 2017

Paul J. Christensen & Associates, LLC

Certified Public Accountants

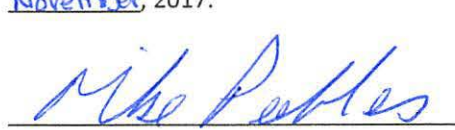
Waco, Texas

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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, 2017 at a meeting of governing body of the charter holder on the 17th day of November, 2017.



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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Paul J. Christensen, C.P.A.
Thomas C. Cunningham, C.P.A.
Gary L. Sauls, C.P.A.

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, 2017, 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, 2017, 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.

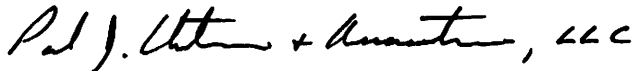
Other Matters

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 (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 17, 2017, 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 17, 2017

FINANCIAL STATEMENTS

RICHARD MILBURN ACADEMY/TX, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

Assets

Current Assets		
Cash and cash equivalents	\$	1,566,645
Due from governments		3,317,210
Prepaid expenses		40,000
Total current assets		4,923,855
Property and Equipment		
Land		391,540
Buildings and improvements		1,537,368
Construction in progress		1,374,530
Vehicles		35,809
Furniture and equipment		1,823,279
		5,162,526
Less: Accumulated depreciation		(2,057,880)
Net Property and Equipment		3,104,646
Other Assets		
Deferred expenses		417,333
Deposits		5,000
Total other assets		422,333
Total Assets	\$	8,450,834

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$	724,230
Accrued wages payable		876,158
Current portion of long-term debt		19,716
Total current liabilities		1,620,104
Long-Term Liabilities		
Long-term debt net of current portion		1,884,738
Total Long-Term Liabilities		1,884,738
Total Liabilities		3,504,842
Net Assets		
Unrestricted		621,145
Temporarily restricted		4,324,847
		4,945,992
Total Net Assets		4,945,992
Total Liabilities and Net Assets	\$	8,450,834

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, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues			
Local support:			
Interest and other income	\$ 237,850	\$ -	\$ 237,850
Total local support	237,850	-	237,850
State program revenues:			
Foundation school program act	-	18,513,547	18,513,547
Other state aid	-	278,185	278,185
Total state program revenues	-	18,791,732	18,791,732
Federal program revenues:			
ESEA Title I, Part A	-	454,303	454,303
ESEA Title II, Part A	-	26,892	26,892
IDEA - Part B, Formula	-	370,623	370,623
National School Lunch and Breakfast Program	-	233,532	233,532
USDA Donated Commodities	-	-	-
Total federal program revenues	-	1,085,350	1,085,350
Net assets released from restrictions:			
Restrictions satisfied by payments	19,877,082	(19,877,082)	-
Total Revenues	20,114,932	-	20,114,932
Expenses			
Program Services:			
Instruction and instructional - related services	9,697,258	-	9,697,258
Instructional and school leadership	3,099,456	-	3,099,456
Support services:			
Administrative support services	893,535	-	893,535
Ancillary services	198,946	-	198,946
Support services - non-student based	4,402,580	-	4,402,580
Support services - student (pupil)	1,644,720	-	1,644,720
Debt service	39,248	-	39,248
Total Expenses	19,975,743	-	19,975,743
Change in Net Assets	139,189	-	139,189
Net Assets, Beginning of Year	481,956	4,324,847	4,806,803
Net Assets, End of Year	\$ 621,145	\$ 4,324,847	\$ 4,945,992

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, 2017

Cash Flows from Operating Activities:

Foundation school program payments	\$ 18,104,903
Other state aid	278,185
Grant payments	1,259,129
Miscellaneous sources	237,850
Payments to vendors for goods and services rendered	(7,795,320)
Payments to charter school personnel for services rendered	(12,269,133)
Interest payments	(39,248)
Net Cash Provided by Operating Activities	<u>(223,634)</u>

Cash Flows from Investing Activities:

Purchase of capital assets	<u>(2,849,337)</u>
Net Cash Used by Investing Activities	<u>(2,849,337)</u>

Cash Flows from Financing Activities:

Issuance of long-term debt	<u>1,904,454</u>
Net Cash Provided by Financing Activities	<u>1,904,454</u>

Net Increase in Cash	(1,168,517)
Cash at Beginning of Year	<u>2,735,162</u>
Cash at End of Year	<u><u>\$ 1,566,645</u></u>

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

Change in Net Assets	\$ 139,189
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	147,881
(Increase) Decrease in assets:	
Due from governments	(234,865)
Prepaid expenses	(40,000)
Other assets	(422,333)
Increase (Decrease) in liabilities:	
Accounts payable	148,181
Accrued wages payable	38,313
Net Cash Provided by Operating Activities	<u><u>\$ (223,634)</u></u>

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

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2017

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, 2017.

