



Raquel Olivier, C.P.A.

Accounting, Auditing, Tax & Consulting Services

RICHARD MILBURN ACADEMY, INC.

**Financial Statements
August 31, 2004 and 2003**

**(With Independent Auditors'
Review Thereon)**

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**SCHOOL FINANCIAL
AUDITS DIVISION**

Richard Milburn Academy, Inc.
Federal Employer Identification Number: 54-1864466
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Richard Milburn Academy, Inc. was reviewed and (check one) approved disapproved for the year ended August 31, 2004, at a meeting of the governing body of the charter holder on the 25th day of January, 2005.

Carole Renalis
Signature of Board Secretary
Carole Renalis

Peter G. Briggs
Signature of Board President
BRIGGS, PETER G.

**RICHARD MILBURN ACADEMY, INC.
RICHARD MILBURN ALTERNATIVE HIGH SCHOOL
McQueeney, Texas**

AUDIT FOR THE YEAR ENDED AUGUST 31, 2004 and 2003

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Independent Auditor's Report

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

I have audited the accompanying general purpose financial statements of Richard Milburn Academy, Inc. as of and for the year ended August 31, 2004 and 2003. These general-purpose financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these general-purpose financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Richard Milburn Academy, Inc. as of August 31, 2004 and 2003, and the respective changes in net assets and cash flows for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 10, 2005, on my consideration of Richard Milburn Academy, Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed on accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The other supplementary information is presented for the purposes of additional analysis and not a required part of the general-purpose financial statements and, in my opinion, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Raquel Olivier, C.P.A.

January 10, 2005

General-Purpose Financial Statements

RICHARD MILBURN ACADEMY, INC.
Statement of Financial Position
August 31, 2004 and 2003

<u>Assets</u>	Totals	
	2004	2003
Current Assets		
Cash and cash equivalents	\$ 570,924	\$ 452,777
Due from state	597,197 ✓	269,574
Due from federal agencies	60,866	64,725
Due from Affiliates	73,358	18,801
Due from RMHS	-	34,503
A/R-Other	37,171	29,939
Other assets	16,277	35,051
Total current assets	1,355,793 ✓	905,370
Property and equipment, net	286,659 ✓	158,226
Total Assets	\$ 1,642,452 ✓	\$ 1,063,596

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 249,926	\$ 131,415
Accrued payroll and related liabilities	168,197	127,066
Due to TEA	33,638	6,903
Deferred revenue	60,725	72,443
Due to RMHS	141,706	-
Due to NESI	48,249	91,493
Due to Related Parties	23	53,160
Total current liabilities	702,464 ✓	482,480
Total Liabilities	\$ 702,464 ✓	\$ 482,480
Net assets		
Unrestricted	-	164,219
Temporarily restricted	939,988 ✓	416,897
Total net assets	\$ 939,988 ✓	\$ 581,116
Total liabilities and net assets	\$ 1,642,452 ✓	\$ 1,063,596

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY, INC
Statement of Activities
For the Years Ended August 31, 2004 and 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2004</u>	<u>2003</u>
Revenues and Other Support				
Local support:				
Other	\$ 9,057	\$ -	\$ 9,057	\$ 4,878
Total local support	<u>9,057</u>	<u>-</u>	<u>9,057</u>	<u>4,878</u>
State program revenues				
Foundation School Program	\$ -	\$ 4,649,235	\$ 4,649,235	\$ 3,508,098
Telecommunication Infrastructure Fund	-	5,000	5,000	194,814
Technology Allotment	-	23,329	23,329	17,813
Total state program revenues	<u>-</u>	<u>4,677,564</u>	<u>4,677,564</u>	<u>3,720,725</u>
Federal program revenues				
ESEA Title IV	\$ -	\$ 1,660	\$ 1,660	\$ 1,592
ESEA Title 1, Part A	-	170,364	170,364	145,250
ESEA Title 1, SIP	-	494,162	494,162	23,678
IDEA-B Capacity AND Formula	-	72,568	72,568	30,478
IDEA-B Capacity AND Building	-	1,294	1,294	-
Class Size Reduction	-	32,209	32,209	23,129
Public Charter School Grant	-	54,162	54,162	176,744
School Repair & Renovation	-	9,809	9,809	232,232
Title II, Part D	-	3,768	3,768	3,116
Title V, Part A - Innovative Ed	-	3,278	3,278	2,629
E-Rate	-	2,711	2,711	5,299
REAP Grant	-	7,980	7,980	13,032
Carl Perkins	-	774	774	2,129
Impact Aid				2,430
Total federal program revenues	<u>-</u>	<u>854,739</u>	<u>854,739</u>	<u>661,738</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>4,592,315</u>	<u>(4,592,315)</u>	<u>-</u>	
Total revenues and other support	<u>4,601,372</u>	<u>939,988</u>	<u>5,541,360</u>	<u>4,387,341</u>

RICHARD MILBURN ACADEMY, INC
Statement of Activities
For the Years Ended August 31, 2004 and 2003

	Unrestricted	Temporarily Restricted	Totals 2004	2003
Expenses and Other Losses				
Program services:				
General School Operations	2,413,020	-	2,413,020	1,849,917
State Supplement - \$1000	-	-	-	264,922
Telecommunication Infrastructure Fund	5,000	-	5,000	99,814
Technology Allotment	18,792	-	18,792	58,040
ESEA Title IV	2,125	-	2,125	3,742
ESEA Title 1, Part A	167,687	-	167,687	108,197
ESEA Title 1, SIP	389,060	-	389,060	60,731
IDEA-B Capacity AND Formula	60,703	-	60,703	30,478
IDEA-B Capacity AND Building	989	-	989	-
Class Size Reduction	31,983	-	31,983	23,129
Public Charter School Grant	6,147	-	6,147	176,744
School Repair & Renovation	-	-	-	232,232
Title II, Part D	3,596	-	3,596	3,116
Title V, Part A - Innovative Ed	3,278	-	3,278	2,629
E-Rate	2,712	-	2,712	5,299
REAP Grant	7,980	-	7,980	13,032
Carl Perkins	774	-	774	4,468
Total program services	<u>3,113,846</u>	-	<u>3,113,846</u>	<u>2,936,490</u>
Support services:				
Administrative Support Services	1,297,608	-	1,297,608	886,826
Ancillary Services	-	-	-	117,397
Support Services - Non-Student Based	609,639	-	609,639	414,259
Support Services - Student (Pupil)	161,395	-	161,395	183,498
Fundraising	-	-	-	15,634
Total expenses	<u>5,182,488</u>	-	<u>5,182,488</u>	<u>4,554,104</u>
Change in net assets	(581,116)	939,988	358,872	(166,763)
Net assets at beginning of year	581,116	-	581,116	747,879
Net assets at end of year	<u>\$ -</u>	<u>\$ 939,988</u>	<u>\$ 939,988</u>	<u>\$ 581,116</u>

