



RICHARD MILBURN ACADEMY, INC.
ANNUAL AND FINANCIAL COMPLIANCE
REPORT
AUGUST 31, 2011
(WITH SUMMARIZED COMPARATIVE
INFORMATION FOR 2010)



CONTENTS

	<u>Page</u>
Certificate of Board	1
Independent Auditor's Report	2-3
General-Purpose Financial Statements:	
Statements of Financial Position	4
Statements of Activities	5-6
Statements of Cash Flows	7-8
Notes to Financial Statements	9-16
Specific-Purpose Financial Statements and Schedules:	
Statements of Financial Position:	
Amarillo	17
Beaumont	18
Corpus Christi	19
Killeen	20
Statements of Activities:	
Amarillo	21
Beaumont	22
Corpus Christi	23
Killeen	24
Statements of Cash Flows:	
Amarillo	25
Beaumont	26
Corpus Christi	27
Killeen	28
Schedules of Expenses:	
Amarillo	29
Beaumont	30
Corpus Christi	31
Killeen	32
Schedules of Capital Assets:	
Amarillo	33
Beaumont	34
Corpus Christi	35
Killeen	36
Budgetary Comparison Schedules:	
Amarillo	37
Beaumont	38
Corpus Christi	39
Killeen	40
Explanation of Budget Variances:	
Amarillo	41-42
Beaumont	43
Corpus Christi	44-45
Killeen	46-47

CONTENTS
(continued)

	<u>Page</u>
Schedule of Expenditures of Federal Awards	48-49
Note to Schedule of Expenditures of Federal Awards	50
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	51-52
Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	53-54
Schedule of Findings and Questioned Costs	55-57
Corrective Action Plan	58-59

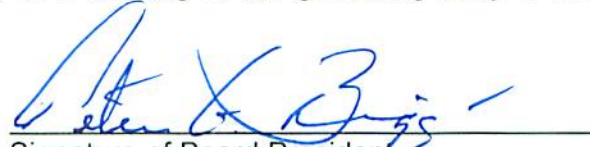
RICHARD MILBURN ACADEMY, INC.
(Federal Employer Identification Number: 54-1864466)

CERTIFICATE OF BOARD

We, the undersigned, certify that the attached Annual and Financial Compliance Report of Richard Milburn Academy, Inc. was reviewed and (check one) approved disapproved for the year ended August 31, 2011, at a meeting of the governing body of the charter holder on the 25th day of January, 2012.



Signature of Board Secretary



Signature of Board President
Peter G. Briggs



Independent Auditor's Report

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

Members of the Board of Directors:

We have audited the accompanying statements of financial position of Richard Milburn Academy, Inc. (a nonprofit organization) (the "charter holder") as of August 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the charter holder's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the charter holder's financial statements which were audited by us and upon which our report dated January 20, 2011 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the charter holder as of August 31, 2011, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2012, on our consideration of the charter holder'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The budgetary comparison schedules on pages 37-40 are not a required part of the general-purpose financial statements but are supplementary information required by the Texas Education Code. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements of the charter holder as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. The specific-purpose financial statements and schedules on pages 17-48 are likewise presented for purposes of additional analysis and are not a required part of the general-purpose 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.

BKHM, P.A.

Winter Park, Florida
January 25, 2012

RICHARD MILBURN ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 508,673	\$ 758,642
Accounts receivable	10,663	19,575
Due from governmental agencies	492,367	276,265
Prepaid assets	7,299	1,345
Assets of discontinued school	73,392	115,625
Total current assets	1,092,394	1,171,452
Capital assets, net	102,909	68,694
Other assets	20,141	20,939
Total assets	\$ 1,215,444	\$ 1,261,085
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 621,818	\$ 287,727
Accrued payroll	145,176	162,900
Liabilities of discontinued school	435,264	369,713
Total liabilities	1,202,258	820,340
Net assets:		
Unrestricted - continuing operations	78,143	61,331
Unrestricted - discontinued school	(365,708)	(263,547)
Total unrestricted	(287,565)	(202,216)
Temporarily restricted	300,751	642,961
Total net assets	13,186	440,745
Total liabilities and net assets	\$ 1,215,444	\$ 1,261,085

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

RICHARD MILBURN ACADEMY, INC.

STATEMENTS OF ACTIVITIES

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2011
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2010)**

	Unrestricted	Temporarily Restricted	Totals	
			2011	2010
REVENUES				
Local support:				
Interest and other revenue	\$ 5,365	\$ -	\$ 5,365	\$ 7,669
Total local support	5,365	-	5,365	7,669
State program revenues:				
Foundation School Program	4,992,838	-	4,992,838	5,118,776
Other state aid	15,733	-	15,733	16,251
Total state program revenues	5,008,571	-	5,008,571	5,135,027
Federal program revenues:				
ESEA Title I, Part A	118,466	-	118,466	192,281
ESEA Title II, Part A	17,419	-	17,419	28,558
ESEA Title II, Part D	-	-	-	801
ESEA Title IV, Part A	666	-	666	-
ESEA School Improvement Plan	691,402	-	691,402	760,148
IDEA, Part B	85,473	-	85,473	86,104
E-Rate	-	-	-	14,191
State Fiscal Stabilization Funds	49,524	-	49,524	47,103
Education Jobs Funds	97,001	-	97,001	-
Total federal program revenues	1,059,951	-	1,059,951	1,129,186
Net assets released from restrictions:				
Restrictions satisfied by payment	342,210	(342,210)	-	-
Total revenues and net assets released from restrictions	\$ 6,416,097	\$ (342,210)	\$ 6,073,887	\$ 6,271,882

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

RICHARD MILBURN ACADEMY, INC.

STATEMENTS OF ACTIVITIES

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2011
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2010)
(continued)**

	Unrestricted	Temporarily Restricted	Totals	
			2011	2010
EXPENSES				
Program services:				
Instruction and instruction-related	\$ 3,369,999	\$ -	\$ 3,369,999	\$ 3,202,291
Instructional and school leadership	666,669	-	666,669	515,300
Support services:				
Administrative support services	1,297,126	-	1,297,126	1,298,755
Support services - student	264,250	-	264,250	278,805
Support services - non-student based	801,241	-	801,241	766,750
Total expenses	6,399,285	-	6,399,285	6,061,901
Change in net assets from continuing schools	16,812	(342,210)	(325,398)	209,981
Discontinued school (see Note 10)				
Loss from operation of discontinued school	(102,161)	-	(102,161)	(216,332)
Change in net assets	(85,349)	(342,210)	(427,559)	(6,351)
Net assets, beginning of year	(202,216)	642,961	440,745	447,096
Net assets, end of year	\$ (287,565)	\$ 300,751	\$ 13,186	\$ 440,745

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

RICHARD MILBURN ACADEMY, INC.

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 4,960,547	\$ 5,204,731
Grant payments	891,873	1,116,362
Miscellaneous sources	5,365	7,669
Payments to vendors for goods and services rendered	(2,432,390)	(2,856,061)
Payments to personnel for services rendered	<u>(3,655,845)</u>	<u>(3,284,332)</u>
Net cash provided by (used for) operating activities, continuing operations	(230,450)	188,369
Net cash provided by (used for) operating activities, discontinued school	<u>(17,417)</u>	<u>19,209</u>
Net cash provided by (used for) operating activities	<u>(247,867)</u>	<u>207,578</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	<u>(25,142)</u>	<u>(57,319)</u>
Net cash used for investing activities, continuing operations	(25,142)	(57,319)
Net cash used for investing activities, discontinued school	<u>-</u>	<u>(10,257)</u>
Net cash used for investing activities	<u>(25,142)</u>	<u>(67,576)</u>
Net increase (decrease) in cash	(273,009)	140,002
Cash and cash equivalents, beginning of year	<u>854,509</u>	<u>714,507</u>
Cash and cash equivalents, end of year	581,500	854,509
Less cash and cash equivalents of discontinued school, end of year	<u>(72,827)</u>	<u>(95,867)</u>
Cash and cash equivalents of continuing operations, end of year	<u>\$ 508,673</u>	<u>\$ 758,642</u>

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

RICHARD MILBURN ACADEMY, INC.