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, 2017

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, 2017.

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2017

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, 2017 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 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, 2017

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, 2017, 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, 2017 consist of the following:

Checking accounts	\$ 824,151
Money market accounts	<u>742,494</u>
	\$ <u>1,566,645</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	\$3,206,775
U. S. Department of Education passed through Texas Education Agency	<u>110,435</u>
Total	<u>\$3,317,210</u>

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2017

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>
Land	\$ -	\$ 391,540	\$ -	\$ 391,540	\$ -	\$ 391,540
Buildings and Improvements	391,070	1,146,298	-	1,537,368	378,848	1,158,520
Construction in Progress	24,420	1,350,110	-	1,374,530	-	1,374,530
Vehicles	35,809	-	-	35,809	11,936	23,873
Furniture and Equipment	1,733,984	89,295	-	1,823,279	1,667,096	156,183
Capital Assets, Net	<u>\$ 2,185,283</u>	<u>\$ 2,977,243</u>	<u>\$ -</u>	<u>\$ 5,162,526</u>	<u>\$ 2,057,880</u>	<u>\$ 3,104,646</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, 2017 was \$147,881.

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 - \$152,925,647,396
Accumulated Benefit Obligations - \$171,797,150,487
The plan is 78% funded.

There are no collective-bargaining agreements.

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2017

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, 2017 was \$740,756, which includes \$40,943 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, 2017, 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, 2016 to June 30, 2017 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, 2017 under these leases are summarized as follows:

<u>Fiscal Year Ending June 30,</u>	
2018	\$ 1,395,842
2019	834,432
2020	331,400
2021	287,082
2022 - 2028	<u>17,447</u>
Total	<u>\$ 2,886,203</u>

Rent expense for all operating leases for the year ended June 30, 2017 was \$2,142,727.

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2017

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. 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.

Future requirements to service the notes are as follows:

Fiscal year ending June 30,	Principal	Interest	Total
2018	\$ 85,004	\$ 74,545	\$ 159,549
2019	94,806	76,216	171,022
2020	98,942	72,080	171,022
2021	103,324	67,698	171,022
2022	107,867	63,155	171,022
2023-therafter	1,414,511	343,546	1,758,057
	<u>\$ 1,904,454</u>	<u>\$ 697,240</u>	<u>\$ 2,601,694</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, 2017.

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, 2017, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of June 30, 2017, the Corporation's tax years 2013 through 2016 remain subject to examination.

(continued)

Richard Milburn Academy/TX, Inc.
Notes To Financial Statements
June 30, 2017

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.

Note 13 - Evaluation of Subsequent Events

The Corporation has evaluated subsequent events through November 17, 2017, the date which the financial statements were available to be issued.

The Corporation entered into a loan agreement on October 3, 2017 to finance the purchase of property located in Lubbock, Texas, in the amount of \$855,000.

SUPPLEMENTARY INFORMATION

RICHARD MILBURN ACADEMY/TX, INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

Expenses

6100 Payroll Cost	\$ 12,307,445
6200 Professional and contracted services	5,131,225
6300 Supplies and materials	1,690,737
6400 Other operating costs	807,088
6500 Debt Service	39,248
	<u>\$ 19,975,743</u>

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

RICHARD MILBURN ACADEMY/TX, INC.
SCHEDULE OF CAPITAL ASSETS
June 30, 2017

	Ownership Interest		
	<u>Local</u>	<u>State</u>	<u>Federal</u>
1510 Land	\$ -	\$ 391,540	\$ -
1520 Buildings and improvements	-	1,537,368	-
1520 Construction in progress	-	1,374,530	-
1531 Vehicles	-	35,809	-
1539 Furniture and equipment	-	1,768,123	55,156
	<u>\$ -</u>	<u>\$ 5,107,370</u>	<u>\$ 55,156</u>