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY, INC.
Statement of Cash Flows
August 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Foundation School Program payments	\$ 4,303,907	3,735,663
Grant payments	865,807	543,237
Miscellaneous sources	2,400	419,851
Payments to vendors for goods and services rendered	(2,128,769)	(2,405,781)
Payments to charter school personnel for services rendered	(2,746,700)	(2,310,855)
Net cash provided by operating activities	<u>296,645</u>	<u>(17,885)</u>
Cash flows from investing activities:		
Purchase of equipment	(203,769)	-
Net cash provided by investing activities	<u>(203,769)</u>	<u>-</u>
Cash flows from financing activities:		
Receipt from payment for short-term financing	25,271	-
Net cash provided by financing activities	<u>25,271</u>	<u>-</u>
Net increase in cash	118,147	(17,885)
Cash at beginning of year	452,777	470,662
Cash at the end of year	<u>\$ 570,924</u>	<u>452,777</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 358,872	(166,778)
Adjustments to reconcile change in net assets to Net cash provided by operating activities:		
Depreciation	75,336	59,183
(Increase)Decrease in assets:		
Due from state	(327,623)	96,311
Due from federal agencies	3,859	(17,821)
Due from other	(7,232)	(36,403)
Other assets	18,774	(35,051)
Increase(Decrease) in liabilities:		
Accounts payable	118,511	73,071
Accrued liabilities	41,131	(35,835)
Due to TEA	26,735	-
Deferred revenue	(11,718)	45,438
Net cash provided by operating activities	<u>\$ 296,645</u>	<u>(17,885)</u>

Specific-Purpose Financial Statements

Richard Milburn Academy, Inc.
Notes to Financial Statements
For the Years Ended August 31, 2004 and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Nature of Activities-

Richard Milburn Alternative High School provides general education services for students in grades 9 through 12 in six 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 issued for a period of five years and is subject to review and renewal prior to the expiration date of the original charter. The Academy is part of the public school system of the State of Texas and is therefore entitled to distribution from State's available school fund. The Academy does not have the authority to impose ad valorem taxes or to change tuition.

The Academy was incorporated on June 15, 1998 in the State of Virginia and has registered to do business in the State of Texas. The Academy has been recognized as an organization exempt from federal income taxes under Section 501(C) (3) of the Internal Revenue Code

B. Accounting Policies-

The financial statements have been prepared on the accrual basis of accounting. The accounting system is organized under the *Special Supplement to Financial Accounting and reporting- Nonprofit Charter School Chart of Accounts*, a module of the Texas Education Agency Financial Accountability Resource Guide. The significant accounting policies are as follows:

To insure observance of limitations and restrictions placed on the use of resources available to the Academy, the accounts are maintained in accordance with the principles of fund accounting during the year. Resources for various purposes are classified into funds according to their nature and purposes. Separate accounts are maintained for each fund; however, the accompanying statements of financial position and of activities focus on the organization as a whole and reports the amounts of its total assets, liabilities, net assets and changes in net assets in accordance with Financial Accounting Standards Board Statement No. 117.

The statement of financial position reports the amounts of each of two classes of net assets: temporarily restricted, and unrestricted net assets.

- Temporarily restricted net assets result from contributions and other inflows of assets that are limited by donor imposed stipulations that can be fulfilled and removed by actions of the Academy pursuant to those stipulations.
- When a donor restriction expires, that is, when a stipulation purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Unrestricted net assets are the remaining part of the Academy's net assets that is neither permanently restricted nor temporarily restricted by

donor imposed stipulations. Property and equipment are included in temporarily restricted net assets.

C. Cash and Cash Equivalents-

For purposes of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks.

D. Fixed Assets and Depreciation-

All assets acquired with a value of \$1,000 or greater are recorded as fixed assets and are valued at costs or estimated cost. Donated assets are reported at the fair market value at the time of acquisition. Depreciation of building improvements and equipment is provided over the estimated useful lives of the assets on a straight line basis.

E. Revenues-

Revenues from the State of Texas available school fund are earned based on reported attendance.

Contributions received are recognized as revenue in the period received and are reported as either restricted or unrestricted support.

*Contributions with donor imposed restrictions are reported as restricted support. Restricted support increases restricted net assets.

*Contributions without donor imposed restrictions are reported as unrestricted support. Unrestricted support increases unrestricted net assets.

Government grant contracts that are entered into by the Academy are recognized as revenue when services are rendered or when expenses in connection with those services are incurred.

F. Donated Goods and Services

Donated goods and services that can be measured and meet certain other requirements are recorded in the financial statements as in kind contributions and expenses of a like amount.

G. Personal Leave-

All employees earn six days of paid personal leave per year. Unused balances accumulate, with a cap of 10 days, but employees do not receive compensation for unused days; therefore, there is no liability accrued on the financial statements.

H. Estimates-

In preparation of the financial statements and in conformity with generally accepted accounting principles, management's estimates were considered for propriety and appropriateness.

2. FIXED ASSETS

An analysis of fixed assets at August 31, 2004 and 2003, is presented as follows:

	2004	2003
Buildings and Improvements	\$ 23,522	\$ 23,522
Furniture and Equipment	475,629	271,858
Accreditation	<u>1,099</u>	<u>1,101</u>
Less: Accumulated depreciation	<u>(213,591)</u>	<u>(138,255)</u>
Total	<u>\$ 286,659</u>	<u>\$ 158,226</u>

Depreciation/amortization expense for the year ended August 31, 2004 and 2003 was \$75,336 and \$59,183, respectively.