STATEMENTS OF CASH FLOWS
(continued)

	2011	2010
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets from continuing schools	\$ (325,398)	\$ 209,981
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	37,006	32,198
(Increase) decrease in assets:		
Accounts receivable	8,912	(19,895)
Due from governmental agencies	(216,102)	56,880
Prepaid assets	(5,954)	24,672
Other assets	798	(2,981)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	288,012	(166,530)
Accrued payroll	(17,724)	54,044
Net cash provided by (used for) operating activities, continuing operations	(230,450)	188,369
Net cash provided by (used for) operating activities, discontinued school	(17,417)	19,209
Net cash provided by (used for) operating activities	\$ (247,867)	\$ 207,578
NONCASH INVESTING ACTIVITIES		
Purchase of capital assets with accounts payable	\$ 46,079	\$ -

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

RICHARD MILBURN ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Richard Milburn Academy, Inc. (the “charter holder” or the “Organization”) is a not-for-profit organization incorporated in the State of Virginia in 1998. The governing body of the Organization is the not-for-profit organization’s Board of Directors, which is composed of four members. The Board of Directors is selected pursuant to the bylaws of the Organization and has the authority to make decisions, appoint the chief executive officer of the Organization, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Organization.

The Organization provides general education services for students in grades nine through twelve in three individual charter schools in Texas. Each individual school operates under an open enrollment charter granted by the State of Texas Board of Education. Each charter was renewed for a period of ten years, which end between July 31, 2013 and July 31, 2015, and are subject to review and renewal prior to the expiration dates of the charters. The Organization is part of the public school system of the State of Texas and, therefore, is entitled to distributions from the Foundation School Program, as well as other state grants and federal grants received through the State of Texas. The Organization does not have the authority to impose ad valorem taxes.

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

Basis of presentation

The accompanying general-purpose financial statements have been prepared using the accrual basis of accounting in accordance with the Financial Accounting Standards Board’s Accounting Standards Codification (“FASB ASC”). The accounting system is organized pursuant to the *Special Supplement to Financial Accounting and Reporting – Non-profit Charter School Chart of Accounts*, a module of the Texas Education Agency (“TEA”) Financial Accountability Resource Guide.

The Organization has adopted FASB ASC guidance related to contributions received and contributions made and financial statements of not-for-profit organizations. This guidance requires the organization to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. This guidance also establishes standards for general-purpose external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities, a statement of cash flows and a statement of functional expenses.

RICHARD MILBURN ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- **Unrestricted** – net assets that are not subject to donor-imposed restrictions.
- **Temporarily restricted** – net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Organization and/or the passage of time.
- **Permanently restricted** – net assets required to be maintained in perpetuity with only the income to be used for the Organization’s activities due to donor-imposed restrictions.

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. Revenues received that are temporarily restricted whose restrictions are met in the same year as received are shown as unrestricted revenues, which is a policy that has been applied consistently from period to period.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the fiscal year ended August 31, , from which the summarized information was derived.

Functional expenses

Since all expenses are incurred in connection with school operations, a statement of functional expenses is not presented.

Cash and cash equivalents

The Organization’s cash consists primarily of demand deposits with financial institutions. All funds on deposit are continuously secured in accordance with the Texas Public Funds Collateral Act, Chapter 2257 of the Texas Government Code.

Capitalized assets and depreciation

Capital assets acquired, which includes buildings and improvements and furniture, fixtures and equipment, are reported at cost, net of accumulated depreciation, in the general-purpose and specific-purpose financial statements. The Organization’s policy is to capitalize assets that have an estimated useful life of more than one year. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donated assets are recorded at fair value at the date of donation.

RICHARD MILBURN ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are as follows:

	<u>Years</u>
Buildings and improvements	3 – 5
Furniture, fixtures and equipment	3 – 5

Income taxes

The Organization has adopted ASC guidance relating to accounting for uncertainty in income taxes. This guidance prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. The Organization recognizes tax benefits only to the extent that the Organization believes it is “more likely than not” that its tax positions will be sustained upon an examination by the Internal Revenue Service (“IRS”) or the applicable state taxing authority. This pronouncement is applicable to not-for-profit organizations that may be conducting unrelated business activities, which are potentially subject to income taxes, including state income taxes.

The Organization assesses its income tax positions, including its continuing tax status as a not-for-profit entity, and recognizes tax benefits only to the extent that the Organization believes it is “more likely than not” that its tax positions will be sustained upon an examination by the IRS. Accordingly, there is no provision for Federal income taxes in the financial statements, as the Organization believes all tax positions, including its continuing status as a not-for-profit entity, have a greater than a 50% chance of realization after an IRS audit. State income taxes, which may be due in certain jurisdictions, have been assessed following the same “more likely than not” measurement threshold.

As of August 31, 2011, the Organization had no accrued interest expense or penalties related to the unrecognized tax benefits. Interest and penalties, if incurred, would be recognized as a component of income tax expense. With few exceptions, the Organization is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2007.

Use of estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial position and affect revenues and expenses for the periods presented. Actual results could differ significantly from those estimates. Foundation School Program revenue in the accompanying financial statements is based upon the allocation of these funds by the TEA at the time of issuance of these financial statements. The allocation by the TEA is subject to audit and adjustment in future years and, as such, all revisions to the allocation after issuance of the financial statements are adjusted prospectively (see Note 9).

RICHARD MILBURN ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Reclassifications

Certain reclassifications were made in the 2010 amounts to conform to their classifications in fiscal year 2011.

Subsequent events

FASB ASC 855 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The Organization has evaluated subsequent events through January 25, 2012, which is the date the financial statements were available to be issued.

2 DUE FROM/TO GOVERNMENTAL AGENCIES

Due from governmental agencies in the accompanying statements of financial position include approximately \$286,000 and \$118,000 in funds due from federal agencies and approximately \$207,000 and \$159,000 due from the TEA as of August 31, 2011 and 2010, respectively. Based on the collectibility of funds from these sources, in the opinion of management, an allowance for doubtful accounts is not considered necessary.

Liabilities of the discontinued school include approximately \$151,000 due to state agencies as of August 31, 2011 and 2010.

3 CAPITAL ASSETS

Capital assets, net, as of August 31, 2011 and 2010 from continuing operations consisted of the following:

	<u>2011</u>	<u>2010</u>
Buildings and improvements	\$ 83,889	\$ 83,889
Furniture, fixtures and equipment	389,618	318,183
Total capital assets	473,507	402,072
Less: accumulated depreciation	(370,598)	(333,378)
Capital assets, net	<u>\$ 102,909</u>	<u>\$ 68,694</u>

Capitalized assets acquired with public funds received by the Organization for the operation of the individual schools of Richard Milburn Academy, Inc. constitute public property pursuant to Chapter 12 of the Texas Education Code. These capitalized asset amounts are identified on the Schedule of Capital Assets for each individual charter school by respective charter on pages 32-35.

RICHARD MILBURN ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

Depreciation expense from continuing operations for the fiscal years ended August 31, 2011 and 2010 was approximately \$37,000 and \$32,000, respectively.