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

RICHARD MILBURN ACADEMY/TX, INC.
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local support:				
5740 Other revenues from local sources	\$ -	\$ 225,000	\$ 220,408	\$ (4,592)
5750 Cocurricular, enterprising services or activities	42,231	27,156	17,442	(9,714)
State program revenues:				
5810 Foundation school program act	18,817,500	18,506,834	18,513,547	6,713
5820 Other State Aid	-	345,338	278,185	(67,153)
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	760,000	1,327,927	1,085,350	(242,577)
Total Revenues	<u>19,619,731</u>	<u>20,432,255</u>	<u>20,114,932</u>	<u>(317,323)</u>
Expenses				
11 Instruction	8,014,643	8,867,353	8,678,315	189,038
12 Instructional resources and media services	-	-	-	-
13 Curriculum development and instructional staff development	693,418	1,075,321	1,018,943	56,378
21 Instructional leadership	53,856	116,045	104,925	11,120
23 School leadership	2,996,669	3,012,891	2,994,532	18,359
31 Guidance, counseling and evaluation services	964,007	1,113,084	1,041,831	71,253
32 Social work services	-	-	-	-
33 Health services	-	20,555	18,016	2,539
34 Student (Pupil) Transportation	20,000	20,990	5,971	15,019
35 Food services	952,232	1,177,232	569,253	607,979
36 Cocurricular/extracurricular activities	-	19,343	9,650	9,693
41 General administration	1,027,624	935,808	893,535	42,273
51 Plant maintenance and operations	3,017,028	3,175,792	3,002,131	173,661
52 Security and monitoring services	477,228	331,960	313,153	18,807
53 Data processing services	878,392	1,221,011	1,087,296	133,715
61 Community services	170,500	226,573	198,946	27,627
71 Debt service	-	40,000	39,248	752
Total Expenses	<u>19,265,597</u>	<u>21,353,958</u>	<u>19,975,743</u>	<u>1,378,215</u>
Change in Net Assets	354,134	(921,703)	139,189	1,060,892
Net Assets, Beginning of Year	<u>4,806,803</u>	<u>4,806,803</u>	<u>4,806,803</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 5,160,937</u>	<u>\$ 3,885,100</u>	<u>\$ 4,945,992</u>	<u>\$ 1,060,892</u>

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

COMPLIANCE AND INTERNAL CONTROLS SECTION

Paul J. Christensen & Associates, LLC

Certified Public Accountants

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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, 2017, 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 17, 2017.

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.

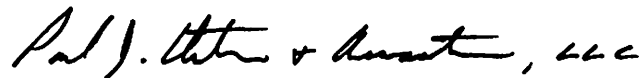
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



Waco, Texas

November 17, 2017

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, 2017. 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, 2017.

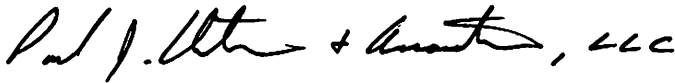
Report on Internal Control Over Compliance

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 17, 2017

Richard Milburn Academy/TX, Inc.
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2017

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

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

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

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
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?	<u>X</u> Yes ___ No

Richard Milburn Academy/TX, Inc.
Schedule of Findings and Questioned Costs
(continued)
For the Year Ended June 30, 2017

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, 2017

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, 2017

<u>Federal Grantor/Pass-Through 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	17610101014801	\$ 403,463
ESEA, Title I, 1003(A), Priority and Focus School Grant	84.010A	17610112014801000	<u>50,840</u>
Total Title I, Part A Cluster			454,303
IDEA - Part B, Formula	84.027A	1741586927	370,623
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	17694501014801	<u>26,892</u>
Total U.S. Department of Education			<u>851,818</u>
<u>U.S. Department of Agriculture:</u>			
Passed Through Texas Education Agency			
School Breakfast Program	10.553	71401701	49,630
National School Lunch Program	10.555	71301701	<u>180,410</u>
Total Passed Through Texas Education Agency			<u>230,040</u>
Passed Through Texas Department of Agriculture			
USDA Donated Commodities	10.555		<u>3,492</u>
Total Passed Through Texas Department of Agriculture			<u>3,492</u>
Total U.S. Department of Agriculture			<u>233,532</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,085,350</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

Richard Milburn Academy/TX, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

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, 2017. 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.