3. EMPLOYEE RETIREMENT AND PENSION PLAN

Plan Description

The Academy and employees contribute to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple employer, defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Section 67 and the Texas Government Code, Title 8, Subtitle C. TRS also administers Proportional Retirement benefits and service credit transfers under the Texas Government Code, Title 8, Chapters 803 and 805 respectively. TRS issues a publicly available report that includes financial statements and required the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS internet website- www.trs.state.tx.us- under the TRS Publications heading.

Funding Policy

For fiscal year 2004, State law provides for a State contribution rate of 6.0% and a member contribution rate of 6.4%. In certain instances the reporting entity (school district, charter school, college, university, or state agency) is required to make all or a portion of the State's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following policy: (1) The State constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and State contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. State contributions to TRS made on behalf of the Academy's employees for the year ended August 31, 2004 and 2003 were approximately \$138,000 and \$105,000.

4. HEALTHCARE COVERAGE

During the year ended August 31, 2004, employees of the Academy were covered by a group health insurance plan with Anthem Blue Cross Blue Shield of Virginia. Policyholder changed in June 2004, to a different certified insurer. The Academy pays

approximately \$177 per month toward each participating employee's monthly premium and the balance of their premium, as well as premiums for dependent coverage, if applicable, are withheld from employee's paychecks through payroll deductions.

5. LONG-TERM DEBT

At August 31, 2004 and 2003, the Academy had no outstanding debt.

6. DUE FROM STATE

At August 31, 2004, the Academy earned the following revenues which were not received until after September 1, 2004.

Richard Milburn Academy- Amarillo	\$ 51,658
Richard Milburn Academy- Beaumont	153,981
Richard Milburn Academy- Corpus Christi	4,914
Richard Milburn Academy- Killeen	241,438
Richard Milburn Academy-Lubbock	82,406
Richard Milburn Academy-Midland	<u>62,801</u>
Total Due from state	<u>\$ 597,197</u> ✓

7. TEMPORARILY RESTRICTED NET ASSETS

At August 31, 2004 and 2003, the following Academies had a balance in temporarily restricted net Assets, primarily comprised of State Funded Foundation School Program Grant (FSP) and net fixed assets:

	2004	2003
Richard Milburn Academy-Amarillo	\$111,211	\$141,993
Richard Milburn Academy-Beaumont	289,563	242,010
Richard Milburn Academy-Corpus Christi	108,788	59,680
Richard Milburn Academy-Killeen	257,125	64,867
Richard Milburn Academy-Lubbock	16,495	110,020
Richard Milburn Academy-Midland	<u>156,806</u>	<u>0</u>
Total temporarily restricted net assets	<u>\$939,988</u> ✓	<u>\$618,570</u>

8. OPERATING LEASES

The Academy has entered into the following lease agreements for building space located:

Amarillo: 4100 SW 51st Avenue, Amarillo, Texas. This agreement was effective on February 1, 2001, and terminates on June 30, 2005. The lease agreement requires monthly payments of \$4,350 and covers approximately 5,200 square feet of rentable area. A new lease has been negotiated that commences on July 1, 2005 and terminates on June 30, 2010. The new monthly rate will be \$5,033.

Beaumont: 1310 Pennsylvania Avenue, Beaumont, TX. This agreement was effective on July 1, 2003, and terminates on June 30, 2007. This lease agreement requires monthly payments of \$6,187.28 and covers approximately 7,021 square feet of rentable area.

Corpus Christi: 3875 ½ South Staples, Corpus Christi, TX. This agreement was effective on July 1, 2004, and terminates on June 30, 2008. This lease agreement requires

monthly payments of \$7,597.22 and covers approximately 8,460 square feet of rentable area.

Killeen: 1001 E. Veterans Memorial Boulevard, Killeen, TX. This agreement was effective on January 1, 2004, and terminates on December 31, 2008. This lease agreement requires monthly payments of \$5,570.

Lubbock: 1120 14th. Street, Lubbock, TX. This agreement was effective on October 1, 1999, and terminates on September 30, 2004. This lease agreement requires monthly payments of \$3,850.

Midland: 3306 Andrews Highway, Midland, TX. This agreement was effective on September 1, 1999, and terminates on August 31, 2004. This lease agreement requires monthly payments of \$3,400.

The future minimum rental payments under the operating leases with remaining terms of one (1) year or more are as follows:

Twelve Months Ended <u>August 31,</u>	<u>Amount</u>
2005	\$ 315,157
2006	292,225
2007	284,597
2008	210,592
Thereafter	<u>110,726</u>
Total	<u>\$1,213,297</u>

Rental expense for all operating leases for the twelve months ended August 31, 2004 was \$346,954.

9. COMMITMENTS AND CONTINGENCIES

The Academy receives funds through state and federal programs which are governed by various rules and regulations of the grantor agency. State Foundation program entitlements are based on student enrollment and attendance as reported to the Texas Education Agency by the Academy. These student enrollment and attendance reports are subject to audit by the Texas Education Agency and amounts paid to the Academy may be adjusted according to the results of any such TEA audit. Expenses charged to the grant programs are subject to audit and adjustments by the grantor agency. In the opinion of management, there are no contingent liabilities relating to enrollment and attendance reports as filed or relative to compliance with the rule and regulations governing grant expenditures; therefore, no provision has been made in the accompanying financial statements for such contingencies.

10. RELATED PARTY TRANSACTIONS

The Academy is owned and operated by Richard Milburn Academy, Inc. which owns and operates six charter schools in Texas. During the routine course of business, invoices, which apply to more than one of the individual schools, may be paid by a single school, thus creating a related party receivable and/or payable. The net amount of such activity resulted in a net related party payable of \$39,805, which will be paid during the normal course of business in 2004-05.

Certain expenses relating to all the Richard Milburn, Inc. charter schools are allocated back to the individual charter school on the basis of direct labor and/or other direct expenses. These expenses include instructional and general administrative expenses and are charged in the accompanying statement as professional and contract services and as other operating costs.