4 NET ASSET CLASSIFICATIONS

Temporarily restricted net assets are available for the following purposes:

For the benefit of students	<u>\$ 300,715</u>
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5 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes.

For the benefit of students	<u>\$ 342,210</u>
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6 PENSION PLAN OBLIGATIONS

Defined benefit plan

The Organization contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. The System is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not borne by the Organization, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature.

Under provisions in State law, plan members are required to contribute 7.4% of their annual covered salary, and the State of Texas contributes an amount equal to 6.0% of the Organization's covered payroll. Additionally, the Organization contributes 6.58% of the employees' annual covered salary during the first three months of employment, and 0.55% thereafter. The Organization's contributions to the System for the fiscal years ended August 31, 2011 and 2010 were approximately \$61,000 and \$81,000, respectively, and were equal to the required contributions for each year.

401(k) plan

The Organization also participates in a profit-sharing plan of a related party. The plan operates under Section 401(k) of the Internal Revenue Code, whereby all eligible employees are entitled to defer up to \$16,500 during the 2011 and 2010 calendar years. Substantially all employees are eligible to participate in the plan depending on the length of service and attainment of minimum age requirements. Under the terms of the plan, the Organization contributes an

RICHARD MILBURN ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

amount to the plan at the discretion of the Board of Directors. The Organization's contributions to the plan in fiscal 2011 and 2010 were approximately \$1,500 and \$2,000, respectively.

7 RELATED PARTY TRANSACTIONS

During the routine course of business, invoices and payroll, which apply to both the Organization and other related entities or schools, may be paid by a single entity creating a receivable or payable. The Organization tracks the amounts due to or from each related entity or school separately. Amounts due from related parties as of August 31, 2011 and 2010 are approximately \$11,000 and \$20,000, respectively, and are included in accounts receivable in the accompanying statements of financial position.

8 RISK MANAGEMENT PROGRAM

Workers' compensation coverage, employee health, general liability, professional liability and property coverages 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.

9 COMMITMENTS AND CONTINGENT LIABILITIES

Grants

The Organization participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of August 31, 2011 may be impaired.

The Organization is required to spend a minimum amount of its allocation of special program allotments from the TEA during the year they are awarded. As of August 31, 2011, management does not believe there are any amounts due to the TEA for unexpended special program allotments.

In the opinion of management, there are no significant unrecorded contingent liabilities relating to compliance with the rules and regulations governing these grants.

Lease commitments

The Organization's continuing operations lease facilities under non-cancelable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of August 31, 2011 under these leases are summarized as follows:

RICHARD MILBURN ACADEMY, INC.

**NOTES TO FINANCIAL STATEMENTS
(continued)**

<u>Fiscal Year Ending August 31,</u>	
2012	\$ 423,857
2013	349,088
2014	201,441
2015	189,779
2016	<u>95,819</u>
Total	<u>\$ 1,259,984</u>

Rent expense for all operating leases for the fiscal years ended August 31, 2011 and was approximately \$386,000 and \$518,000, respectively.

Management fees

The Organization contracts with a management company for management and administrative services. The management agreements provide, among other things, for the payment of a management fee calculated based upon the gross revenues of each individual school within the Organization. The management agreements were executed following a full and open competition bidding process and were approved by the Board of Directors. For the fiscal years ended August 31, 2011 and 2010, the continuing operations of the Organization have incurred approximately \$898,000 and \$928,000 of management fees, respectively. For the fiscal years ended August 31, 2011 and 2010, the discontinued school (see Note 10) received a reduction in management fees of approximately \$12,000 and incurred approximately \$190,000 of management fees, respectively. Management fees are included in general administration expense in the accompanying statements of activities.

Amounts due from continuing operations to the management company as of August 31, 2011 and 2010 are approximately \$321,000 and \$428,000, respectively, and are included in accounts payable and accrued expenses in the accompanying statements of financial position. Amounts due from the discontinued school (see Note 10) to the management company as of August 31, 2011 and 2010 are approximately \$283,000 and \$295,000, respectively, and are included in liabilities of discontinued school in the accompanying statements of financial position.

State funding

The Organization's revenue stream is largely dependent upon the general state of the economy and the amounts allotted to the TEA by the state legislature. The allocation by the TEA is subject to audit and adjustment in future years and, as such, all revisions to the allocation after issuance of the financial statements are adjusted prospectively.

10 SCHOOL CLOSING

On July 28, 2010, the Organization decided to close the Beaumont school due to financial reasons. All furniture and fixtures were subsequently redistributed to the Organization's remaining campuses as directed by the TEA.

RICHARD MILBURN ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

The results of operations for this school have been classified as discontinued operations in the accompanying financial statements for the periods presented. During the year ended August 31, 2011, the TEA performed a closeout audit of the Beaumont school that reduced the school's funding for the school year ended August 31, 2010, which was recorded as a reduction to the current year's revenue and is to be refunded back to the TEA. Revenues from the discontinued school were (\$81,543) and \$1,210,921 for the years ended August 31, 2011 and 2010, respectively. The change in net assets from discontinued operations was a decrease of \$102,161 and \$216,332 for the years ended August 31, 2011 and , respectively.

RICHARD MILBURN ACADEMY, INC. - AMARILLO

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 121,806	\$ 141,038
Due from governmental agencies	119,048	79,748
Prepaid assets	5,085	-
Total current assets	245,939	220,786
Capital assets, net	46,972	45,630
Total assets	\$ 292,911	\$ 266,416
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 194,733	\$ 68,351
Accrued payroll	50,294	49,058
Due to affiliates	25,678	4,548
Total liabilities	270,705	121,957
Net assets:		
Unrestricted	22,206	45,630
Temporarily restricted	-	98,829
Total net assets	22,206	144,459
Total liabilities and net assets	\$ 292,911	\$ 266,416

See accompanying notes to financial statements and independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - BEAUMONT
(Discontinued School)**

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 72,827	\$ 95,867
Due from governmental agencies	565	565
Total current assets	73,392	96,432
Capital assets, net	-	12,086
Other assets	-	7,107
Total assets	\$ 73,392	\$ 115,625
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 283,323	\$ 299,841
Accrued payroll	512	-
Due to governmental agencies	151,429	69,872
Due to affiliates	3,836	9,459
Total liabilities	439,100	379,172
Net assets:		
Unrestricted	(365,708)	(263,547)
Total net assets	(365,708)	(263,547)
Total liabilities and net assets	\$ 73,392	\$ 115,625

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 112,866	\$ 207,989
Due from governmental agencies	241,436	98,065
Total current assets	354,302	306,054
Capital assets, net	-	4,870
Other assets	14,440	14,706
Total assets	\$ 368,742	\$ 325,630
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 222,403	\$ 92,198
Accrued payroll	42,356	49,805
Due to affiliates	38,060	5,759
Total liabilities	302,819	147,762
Net assets:		
Unrestricted	-	4,870
Temporarily restricted	65,923	172,998
Total net assets	65,923	177,868
Total liabilities and net assets	\$ 368,742	\$ 325,630

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - KILLEEN

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 269,149	\$ 403,148
Accounts receivable	10,663	19,575
Due from governmental agencies	131,883	98,718
Prepaid assets	2,214	-
Total current assets	413,909	521,441
Capital assets, net	51,150	10,831
Other assets	2,430	2,696
Total assets	\$ 467,489	\$ 534,968
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 106,714	\$ 86,889
Accrued payroll	50,170	62,505
Due to affiliates	19,840	3,609
Total liabilities	176,724	153,003
Net assets:		
Unrestricted	51,150	10,831
Temporarily restricted	239,615	371,134
Total net assets	290,765	381,965
Total liabilities and net assets	\$ 467,489	\$ 534,968