RICHARD MILBURN ACADEMY - Amarillo
Statement of Financial Position
August 31, 2004 and 2003

<u>Assets</u>	Totals	
	2004	2003
Current Assets		
Cash and cash equivalents	\$ 88,364	\$ 366,923
Due from state	51,658	28,655
Due from Affiliates	54,120	18,801
Due from RMHS	-	48,740
A/R-Other	-	4,259
Other assets	2,224	6,158
Total current assets	196,366	473,536
Property and equipment, net	39,117	58,950
Total Assets	\$ 235,483	\$ 532,486
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 6,825	\$ 92,006
Accrued payroll and related liabilities	35,649	18,726
Deferred revenue	48,016	-
Due to RMHS	11,412	-
Due to NESI	8,113	16,600
Due to Related Parties	14,257	263,161
Total current liabilities	124,272	390,493
Total Liabilities	\$ 124,272	\$ 390,493
Net assets		
Temporarily restricted	111,211	141,993
Total net assets	\$ 111,211	\$ 141,993
Total liabilities and net assets	\$ 235,483	\$ 532,486

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - Beaumont
Statement of Financial Position
August 31, 2004 and 2003

<u>Assets</u>	Totals	
	2004	2003
Current Assets		
Cash and cash equivalents	\$ 66,833	\$ 19,713
Due from state	153,981	70,052
Due from federal agencies	-	45,368
Due from Related Parties	66,539	38,770
Due from RMHS	-	35,235
A/R-Other	-	1,034
Other assets	2,436	6,139
Total current assets	289,789	216,311
Property and equipment, net	60,715	82,728
Total Assets	\$ 350,504	\$ 299,039
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 6,995	\$ 7,348
Accrued payroll and related liabilities	20,210	21,051
Due to TEA	-	5,752
Deferred revenue	9,809	5,000
Due to RMHS	14,465	-
Due to NESI	9,369	17,878
Due to Affiliates	93	-
Total current liabilities	60,941	57,029
Total Liabilities	\$ 60,941	\$ 57,029
Net assets		
Temporarily restricted	289,563	242,010
Total net assets	\$ 289,563	\$ 242,010
Total liabilities and net assets	\$ 350,504	\$ 299,039

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - Corpus Christi
Statement of Financial Position
August 31, 2004 and 2003

<u>Assets</u>	Totals	
	2004	2003
Current Assets		
Cash and cash equivalents	\$ 65,937	\$ 13,580
Due from state	4,914	52,305
Due from federal agencies	778	649
Due from Related Parties	101,522	73,157
A/R-Other	5,891	11,009
Other assets	2,641	6,290
Total current assets	181,683	156,990
Property and equipment, net	29,103	4,929
Total Assets	\$ 210,786	\$ 161,919
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 23,195	\$ 4,127
Accrued payroll and related liabilities	22,541	20,275
Due to TEA	33,638	-
Deferred revenue	-	25,656
Due to RMHS	16,796	36,290
Due to NESI	5,828	15,891
Total current liabilities	101,998	102,239
Total Liabilities	\$ 101,998	\$ 102,239
Net assets		
Temporarily restricted	108,788	59,680
Total net assets	\$ 108,788	\$ 59,680
Total liabilities and net assets	\$ 210,786	\$ 161,919

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - Killeen
Statement of Financial Position
August 31, 2004 and 2003

<u>Assets</u>	Totals	
	2004	2003
Current Assets		
Cash and cash equivalents	\$ 89,441	\$ 28,012
Due from state	241,438	61,530
Due from federal agencies	60,088	17,821
Due from Affiliate	457	-
Due from Related Parties	-	64,906
A/R-Other	4,880	4,665
Other assets	3,880	5,634
Total current assets	400,184	182,568
Property and equipment, net	92,407	1,844
Total Assets	\$ 492,591	\$ 184,412
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 71,571	\$ 24,561
Accrued payroll and related liabilities	31,869	30,539
Deferred revenue	2,802	20,660
Due to RMHS	62,982	28,594
Due to NESI	14,769	15,191
Due to Related Parties	51,473	-
Total current liabilities	235,466	119,545
Total Liabilities	\$ 235,466	\$ 119,545
Net assets		
Temporarily restricted	257,125	64,867
Total net assets	\$ 257,125	\$ 64,867
Total liabilities and net assets	\$ 492,591	\$ 184,412

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - Lubbock
Statement of Financial Position
August 31, 2004 and 2003

<u>Assets</u>	Totals	
	2004	2003
Current Assets		
Cash and cash equivalents	\$ 72,439	\$ 5,532
Due from state	82,406	32,933
Due from federal agencies	-	887
Due from Related Parties	-	140,067
A/R-Other	5,000	5,572
Other assets	2,553	6,195
Total current assets	162,398	191,186
Property and equipment, net	8,490	2,132
Total Assets	\$ 170,888	\$ 193,318
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 13,778	\$ 964
Accrued payroll and related liabilities	20,853	20,680
Deferred revenue	98	79
Due to RMHS	17,446	32,164
Due to NESI	3,171	14,911
Due to Related Parties	99,047	14,500
Total current liabilities	154,393	83,298
Total Liabilities	\$ 154,393	\$ 83,298
Net assets		
Temporarily restricted	16,495	110,020
Total net assets	\$ 16,495	\$ 110,020
Total liabilities and net assets	\$ 170,888	\$ 193,318

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - Midland
Statement of Financial Position
August 31, 2004 and 2003

<u>Assets</u>	Totals	
	2004	2003
Current Assets		
Cash and cash equivalents	\$ 83,832	\$ 19,017
Due from state	62,801	24,099
Due from Related Parties	36,521	-
Due from RMHS	-	47,576
A/R-Other	21,400	3,400
Other assets	2,542	4,635
Total current assets	207,096	98,727
Property and equipment, net	56,827	7,643
Total Assets	\$ 263,923	\$ 106,370
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 58,082	\$ 2,409
Accrued payroll and related liabilities	23,431	15,795
Due to TEA	-	1,151
Deferred revenue	-	21,048
Due to RMHS	18,605	-
Due to NESI	6,999	11,022
Due to Related Parties	-	92,399
Total current liabilities	107,117	143,824
Total Liabilities	\$ 107,117	\$ 143,824
Net assets		
Unrestricted	-	(37,454)
Temporarily restricted	156,806	-
Total net assets	\$ 156,806	\$ (37,454)
Total liabilities and net assets	\$ 263,923	\$ 106,370