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - AMARILLO

STATEMENTS OF ACTIVITIES

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2011
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2010)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2011</u>	<u>2010</u>
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 2,784	\$ -	\$ 2,784	\$ 10
State program revenues:				
5810 Foundation School Program Act	1,707,706	-	1,707,706	1,714,183
5820 State program revenues distributed by Texas Education Agency	5,467	-	5,467	5,177
Total state program revenues	1,713,173	-	1,713,173	1,719,360
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	174,136	-	174,136	108,202
Net assets released from restrictions:				
Restrictions satisfied by payment	98,829	(98,829)	-	-
Total revenues and net assets released from restrictions	1,988,922	(98,829)	1,890,093	1,827,572
EXPENSES				
11 Instruction	973,040	-	973,040	817,705
12 Instructional resources and media	14,900	-	14,900	14,676
13 Curriculum development and instructional staff development	84,616	-	84,616	67,408
23 School leadership	220,203	-	220,203	182,049
31 Guidance, counseling and evaluation	90,168	-	90,168	76,215
33 Health services	-	-	-	8,120
36 Cocurricular/extracurricular activities	5,673	-	5,673	1,862
41 General administration	410,301	-	410,301	398,272
51 Plant maintenance and operation	131,663	-	131,663	162,352
52 Security and monitoring services	11,522	-	11,522	4,741
53 Data processing services	35,351	-	35,351	22,779
61 Community services	34,909	-	34,909	34,747
Total expenses	2,012,346	-	2,012,346	1,790,926
Change in net assets	(23,424)	(98,829)	(122,253)	36,646
Net assets, beginning of year	45,630	98,829	144,459	107,813
Net assets, end of year	\$ 22,206	\$ -	\$ 22,206	\$ 144,459

See accompanying notes to financial statements and independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - BEAUMONT
(Discontinued School)**

STATEMENTS OF ACTIVITIES

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2011
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2010)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2011</u>	<u>2010</u>
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 14	\$ -	\$ 14	\$ 11
State program revenues:				
5810 Foundation School Program Act	(81,557)	-	(81,557)	1,008,566
5820 State program revenues distributed by Texas Education Agency	-	-	-	3,021
Total state program revenues	(81,557)	-	(81,557)	1,011,587
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	-	-	199,323
Total revenues and net assets released from restrictions	(81,543)	-	(81,543)	1,210,921
EXPENSES AND LOSSES				
11 Instruction	220	-	220	496,716
12 Instructional resources and media	-	-	-	9,371
13 Curriculum development and instructional staff development	-	-	-	41,919
21 Instructional leadership	-	-	-	1,730
23 School leadership	11,810	-	11,810	175,111
31 Guidance, counseling and evaluation	-	-	-	58,019
32 Social work services	-	-	-	147
34 Student transportation	-	-	-	2,200
36 Cocurricular/extracurricular activities	-	-	-	25,149
41 General administration	(10,137)	-	(10,137)	324,620
51 Plant maintenance and operation	6,058	-	6,058	245,388
52 Security and monitoring services	-	-	-	26,712
53 Data processing services	581	-	581	10,431
61 Community services	-	-	-	9,740
Total expenses	8,532	-	8,532	1,427,253
Loss on disposal of capital assets	12,086	-	12,086	-
Total expenses and losses	20,618	-	20,618	1,427,253
Change in net assets	(102,161)	-	(102,161)	(216,332)
Net assets, beginning of year	(263,547)	-	(263,547)	(47,215)
Net assets, end of year	\$ (365,708)	\$ -	\$ (365,708)	\$ (263,547)

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI

STATEMENTS OF ACTIVITIES

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2011
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2010)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2011</u>	<u>2010</u>
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 2,540	\$ -	\$ 2,540	\$ 2,926
State program revenues:				
5810 Foundation School Program Act	1,884,683	-	1,884,683	1,997,229
5820 State program revenues distributed by Texas Education Agency	6,081	-	6,081	6,733
Total state program revenues	1,890,764	-	1,890,764	2,003,962
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	458,294	-	458,294	557,483
Net assets released from restrictions:				
Restrictions satisfied by payment	107,075	(107,075)	-	-
Total revenues and net assets released from restrictions	2,458,673	(107,075)	2,351,598	2,564,371
EXPENSES				
11 Instruction	1,196,927	-	1,196,927	1,229,978
12 Instructional resources and media	8,262	-	8,262	9,950
13 Curriculum development and instructional staff development	110,995	-	110,995	119,838
21 Instructional leadership	104	-	104	1,249
23 School leadership	210,326	-	210,326	162,769
31 Guidance, counseling and evaluation	94,794	-	94,794	93,522
32 Social work services	7,846	-	7,846	-
33 Health services	199	-	199	321
36 Cocurricular/extracurricular activities	3,002	-	3,002	9,812
41 General administration	484,228	-	484,228	499,744
51 Plant maintenance and operation	278,114	-	278,114	281,117
52 Security and monitoring services	46,349	-	46,349	46,403
53 Data processing services	22,397	-	22,397	25,908
61 Community services	-	-	-	5,000
Total expenses	2,463,543	-	2,463,543	2,485,611
Change in net assets	(4,870)	(107,075)	(111,945)	78,760
Net assets, beginning of year	4,870	172,998	177,868	99,108
Net assets, end of year	\$ -	\$ 65,923	\$ 65,923	\$ 177,868

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - KILLEEN

STATEMENTS OF ACTIVITIES

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2011
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2010)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2011</u>	<u>2010</u>
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 41	\$ -	\$ 41	\$ 4,733
State program revenues:				
5810 Foundation School Program Act	1,400,449	-	1,400,449	1,407,364
5820 State program revenues distributed by Texas Education Agency	4,185	-	4,185	4,341
Total state program revenues	1,404,634	-	1,404,634	1,411,705
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	427,521	-	427,521	463,501
Net assets released from restrictions:				
Restrictions satisfied by payment	131,519	(131,519)	-	-
Total revenues and net assets released from restrictions	1,963,715	(131,519)	1,832,196	1,879,939
EXPENSES				
11 Instruction	919,606	-	919,606	858,590
12 Instructional resources and media	11,456	-	11,456	7,725
13 Curriculum development and instructional staff development	50,197	-	50,197	76,421
23 School leadership	236,036	-	236,036	169,233
31 Guidance, counseling and evaluation	60,211	-	60,211	71,810
32 Social work services	-	-	-	240
33 Health services	238	-	238	2,145
36 Cocurricular/extracurricular activities	4,068	-	4,068	14,758
41 General administration	400,648	-	400,648	400,739
51 Plant maintenance and operation	170,845	-	170,845	131,983
52 Security and monitoring services	41,603	-	41,603	41,212
53 Data processing services	28,398	-	28,398	7,539
61 Community services	90	-	90	2,969
Total expenses	1,923,396	-	1,923,396	1,785,364
Change in net assets	40,319	(131,519)	(91,200)	94,575
Net assets, beginning of year	10,831	371,134	381,965	287,390
Net assets, end of year	<u>\$ 51,150</u>	<u>\$ 239,615</u>	<u>\$ 290,765</u>	<u>\$ 381,965</u>

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - AMARILLO

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 1,719,807	\$ 1,740,561
Grant payments	127,936	112,890
Miscellaneous sources	2,784	10
Payments to vendors for goods and services rendered	(640,293)	(678,310)
Payments to personnel for services rendered	<u>(1,229,466)</u>	<u>(1,065,827)</u>
Net cash provided by (used for) operating activities	<u>(19,232)</u>	<u>109,324</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	<u>-</u>	<u>(43,694)</u>
Net cash used for investing activities	<u>-</u>	<u>(43,694)</u>
Net increase (decrease) in cash	(19,232)	65,630
Cash and cash equivalents, beginning of year	<u>141,038</u>	<u>75,408</u>
Cash and cash equivalents, end of year	<u>\$ 121,806</u>	<u>\$ 141,038</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ (122,253)	\$ 36,646
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	18,756	13,327
(Increase) decrease in assets:		
Due from governmental agencies	(39,300)	25,623
Prepaid assets	(5,085)	8,336
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	107,072	12,872
Accrued payroll	1,236	12,923
Due to affiliates	<u>20,342</u>	<u>(403)</u>
Net cash provided by (used for) operating activities	<u>\$ (19,232)</u>	<u>\$ 109,324</u>
NONCASH INVESTING ACTIVITIES		
Purchase of capital assets with accounts payable	<u>\$ 19,310</u>	<u>\$ -</u>

See accompanying notes to financial statements and independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - BEAUMONT
(Discontinued School)**

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ -	\$ 1,094,630
Grant payments	-	204,770
Miscellaneous sources	14	11
Payments to vendors for goods and services rendered	(19,954)	(493,153)
Payments to personnel for services rendered	(3,100)	(791,453)
	<u>(23,040)</u>	<u>14,805</u>
Net cash provided by (used for) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	-	(10,257)
	<u>-</u>	<u>(10,257)</u>
Net cash used for investing activities		
	<u>(23,040)</u>	<u>4,548</u>
Net increase (decrease) in cash		
Cash and cash equivalents, beginning of year	95,867	91,319
Cash and cash equivalents, end of year	<u>\$ 72,827</u>	<u>\$ 95,867</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ (102,161)	\$ (216,332)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	-	23,359
Loss on disposal of furniture, fixtures and equipment	12,086	-
(Increase) decrease in assets:		
Accounts receivable	-	43,271
Due from governmental agencies	-	56,557
Prepaid assets	-	7,427
Other assets	7,107	(7,030)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(16,518)	126,274
Accrued payroll	512	(46,250)
Due to governmental agencies	81,557	31,933
Due to affiliates	(5,623)	(4,404)
Net cash provided by (used for) operating activities	<u>\$ (23,040)</u>	<u>\$ 14,805</u>

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 1,866,362	\$ 2,019,952
Grant payments	339,325	547,984
Miscellaneous sources	2,540	2,926
Payments to vendors for goods and services rendered	(1,026,170)	(1,352,671)
Payments to personnel for services rendered	<u>(1,277,180)</u>	<u>(1,194,007)</u>
Net cash provided by (used for) operating activities	(95,123)	24,184
Cash and cash equivalents, beginning of year	<u>207,989</u>	<u>183,805</u>
Cash and cash equivalents, end of year	<u>\$ 112,866</u>	<u>\$ 207,989</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ (111,945)	\$ 78,760
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	5,657	7,286
(Increase) decrease in assets:		
Due from governmental agencies	(143,371)	6,491
Prepaid assets	-	9,664
Other assets	266	(96)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	130,205	(89,037)
Accrued payroll	(7,449)	12,693
Due to affiliates	<u>31,514</u>	<u>(1,577)</u>
Net cash provided by (used for) operating activities	<u>\$ (95,123)</u>	<u>\$ 24,184</u>

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - KILLEEN

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 1,374,378	\$ 1,444,218
Grant payments	424,612	455,488
Miscellaneous sources	41	4,733
Payments to vendors for goods and services rendered	(757,651)	(822,585)
Payments to personnel for services rendered	(1,150,023)	(1,025,357)
Net cash provided by (used for) operating activities	(108,643)	56,497
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(25,356)	(5,899)
Net cash used for investing activities	(25,356)	(5,899)
Net increase (decrease) in cash	(133,999)	50,598
Cash and cash equivalents, beginning of year	403,148	352,550
Cash and cash equivalents, end of year	\$ 269,149	\$ 403,148
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ (91,200)	\$ 94,575
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	12,594	11,100
(Increase) decrease in assets:		
Accounts receivable	8,912	(19,574)
Due from governmental agencies	(33,165)	24,500
Prepaid assets	(2,214)	8,017
Other assets	266	585
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(6,944)	(81,485)
Accrued payroll	(12,335)	27,569
Due to affiliates	15,443	(8,790)
Net cash provided by (used for) operating activities	\$ (108,643)	\$ 56,497
NONCASH INVESTING ACTIVITIES		
Purchase of capital assets with accounts payable	\$ 26,769	\$ -

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - AMARILLO

SCHEDULES OF EXPENSES

FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010

		<u>2011</u>	<u>2010</u>
EXPENSES			
6100	Payroll costs	\$ 1,230,702	\$ 1,078,750
6200	Professional and contracted services	552,449	531,208
6300	Supplies and materials	118,807	83,254
6400	Other operating costs	<u>110,388</u>	<u>97,714</u>
	Total expenses	<u>\$ 2,012,346</u>	<u>\$ 1,790,926</u>

See accompanying notes to financial statements and independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - BEAUMONT
(Discontinued School)**

SCHEDULES OF EXPENSES

FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010

EXPENSES	<u>2011</u>	<u>2010</u>
6100 Payroll costs	\$ 3,612	\$ 745,203
6200 Professional and contracted services	(828)	503,597
6300 Supplies and materials	27	55,513
6400 Other operating costs	<u>5,721</u>	<u>122,940</u>
Total expenses	<u><u>\$ 8,532</u></u>	<u><u>\$ 1,427,253</u></u>

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI

SCHEDULES OF EXPENSES

FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010

		<u>2011</u>	<u>2010</u>
EXPENSES			
6100	Payroll costs	\$ 1,269,731	\$ 1,206,700
6200	Professional and contracted services	852,314	873,243
6300	Supplies and materials	206,054	281,796
6400	Other operating costs	<u>135,444</u>	<u>123,872</u>
	Total expenses	<u>\$ 2,463,543</u>	<u>\$ 2,485,611</u>

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - KILLEEN

SCHEDULES OF EXPENSES

FOR THE FISCAL YEARS ENDED AUGUST 31, 2011 AND 2010

		<u>2011</u>	<u>2010</u>
EXPENSES			
6100	Payroll costs	\$ 1,137,688	\$ 1,052,926
6200	Professional and contracted services	619,794	531,777
6300	Supplies and materials	89,493	108,294
6400	Other operating costs	<u>76,421</u>	<u>92,367</u>
	Total expenses	<u>\$ 1,923,396</u>	<u>\$ 1,785,364</u>

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - AMARILLO

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2011

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 121,806	\$ -
1520	Buildings and improvements	-	60,026	-
1539	Furniture and equipment	-	130,613	3,131
	Total	<u>\$ -</u>	<u>\$ 312,445</u>	<u>\$ 3,131</u>

See accompanying notes to financial statements and independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - BEAUMONT
(Discontinued School)**

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2011

		Ownership Interest		
		<u>Local</u>	<u>State</u>	<u>Federal</u>
1110	Cash	<u>\$ -</u>	<u>\$ 72,827</u>	<u>\$ -</u>
	Total	<u><u>\$ -</u></u>	<u><u>\$ 72,827</u></u>	<u><u>\$ -</u></u>

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2011

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 112,866	\$ -
1539	Furniture and equipment	-	48,368	19,231
	Total	<u>\$ -</u>	<u>\$ 161,234</u>	<u>\$ 19,231</u>