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - AMARILLO
Statement of Activities
August 31, 2004 and 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2004</u>	<u>Total 2003</u>
Revenues				
State program revenues				
5810	Foundation School Program Act Revenues	\$ -	\$ 616,144	\$ 616,144
5820	State Program Revenues Distributed by Texas Education Agency	-	-	-
	Total state program revenues	<u>-</u>	<u>616,144</u>	<u>616,144</u>
				<u>52,623</u>
				<u>603,697</u>
Federal program revenues:				
5920	Federal Revenues Distributed by the Texas Education Agency	-	51,430	51,430
				200,197
Net assets released from restrictions:				
	Restrictions satisfied by payments	<u>556,363</u>	<u>(556,363)</u>	<u>-</u>
				<u>-</u>
	Total Revenues	<u>\$ 556,363</u>	<u>\$ 111,211</u>	<u>\$ 667,574</u>
				<u>\$ 803,894</u>
Expenses				
11	Instruction	284,933	-	284,933
12	Instructional Resources and Media Services	1,435	-	1,435
13	Curriculum Development and Instructional Staff Development	2,835	-	2,835
21	Instructional Leadership	2,438	-	2,438
23	School Leadership	93,829	-	93,829
31	Guidance, Counseling and Evaluation Services	26,778	-	26,778
33	Health Services	75	-	75
35	Food Services	42	-	42
36	Cocurricular/Extracurricular Activities	191	-	191
41	General Administration	208,248	-	208,248
51	Plant Maintenance and Operations	65,463	-	65,463
52	Security and Monitoring Services	255	-	255
53	Data Processing Services	11,834	-	11,834
	Total expenses	<u>\$ 698,356</u>	<u>\$ -</u>	<u>\$ 698,356</u>
				<u>\$ 838,745</u>
	Change in net assets	(141,993)	111,211	(30,782)
				(34,851)
	Net assets at beginning of year	141,993	-	141,993
				176,844
	Net assets at end of year	<u>\$ 0</u>	<u>\$ 111,211</u>	<u>\$ 111,211</u>
				<u>\$ 141,993</u>

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - BEAUMONT
Statement of Activities
August 31, 2004 and 2003

		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
				<u>2004</u>	<u>2003</u>
Revenues					
Local support:					
5740	Other Revenues from Local Sources	\$ -	\$ -	\$ -	\$ 599
State program revenues					
5810	Foundation School Program Act Revenues	-	779,602	779,602	564,204
5820	State Program Revenues Distributed by Texas Education Agency	-	-	-	47,150
	Total state program revenues	<u>-</u>	<u>779,602</u>	<u>779,602</u>	<u>611,953</u>
Federal program revenues:					
5920	Federal Revenues Distributed by the Texas Education Agency	-	60,002	60,002	277,521
Net assets released from restrictions:					
	Restrictions satisfied by payments	<u>550,041</u>	<u>(550,041)</u>	<u>-</u>	<u>-</u>
Total Revenues		<u>\$ 550,041</u>	<u>\$ 289,563</u>	<u>\$ 839,604</u>	<u>\$ 889,474</u>
Expenses					
11	Instruction	290,562	-	290,562	367,687
12	Instructional Resources and Media Services	2,837	-	2,837	2,096
13	Curriculum Development and Instructional Staff Development	41,320	-	41,320	26,808
21	Instructional Leadership	8,588	-	8,588	3,687
23	School Leadership	92,797	-	92,797	116,617
31	Guidance, Counseling and Evaluation Services	16,321	-	16,321	46,859
33	Health Services	300	-	300	-
35	Food Services	71	-	71	74
41	General Administration	232,097	-	232,097	115,541
51	Plant Maintenance and Operations	100,875	-	100,875	118,029
52	Security and Monitoring Services	-	-	-	16,306
53	Data Processing Services	6,283	-	6,283	12,339
	Total expenses	<u>\$ 792,051</u>	<u>\$ -</u>	<u>\$ 792,051</u>	<u>\$ 826,043</u>
Change in net assets		(242,010)	289,563	47,553	63,431
Net assets at beginning of year		<u>242,010</u>	<u>-</u>	<u>242,010</u>	<u>178,579</u>
Net assets at end of year		<u>\$ -</u>	<u>\$ 289,563</u>	<u>\$ 289,563</u>	<u>\$ 242,010</u>

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - CORPUS CHRISTI
Statement of Activities
August 31, 2004 and 2003

	Unrestricted	Temporarily Restricted	2004	Total 2003
Revenues				
Local support:				
5740 Other Revenues from Local Sources	\$ 656	\$ -	\$ 656	\$ -
State program revenues				
5810 Foundation School Program Act Revenues	-	834,751	834,751	657,551
5820 State Program Revenues Distributed by Texas Education Agency	-	-	-	28,501
Total state program revenues	656	834,751	835,407	686,052
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	-	66,762	66,762	52,151
Net assets released from restrictions:				
Restrictions satisfied by payments	792,725	(792,725)	-	-
Total Revenues	\$ 793,381	\$ 108,788	\$ 902,169	\$ 738,203
Expenses				
11 Instruction	319,171	-	319,171	305,411
12 Instructional Resources and Media Services	1,285	-	1,285	4,565
13 Curriculum Development and Instructional Staff Development	6,561	-	6,561	4,114
21 Instructional Leadership	6,216	-	6,216	3,991
23 School Leadership	116,408	-	116,408	115,309
31 Guidance, Counseling and Evaluation Services	52,226	-	52,226	26,683
33 Health Services	500	-	500	-
41 General Administration	206,916	-	206,916	176,521
51 Plant Maintenance and Operations	121,702	-	121,702	74,806
52 Security and Monitoring Services	14,302	-	14,302	16,283
53 Data Processing Services	7,774	-	7,774	47,736
Total expenses	\$ 853,061	\$ -	\$ 853,061	\$ 775,419
Change in net assets	(59,680)	108,788	49,108	(37,216)
Net assets at beginning of year	59,680	-	59,680	96,896
Net assets at end of year	\$ 0	\$ 108,788	\$ 108,788	\$ 59,680