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - KILLEEN

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2011

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 269,149	\$ -
1520	Buildings and improvements	-	23,863	-
1539	Furniture and equipment	-	69,513	105,426
	Total	<u>\$ -</u>	<u>\$ 362,525</u>	<u>\$ 105,426</u>

See accompanying notes to financial statements and independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - AMARILLO

BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

		<u>Budgeted Amounts</u>		<u>Actual</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget-</u> <u>Positive</u> <u>(Negative)</u>
		<u>Original</u>	<u>Final</u>		
REVENUES					
Local support:					
5740	Other revenues from local sources	\$ -	\$ -	\$ 2,784	\$ 2,784
State program revenues:					
5810	Foundation School Program Act	1,752,241	1,752,241	1,707,706	(44,535)
5820	State program revenues distributed by Texas Education Agency	-	-	5,467	5,467
Federal program revenues:					
5920	Federal revenues distributed by Texas Education Agency	-	270,776	174,136	(96,640)
Total revenues		<u>1,752,241</u>	<u>2,023,017</u>	<u>1,890,093</u>	<u>(132,924)</u>
EXPENSES					
11	Instruction	544,833	774,084	973,040	(198,956)
12	Instructional resources and media	10,200	10,200	14,900	(4,700)
13	Curriculum development and instructional staff development	18,237	59,762	84,616	(24,854)
23	School leadership	228,128	228,128	220,203	7,925
31	Guidance, counseling and evaluation	73,894	73,894	90,168	(16,274)
33	Health services	6,040	6,040	-	6,040
36	Cocurricular/extracurricular activities	10,200	10,200	5,673	4,527
41	General administration	321,386	321,386	410,301	(88,915)
51	Plant maintenance and operation	141,273	141,273	131,663	9,610
52	Security and monitoring services	3,000	3,000	11,522	(8,522)
53	Data processing services	27,789	27,789	35,351	(7,562)
61	Community services	-	-	34,909	(34,909)
Total expenses		<u>1,384,980</u>	<u>1,655,756</u>	<u>2,012,346</u>	<u>(356,590)</u>
Change in net assets		367,261	367,261	(122,253)	(489,514)
Net assets, beginning of year		<u>144,459</u>	<u>144,459</u>	<u>144,459</u>	<u>-</u>
Net assets, end of year		<u>\$ 511,720</u>	<u>\$ 511,720</u>	<u>\$ 22,206</u>	<u>\$ (489,514)</u>

See independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - BEAUMONT
(Discontinued School)**

BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 14	\$ 14
State program revenues:				
5810 Foundation School Program Act	-	-	(81,557)	(81,557)
Total revenues	-	-	(81,543)	(81,543)
EXPENSES AND LOSSES				
11 Instruction	-	-	220	(220)
23 School leadership	-	-	11,810	(11,810)
41 General administration	-	-	(10,137)	10,137
51 Plant maintenance and operation	-	-	6,058	(6,058)
53 Data processing services	-	-	581	(581)
Total expenses	-	-	8,532	(8,532)
Loss on disposal of capital assets	-	-	12,086	(12,086)
Total expenses and losses	-	-	20,618	(20,618)
Change in net assets	-	-	(102,161)	(60,925)
Net assets, beginning of year	(263,547)	(263,547)	(263,547)	-
Net assets, end of year	<u>\$ (263,547)</u>	<u>\$ (263,547)</u>	<u>\$ (365,708)</u>	<u>\$ (60,925)</u>

See independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI

BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 2,540	\$ 2,540
State program revenues:				
5810 Foundation School Program Act	2,016,809	1,473,623	1,884,683	411,060
5820 State program revenues distributed by Texas Education Agency	-	-	6,081	6,081
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	843,201	458,294	(384,907)
Total revenues	<u>2,016,809</u>	<u>2,316,824</u>	<u>2,351,598</u>	<u>34,774</u>
EXPENSES				
11 Instruction	474,620	1,028,461	1,196,927	(168,466)
12 Instructional resources and media	14,000	14,000	8,262	5,738
13 Curriculum development and instructional staff development	8,000	231,742	110,995	120,747
21 Instructional leadership	3,500	3,500	104	3,396
23 School leadership	269,412	173,281	210,326	(37,045)
31 Guidance, counseling and evaluation	123,231	123,000	94,794	28,206
32 Social work services	-	-	7,846	(7,846)
33 Health services	6,400	6,400	199	6,201
36 Cocurricular/extracurricular activities	13,500	13,500	3,002	10,498
41 General administration	336,928	336,928	484,228	(147,300)
51 Plant maintenance and operation	278,370	278,370	278,114	256
52 Security and monitoring services	46,815	46,815	46,349	466
53 Data processing services	26,350	26,986	22,397	4,589
61 Community services	4,000	4,000	-	4,000
Total expenses	<u>1,605,126</u>	<u>2,286,983</u>	<u>2,463,543</u>	<u>(176,560)</u>
Change in net assets	411,683	29,841	(111,945)	(141,786)
Net assets, beginning of year	<u>177,868</u>	<u>177,868</u>	<u>177,868</u>	<u>-</u>
Net assets, end of year	<u>\$ 589,551</u>	<u>\$ 207,709</u>	<u>\$ 65,923</u>	<u>\$ (141,786)</u>

See independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - KILLEEN

BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>Final Budget-</u>
REVENUES			<u>Basis)</u>	<u>Positive</u>
				<u>(Negative)</u>
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 41	\$ 41
State program revenues:				
5810 Foundation School Program Act	1,401,808	1,401,808	1,400,449	(1,359)
5820 State program revenues distributed by Texas Education Agency	-	-	4,185	4,185
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	766,117	427,521	(338,596)
Total revenues	<u>1,401,808</u>	<u>2,167,925</u>	<u>1,832,196</u>	<u>(335,729)</u>
EXPENSES				
11 Instruction	499,969	1,205,710	919,606	286,104
12 Instructional resources and media	21,000	21,000	11,456	9,544
13 Curriculum development and instructional staff development	11,000	67,376	50,197	17,179
21 Instructional leadership	12,500	12,500	-	12,500
23 School leadership	202,821	202,821	236,036	(33,215)
31 Guidance, counseling and evaluation	68,743	72,743	60,211	12,532
32 Social work services	4,000	4,000	-	4,000
33 Health services	8,100	8,100	238	7,862
36 Cocurricular/extracurricular activities	14,500	14,500	4,068	10,432
41 General administration	282,385	282,386	400,648	(118,262)
51 Plant maintenance and operation	177,273	177,273	170,845	6,428
52 Security and monitoring services	51,500	51,500	41,603	9,897
53 Data processing services	44,950	44,950	28,398	16,552
61 Community services	3,500	3,500	90	3,410
81 Fund raising	200	200	-	200
Total expenses	<u>1,402,441</u>	<u>2,168,559</u>	<u>1,923,396</u>	<u>245,163</u>
Change in net assets	(633)	(634)	(91,200)	(90,566)
Net assets, beginning of year	<u>381,965</u>	<u>381,965</u>	<u>381,965</u>	<u>-</u>
Net assets, end of year	<u>\$ 381,332</u>	<u>\$ 381,331</u>	<u>\$ 290,765</u>	<u>\$ (90,566)</u>

See independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - AMARILLO

EXPLANATIONS OF BUDGET VARIANCES

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

EXPENSES	Final	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Variance with Final Budget- Positive (Negative)	Explanation of Variance
11 Instruction	774,084	973,040	(198,956)	-20%	Payroll cost variance of \$242,197; budget was not amended.
12 Instructional resources and media	10,200	14,900	(4,700)	-32%	Loss of e-rate eligibility and no amendment resulted in variance.
13 Curriculum development and instructional staff development	59,762	84,616	(24,854)	-29%	Payroll cost variance of \$30,109; budget was not amended.
23 School leadership	228,128	220,203	7,925	4%	
31 Guidance, counseling and evaluation	73,894	90,168	(16,274)	-18%	Lack of Budget Amendments.
33 Health services	6,040	-	6,040	100%	Budget was higher than expenses incurred.
36 Cocurricular/extracurricular activities	10,200	5,673	4,527	80%	Budget was higher than expenses incurred.
41 General administration	321,386	410,301	(88,915)	-22%	No Budget Amendments to incorporate additional expenses. Budget did not allow for Management Fees on Federal Grant Revenue.
51 Plant maintenance and operation	141,273	131,663	9,610	7%	
52 Security and monitoring services	3,000	11,522	(8,522)	-74%	No Budget Amendments to incorporate additional expenses.

See independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - AMARILLO

**EXPLANATIONS OF BUDGET VARIANCES
(continued)**

EXPENSES	Final	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Variance with Final Budget- Positive (Negative)	Explanation of Variance
53 Data processing services	27,789	35,351	(7,562)	-21%	No Budget Amendments to incorporate additional expenses.
61 Community services	-	34,909	(34,909)	-100%	No Budget Amendments to incorporate additional expenses.

See independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - BEAUMONT
(Discontinued School)**

EXPLANATIONS OF BUDGET VARIANCES

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

EXPENSES	Final	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Variance with Final Budget- Positive (Negative)	Explanation of Variance
11 Instruction	-	220	(220)	-100%	There was no SY11 Budget for Beaumont since there were no ongoing operations.
23 School leadership	-	11,810	(11,810)	-100%	
41 General administration	-	(10,137)	10,137	-100%	
51 Plant maintenance and operation	-	6,058	(6,058)	-100%	
53 Data processing services	-	581	(581)	-100%	

See independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI

EXPLANATIONS OF BUDGET VARIANCES

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

	<u>Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>	<u>Variance with Final Budget- Positive (Negative)</u>	<u>Explanation of Variance</u>
EXPENSES					
11 Instruction	1,028,461	1,196,927	(168,466)	-14%	Payroll cost variance of \$130,329; budget was not amended.
12 Instructional resources and media	14,000	8,262	5,738	69%	Budget was higher than expenses incurred.
13 Curriculum development and instructional staff development	231,742	110,995	120,747	109%	Budget was higher than expenses incurred. \$155,888 Federal Grant funds available not utilized
21 Instructional leadership	3,500	104	3,396	3265%	Budget was higher than expenses incurred.
23 School leadership	173,281	210,326	(37,045)	-18%	Professional Services cost variance of \$29,166; budget was not amended.
31 Guidance, counseling and evaluation	123,000	94,794	28,206	30%	Budget was higher than expenses incurred.
32 Social work services	-	7,846	(7,846)	-100%	No Budget Amendments to incorporate additional expenses.
33 Health services	6,400	199	6,201	3116%	Budget was higher than expenses incurred.
36 Cocurricular/extracurricular activities	13,500	3,002	10,498	350%	Budget was higher than expenses incurred.
41 General administration	336,928	484,228	(147,300)	-30%	No Budget Amendments to incorporate additional expenses. Budget did not allow for Management Fees on Federal Grant

See independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI

EXPLANATIONS OF BUDGET VARIANCES
(continued)

	Final	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Variance with Final Budget- Positive (Negative)	Explanation of Variance
EXPENSES					
51 Plant maintenance and operation	278,370	278,114	256	0%	
52 Security and monitoring services	46,815	46,349	466	1%	
53 Data processing services	26,986	22,397	4,589	20%	Budget was higher than expenses incurred.
61 Community services	4,000	-	4,000	100%	Budget was higher than expenses incurred.

See independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - KILLEEN

EXPLANATIONS OF BUDGET VARIANCES

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

EXPENSES	Final	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Variance with Final Budget- Positive (Negative)	Explanation of Variance
11 Instruction	1,205,710	919,606	286,104	31%	Budget was higher than expenses incurred. \$341,613 Federal Grant funds available were not utilized.
12 Instructional resources and media	21,000	11,456	9,544	83%	Budget was higher than expenses incurred.
13 Curriculum development and instructional staff development	67,376	50,197	17,179	34%	Budget was higher than expenses incurred. \$17,876 Federal Grant funds available were not utilized.
21 Instructional leadership	12,500	-	12,500	100%	Budget was higher than expenses incurred.
23 School leadership	202,821	236,036	(33,215)	-14%	No Budget Amendment to accommodate additional expenses.
31 Guidance, counseling and evaluation	72,743	60,211	12,532	21%	Budget was higher than expenses incurred.
32 Social work services	4,000	-	4,000	100%	Budget was higher than expenses incurred.
33 Health services	8,100	238	7,862	3303%	Budget was higher than expenses incurred.
36 Cocurricular/extracurricular activities	14,500	4,068	10,432	256%	Budget was higher than expenses incurred.
41 General administration	282,386	400,648	(118,262)	-30%	No Budget Amendments to incorporate additional expenses. Budget did not allow for Management Fees on Federal Grant Revenue.

See independent auditor's report.

RICHARD MILBURN ACADEMY, INC. - KILLEEN

EXPLANATIONS OF BUDGET VARIANCES
(continued)

	Final	Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)	Variance with Final Budget- Positive (Negative)	Explanation of Variance
EXPENSES					
51 Plant maintenance and operation	177,273	170,845	6,428	4%	
52 Security and monitoring services	51,500	41,603	9,897	24%	Budget was higher than actual expenditures incurred.
53 Data processing services	44,950	28,398	16,552	58%	Budget was higher than actual expenditures incurred.
61 Community services	3,500	90	3,410	3789%	Budget was higher than actual expenditures incurred.
81 Fundraising	200	-	200	100%	Budget was higher than actual expenditures incurred.

See independent auditor's report.

RICHARD MILBURN ACADEMY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

Federal Grantor/ Pass-Through Grantor/ Program Title	NOGA ID Numbers	Federal CFDA Number	Grant Period	Expenditures
United States Department of Education / Texas Board of Education / Title I Grants to Local Educational Agencies	10610101188801 10610101178804 10551001014801	84.010	8/14/10 - 9/30/11	\$ 84,719
United States Department of Education / Texas Board of Education / ARRA - Title I Grants to Local Educational Agencies	10551001188801 10551001178804	84.389	8/25/09 - 9/30/11	<u>33,747</u>
Total Title I Cluster				<u>118,466</u>
United States Department of Education / Texas Board of Education / Special Education-Grants to States (IDEA, Part B)	116600011888016600 106600011788046600	84.027	7/1/10 - 9/30/11	73,752
United States Department of Education / Texas Board of Education / ARRA - Special Education-Grants to States (IDEA, Part B)	10554001178804	84.391	7/1/09 - 9/30/11	<u>11,721</u>
Total IDEA, Part B Cluster				<u>85,473</u>
United States Department of Education / Texas Board of Education / Safe and Drug-Free Schools and Communities - State Grants	10691001188801	84.186	8/22/10 - 9/30/11	666

See accompanying note to schedule of expenditures of federal awards
and independent auditor's report.