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - KILLEEN
Statement of Activities
August 31, 2004 and 2003

		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
				<u>2004</u>	<u>2003</u>
Revenues					
Local support:					
5740	Other Revenues from Local Sources	\$ -	\$ -	\$ -	\$ 2,745
State program revenues					
5810	Foundation School Program Act Revenues	-	971,645	971,645	652,310
5820	State Program Revenues Distributed by Texas Education Agency	-	-	-	28,536
Total state program revenues		<u>-</u>	<u>971,645</u>	<u>971,645</u>	<u>683,591</u>
Federal program revenues:					
5920	Federal Revenues Distributed by the Texas Education Agency	-	518,067	518,067	48,144
Net assets released from restrictions:					
Restrictions satisfied by payments		<u>1,232,587</u>	<u>(1,232,587)</u>	<u>-</u>	<u>-</u>
Total Revenues		\$ <u>1,232,587</u>	\$ <u>257,125</u>	\$ <u>1,489,712</u>	\$ <u>731,735</u>
Expenses					
11	Instruction	615,988	-	615,988	342,826
12	Instructional Resources and Media Services	10	-	10	3,021
13	Curriculum Development and Instructional Staff Development	53,591	-	53,591	18,144
21	Instructional Leadership	6,652	-	6,652	3,640
23	School Leadership	165,058	-	165,058	98,521
31	Guidance, Counseling and Evaluation Services	45,643	-	45,643	21,717
33	Health Services	358	-	358	-
34	Student (Pupil Services)	-	-	-	100
35	Food Services	2,019	-	2,019	-
36	Cocurricular/Extracurricular Activities	637	-	637	1,120
41	General Administration	298,909	-	298,909	171,313
51	Plant Maintenance and Operations	99,771	-	99,771	91,796
52	Security and Monitoring Services	2,294	-	2,294	1,233
53	Data Processing Services	6,524	-	6,524	9,263
Total expenses		<u>\$ 1,297,454</u>	<u>\$ -</u>	<u>\$ 1,297,454</u>	<u>\$ 762,694</u>
Change in net assets		(64,867)	257,125	192,258	(30,959)
Net assets at beginning of year		64,867	-	64,867	95,826
Net assets at end of year		<u>\$ -</u>	<u>\$ 257,125</u>	<u>\$ 257,125</u>	<u>\$ 64,867</u>

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - LUBBOCK
Statement of Activities
August 31, 2004 and 2003

	Unrestricted	Temporarily Restricted	Total	
			2004	2003
Revenues				
Local support:				
5740 Other Revenues from Local Sources	\$ -	\$ -	\$ -	\$ 3,014
State program revenues				
5810 Foundation School Program Act Revenues	-	625,477	625,477	618,494
5820 State Program Revenues Distributed by Texas Education Agency	-	-	-	2,857
5830 State Program Revenues Distributed other than Texas Education Agency	-	-	-	25,000
Total state program revenues	-	625,477	625,477	649,365
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	-	61,943	61,943	56,761
Net assets released from restrictions:				
Restrictions satisfied by payments	670,925	(670,925)	-	-
Total Revenues	\$ 670,925	\$ 16,495	\$ 687,420	\$ 706,126
Expenses				
11 Instruction	325,260	-	325,260	303,380
12 Instructional Resources and Media Services	2,118	-	2,118	1,960
13 Curriculum Development and Instructional Staff Development	10,238	-	10,238	10,039
21 Instructional Leadership	5,903	-	5,903	3,798
23 School Leadership	101,241	-	101,241	104,542
31 Guidance, Counseling and Evaluation Services	30,207	-	30,207	28,875
33 Health Services	-	-	-	110
35 Food Services	35	-	35	-
36 Cocurricular/Extracurricular Activities	195	-	195	341
41 General Administration	173,943	-	173,943	171,597
51 Plant Maintenance and Operations	110,088	-	110,088	79,523
53 Data Processing Services	21,717	-	21,717	10,867
Total expenses	\$ 780,945	\$ -	\$ 780,945	\$ 715,052
Change in net assets	(110,020)	16,495	(93,525)	(8,926)
Net assets at beginning of year	110,020	-	110,020	118,946
Net assets at end of year	\$ -	\$ 16,495	\$ 16,495	\$ 110,020

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - MIDLAND
Statement of Activities
August 31, 2004 and 2003

Revenues	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2004</u>	<u>2003</u>
Local support:				
5740 Other Revenues from Local Sources	\$ -	\$ -	\$ -	\$ 2,764
State program revenues				
5810 Foundation School Program Act Revenues	-	915,354	915,354	464,465
5820 State Program Revenues Distributed by Texas Education Agency	-	-	-	2,960
5830 State Program Revenues Distributed other than Texas Education Agency	-	-	-	25,000
Total state program revenues	<u>-</u>	<u>915,354</u>	<u>915,354</u>	<u>495,189</u>
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	-	39,529	39,529	29,468
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>798,077</u>	<u>(798,077)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>\$ 798,077</u>	<u>\$ 156,806</u>	<u>\$ 954,883</u>	<u>\$ 524,657</u>
Expenses				
11 Instruction	331,885	-	331,885	240,620
12 Instructional Resources and Media Services	5	-	5	2,823
13 Curriculum Development and Instructional Staff Development	8,843	-	8,843	1,565
21 Instructional Leadership	3,630	-	3,630	3,880
23 School Leadership	106,353	-	106,353	105,845
31 Guidance, Counseling and Evaluation Services	11,403	-	11,403	22,546
33 Health Services	23	-	23	-
35 Food Services	115	-	115	-
36 Cocurricular/Extracurricular Activities	15	-	15	300
41 General Administration	199,180	-	199,180	162,711
51 Plant Maintenance and Operations	86,771	-	86,771	95,449
52 Security and Monitoring Services	(572)	-	(572)	40
53 Data Processing Services	<u>12,972</u>	<u>-</u>	<u>12,972</u>	<u>7,115</u>
Total expenses	<u>\$ 760,623</u>	<u>\$ -</u>	<u>\$ 760,623</u>	<u>\$ 642,914</u>
Change in net assets	37,454	156,806	194,260	(118,257)
Net assets at beginning of year	(37,454)	-	(37,454)	80,803
Net assets at end of year	<u>\$ -</u>	<u>\$ 156,806</u>	<u>\$ 156,806</u>	<u>\$ (37,454)</u>

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - AMARILLO
Statement of Cash Flows
August 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Foundation School Program payments	\$ 585,699	590,923
Grant payments	99,445	200,197
Miscellaneous sources	808	275,467
Payments to vendors for goods and services rendered	(341,451)	(401,628)
Payments to charter school personnel for services rendered	(389,995)	(370,014)
Net cash provided by operating activities	<u>(45,494)</u>	<u>294,945</u>
Cash flows from investing activities:		
Purchase of equipment	(507)	-
Issuance of temporary financing	(232,558)	-
Net cash provided by investing activities	<u>(233,065)</u>	<u>-</u>
Net increase in cash	(278,559)	294,945
Cash at beginning of year	<u>366,923</u>	<u>71,978</u>
Cash at the end of year	<u>\$ 88,364</u>	<u>366,923</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (30,782)	(34,851)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	20,340	20,243
(Increase)Decrease in assets:		
Due from state	(23,003)	62,696
Due from related party	-	(32,206)
Due from other	4,259	(111)
Other assets	3,934	(6,158)
Increase(Decrease) in liabilities:		
Accounts payable	(85,181)	80,337
Accrued liabilities	16,923	(13,234)
Due to affiliates	-	222,138
Deferred revenue	48,016	(3,909)
Net cash provided by operating activities	<u>(45,494)</u>	<u>294,945</u>

RICHARD MILBURN ACADEMY - BEAUMONT
Statement of Cash Flows
August 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Foundation School Program payments	\$ 709,856	582,724
Grant payments	125,321	232,214
Miscellaneous sources	1,592	18,416
Payments to vendors for goods and services rendered	(369,452)	(513,850)
Payments to charter school personnel for services rendered	(427,075)	(363,786)
Net cash provided by operating activities	<u>40,242</u>	<u>(44,282)</u>
Cash flows from investing activities:		
Purchase of equipment	(6,637)	-
Net cash provided by investing activities	<u>(6,637)</u>	<u>-</u>
Cash flows from financing activities:		
Receipt from payment for short-term financing	13,515	-
Net cash provided by financing activities	<u>13,515</u>	<u>-</u>
Net increase in cash	47,120	(44,282)
Cash at beginning of year	19,713	63,995
Cash at the end of year	<u>\$ 66,833</u>	<u>19,713</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 47,553	63,431
Adjustments to reconcile change in net assets to Net cash provided by operating activities:		
Depreciation	28,650	28,381
(Increase)Decrease in assets:		
Due from state	(83,929)	(35,791)
Due from federal agencies	45,368	-
Due from related party	-	(47,657)
Due from other	1,034	3,222
Other assets	3,703	(6,139)
Increase(Decrease) in liabilities:		
Accounts payable	(353)	(3,738)
Accrued liabilities	(841)	(9,677)
Due to TEA	(5,752)	-
Due to RMHS	-	(68,333)
Due to affiliates	-	(60,708)
Due to related party	-	103,413
Deferred revenue	4,809	(10,686)
Net cash provided by operating activities	<u>\$ 40,242</u>	<u>(44,282)</u>

RICHARD MILBURN ACADEMY - CORPUS CHRISTI
Statement of Cash Flows
August 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Foundation School Program payments	\$ 808,042	695,525
Grant payments	65,984	52,151
Miscellaneous sources	-	15,891
Payments to vendors for goods and services rendered	(270,769)	(422,987)
Payments to charter school personnel for services rendered	(466,403)	(425,751)
Net cash provided by operating activities	<u>136,854</u>	<u>(85,171)</u>
Cash flows from investing activities:		
Purchase of equipment	(26,575)	-
Issuance of temporary financing	(57,922)	-
Net cash provided by investing activities	<u>(84,497)</u>	<u>-</u>
Net increase in cash	52,357	(85,171)
Cash at beginning of year	13,580	98,751
Cash at the end of year	<u>\$ 65,937</u>	<u>13,580</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 49,108	(37,216)
Adjustments to reconcile change in net assets to Net cash provided by operating activities:		
Depreciation	2,401	1,636
(Increase)Decrease in assets:		
Due from state	47,391	2,576
Due from federal agencies	(129)	-
Due from affiliate	-	13,689
Due from other	5,118	(541)
Other assets	3,649	(6,290)
Increase(Decrease) in liabilities:		
Accounts payable	19,068	(6,375)
Accrued liabilities	2,266	(8,907)
Due to TEA	33,638	-
Due to RMHS	-	(68,333)
Due to affiliates	-	(69,628)
Due to related party	-	75,972
Deferred revenue	(25,656)	18,246
Net cash provided by operating activities	<u>\$ 136,854</u>	<u>(85,171)</u>

RICHARD MILBURN ACADEMY - KILLEEN
Statement of Cash Flows
August 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Foundation School Program payments	\$ 772,138	698,704
Grant payments	474,025	27,286
Miscellaneous sources	-	16,581
Payments to vendors for goods and services rendered	(625,411)	(382,858)
Payments to charter school personnel for services rendered	(603,614)	(414,138)
Net cash provided by operating activities	<u>17,138</u>	<u>(54,425)</u>
Cash flows from investing activities:		
Purchase of equipment	(105,597)	-
Net cash provided by investing activities	<u>(105,597)</u>	<u>-</u>
Cash flows from financing activities:		
Receipt from payment for short-term financing	149,888	-
Net cash provided by financing activities	<u>149,888</u>	<u>-</u>
Net increase in cash	61,429	(54,425)
Cash at beginning of year	28,012	82,437
Cash at the end of year	<u>\$ 89,441</u>	<u>28,012</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 192,258	(30,959)
Adjustments to reconcile change in net assets to Net cash provided by operating activities:		
Depreciation	15,034	1,624
(Increase)Decrease in assets:		
Due from state	(179,908)	390
Due from federal agencies	(42,267)	(17,821)
Due from RMHS	-	(127,742)
Due from affiliated	-	48,496
Due from other	(215)	1,036
Other assets	1,754	(5,634)
Increase(Decrease) in liabilities:		
Accounts payable	47,010	15,810
Accrued liabilities	1,330	5,307
Due to RMHS	-	(72,213)
Due to NESI	-	15,191
Due to related party	-	91,430
Deferred revenue	(17,858)	20,660
Net cash provided by operating activities	<u>\$ 17,138</u>	<u>(54,425)</u>