RICHARD MILBURN ACADEMY, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(continued)**

Federal Grantor/ Pass-Through Grantor/ Program Title	NOGA ID Numbers	Federal CFDA Number	Grant Period	Expenditures
United States Department of Education / Texas Board of Education / Title II Improving Teacher Quality State Grants	10694501188801 10694501178804	84.367	8/12/10 - 9/30/11	17,419
United States Department of Education / Texas Board of Education / School Improvement Grants	10610104178804001 10610104014801001	84.377	10/21/10 - 9/30/11	624,599
United States Department of Education / Texas Board of Education / ARRA - School Improvement Grants	10551004178804001 10551004014801001	84.388	1/31/11 - 9/30/11	<u>66,803</u>
Total School Improvement Grant Cluster				<u>691,402</u>
United States Department of Education / Texas Board of Education/ ARRA - State Fiscal Stabilization Fund - Education State Grants	10557001188801 10557001178804 10557001014801	84.394	9/1/10 - 9/30/11	49,524
United States Department of Education / Texas Board of Education/ Education Jobs Fund - ARRA - Education State Grants	11550101188801 11550101178804 11550101014801	84.410	8/10/10 - 9/30/11	<u>97,001</u>
Total Expenditures of Federal Awards				<u><u>\$ 1,059,951</u></u>

See accompanying note to schedule of expenditures of federal awards
and independent auditor's report.

RICHARD MILBURN ACADEMY, INC.

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



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

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

Members of the Board of Directors:

We have audited the financial statements of Richard Milburn Academy, Inc., (a nonprofit organization) (the "Organization"), as of and for the year ended August 31, 2011, and have issued our report thereon dated January 25, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described as finding 2011-1 in the accompanying schedule of findings and



questioned costs that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2011-2.

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and in the corrective action plan on pages 58-59. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management of the Organization, the Texas Education Agency and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Winter Park, Florida
January 25, 2012



**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Members of the Board of Directors:

Compliance

We have audited the compliance of Richard Milburn Academy, Inc. (a nonprofit organization) (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended August 31, 2011. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended August 31, 2011.



Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management of the Organization, the Texas Education Agency and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

BKHM, P.A.

Winter Park, Florida
January 25, 2012

RICHARD MILBURN ACADEMY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? None reported

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

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

Identification of major federal programs:

<u>CFDA Number</u>	<u>Grant Period</u>	<u>Name of Federal Program</u>
84.377	10/21/10 – 9/30/11	School Improvement Grants
84.388	1/31/11 – 9/30/11	

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

Auditee qualified as a low-risk auditee? No

Section II - Financial Statement Findings

Finding No. 2011-1 – Significant Deficiency

Statement of condition:

The Organization's locations did not consistently communicate all adjustments and disposals of fixed assets to the corporate office. In addition, the fixed asset schedules were not reconciled between the location's listing and the corporate office's listing on a timely basis.

RICHARD MILBURN ACADEMY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)**

Context:

During our audit procedures, we noted that adjustments and disposals were not consistently communicated to the corporate office. Additionally, the fixed asset schedules have not been reconciled to the individual location's fixed asset listings resulting in different fixed asset schedules for the same respective location.

Effect of condition:

The Organization did not have formal policies and procedures in place to mitigate reporting risks in relation to the Organization's fixed assets.

Recommendation:

We recommend that the Organization implement formal policies and procedures to ensure that all adjustments and disposals are communicated in a timely manner to corporate and that an annual reconciliation be performed for all locations.

Management's response:

Management agreed with this finding and will implement formal policies and procedures to improve upon their internal control over financial reporting. See corrective action plan on pages 58-59.

Section III – Federal Award Findings and Questioned Costs

None

Section IV – State Award Findings and Questioned Costs

Finding No. 2011-2

Statement of condition:

The Organization did not spend the required amount of allotments of Foundation School Program ("FSP") funding.

Context:

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

Effect of condition:

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

Recommendation:

We recommend that the Organization implement monitoring controls over minimum expenditure requirements over allotment spending to ensure that all required expenditures are made timely.

RICHARD MILBURN ACADEMY, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(continued)**

Management's response:

Management agreed with this finding and will implement formal policies and procedures to improve upon their compliance with state award requirements. See corrective action plan on pages 58-59.

Section V – Status of Prior Year Audit Findings

Finding No. 2010-1: Fixed asset schedule reconciliation

Statement of condition:

During our consideration of the Organization's controls over reporting fixed assets, we noted that the Organization's locations did not consistently communicate all adjustments and disposals of fixed assets to the corporate office. In addition, the fixed asset schedules were not reconciled between the location's listing and the corporate office's listing on a timely basis.

Status:

This item is repeated as Finding No. 2011-1.

Finding No. 2010-2: Time and effort documentation

Statement of condition:

The Organization could not fully locate all proper documentation in relation to the payroll allocations within the individual State program intent codes for maintenance of effort and within Federal programs for those allocations for all locations.

Status:

This item was resolved during the current year.

Finding No. 2010-3: Required expenditure of allotments

Statement of condition:

The Organization did not spend the required amount of allotments of Foundation School Program funding.

Status:

This item is repeated as Finding No. 2011-2.

Finding No. 2010-4: Employees on the Beaumont school's governing board

Statement of condition:

The Organization had employees on the Beaumont school's governing board, which constituted a quorum. State requirements prohibit employees from constituting a quorum of the governing body.

Status:

This item was resolved during the current year.

**RICHARD MILBURN ACADEMY, INC.
CORRECTIVE ACTION PLAN
FOR FISCAL YEAR ENDED AUGUST 31, 2011**

Findings	Corrective Action Activities	Responsible Personnel	Timeline for Implementation
<p><u>2011-1: Reconciliation of Fixed Assets</u> The Organization's locations did not consistently communicate all adjustments and disposals of fixed assets to the corporate office. In addition, the fixed asset schedules were not reconciled between the location's listing and the corporate office's listing on a timely basis.</p>	<p>RMA, Inc. will review and strengthen formal policies and procedures for the reconciliation of fixed assets.</p> <p>School directors and appropriate support staff will be trained in maintaining accurate fixed assets records to ensure that all adjustments and disposals are communicated in a timely manner to corporate.</p> <p>In April 2011, all fixed asset schedules were converted to a standardized template and updated to include identification numbers. Updates will be performed monthly versus annually.</p> <p>An annual reconciliation will be performed at each location.</p> <p>Verification of annual reconciled fixed asset listings will be performed at each location by the end of the fiscal year.</p>	<p>Sally Irvine, RMA Texas State Director</p>	<p>January, 2012 through March 15, 2012</p> <p>March 16, 2012 through July 31, 2012</p> <p>February 29, 2012 through August 31, 2012</p> <p>By July 31, 2012</p> <p>By August 31, 2012</p>

RICHARD MILBURN ACADEMY, INC.
CORRECTIVE ACTION PLAN
(continued)

Findings	Corrective Action Activities	Responsible Personnel	Timeline for Implementation
<p><u>2011-2: Foundation School Program (FSP) Allocations</u> The Organization receives FSP allotments from the state and is required to spend a certain percentage of the funding in the year the allotment is awarded. The Organization did not spend the required amount of the allotments.</p>	<p>Each location will work with the State Director and the Organization's finance department to ensure spending levels are routinely reviewed.</p> <p>Monthly monitoring of specific state allocations will be done by the State Director with the School Director at each location to appropriately review revenues and expenditures which should avoid the finding occurring during the 2011-12 school year.</p> <p>Monthly Financial Review Meetings with each School Director, State Director, and corporate accounting staff to avoid coding errors and ensure knowledge of balance levels by providing continuous attention to the balance in each program intent code have been implemented.</p>	<p>Sally Irvine, RMA TX State Dir</p>	<p>August, 2011 and ongoing</p> <p>January, 2012 through August, 2012</p> <p>January, 2012 through August, 2012</p>