RICHARD MILBURN ACADEMY - LUBBOCK
Statement of Cash Flows
August 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Foundation School Program payments	\$ 572,566	657,924
Grant payments	61,599	333
Miscellaneous sources	-	53,523
Payments to vendors for goods and services rendered	(312,672)	(386,563)
Payments to charter school personnel for services rendered	(444,192)	(412,149)
Net cash provided by operating activities	<u>(122,699)</u>	<u>(86,932)</u>
Cash flows from investing activities:		
Purchase of equipment	(8,550)	-
Net cash provided by investing activities	<u>(8,550)</u>	<u>-</u>
Cash flows from financing activities:		
Receipt from payment for short-term financing	198,156	-
Net cash provided by financing activities	<u>198,156</u>	<u>-</u>
Net increase in cash	66,907	(86,932)
Cash at beginning of year	5,532	92,464
Cash at the end of year	<u>\$ 72,439</u>	<u>5,532</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (93,525)	(8,926)
Adjustments to reconcile change in net assets to Net cash provided by operating activities:		
Depreciation	2,192	1,410
(Increase)Decrease in assets:		
Due from state	(49,473)	46,556
Due from federal agencies	887	-
Due from related party	-	(41,329)
Due from other	572	1,822
Other assets	3,642	(6,195)
Increase(Decrease) in liabilities:		
Accounts payable	12,814	(8,370)
Accrued liabilities	173	(5,693)
Due to affiliates	-	(66,286)
Deferred revenue	19	79
Net cash provided by operating activities	<u>\$ (122,699)</u>	<u>(86,932)</u>

RICHARD MILBURN ACADEMY - MIDLAND
Statement of Cash Flows
August 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Foundation School Program payments	\$ 855,606	509,863
Grant payments	39,433	31,056
Miscellaneous sources	-	39,973
Payments to vendors for goods and services rendered	(278,495)	(297,895)
Payments to charter school personnel for services rendered	(429,064)	(325,017)
Net cash provided by operating activities	<u>187,480</u>	<u>(42,020)</u>
Cash flows from investing activities:		
Purchase of equipment	(55,903)	-
Issuance of short-term financing	(66,762)	-
Net cash provided by investing activities	<u>(122,665)</u>	<u>-</u>
Net increase in cash	64,815	(42,020)
Cash at beginning of year	<u>19,017</u>	<u>61,037</u>
Cash at the end of year	<u>\$ 83,832</u>	<u>19,017</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 194,260	(118,257)
Adjustments to reconcile change in net assets to Net cash provided by operating activities:		
Depreciation	6,719	5,889
(Increase)Decrease in assets:		
Due from state	(38,701)	19,884
Due from related party	-	36,118
Due from other	(18,000)	2,249
Other assets	2,092	(4,635)
Increase(Decrease) in liabilities:		
Accounts payable	55,673	(4,593)
Accrued liabilities	7,636	(3,631)
Due to TEA	(1,151)	-
Due to affiliates	-	3,908
Deferred revenue	(21,048)	21,048
Net cash provided by operating activities	<u>\$ 187,480</u>	<u>(42,020)</u>

RICHARD MILBURN ACADEMY - AMARILLO
Schedule of Expenses
August 31, 2004 and 2003

Expenses	Totals	
	<u>2004</u>	<u>2003</u>
6100 Payroll Costs	\$ 406,918	\$ 356,770
6200 Professional and Contracted Services	228,428	262,793
6300 Supplies and Materials	16,925	168,190
6400 Other Operating Costs	<u>46,085</u>	<u>50,992</u>
Total Expenses	<u>\$ 698,356</u>	<u>\$ 838,745</u>

RICHARD MILBURN ACADEMY - BEAUMONT
Schedule of Expenses
August 31, 2004 and 2003

Expenses	Totals	
	<u>2004</u>	<u>2003</u>
6100 Payroll Costs	\$ 426,234	\$ 371,075
6200 Professional and Contracted Services	277,761	234,590
6300 Supplies and Materials	27,784	170,364
6400 Other Operating Costs	<u>60,273</u>	<u>50,014</u>
Total Expenses	<u>\$ 792,051</u>	<u>\$ 826,043</u>

RICHARD MILBURN ACADEMY - CORPUS CHRISTI
Schedule of Expenses
August 31, 2004 and 2003

Expenses	Totals	
	<u>2004</u>	<u>2003</u>
6100 Payroll Costs	\$ 468,669	\$ 430,766
6200 Professional and Contracted Services	318,800	311,028
6300 Supplies and Materials	22,246	21,111
6400 Other Operating Costs	<u>43,346</u>	<u>12,514</u>
Total Expenses	<u>\$ 853,061</u>	<u>\$ 775,419</u>

RICHARD MILBURN ACADEMY - KILLEEN
Schedule of Expenses
August 31, 2004 and 2003

Expenses	Totals	
	<u>2004</u>	<u>2003</u>
6100 Payroll Costs	\$ 604,945	\$ 426,916
6200 Professional and Contracted Services	438,266	268,669
6300 Supplies and Materials	177,920	51,962
6400 Other Operating Costs	<u>76,323</u>	<u>15,147</u>
Total Expenses	<u>\$ 1,297,454</u>	<u>\$ 762,694</u>

RICHARD MILBURN ACADEMY - LUBBOCK
Schedule of Expenses
August 31, 2004 and 2003

		Totals	
		2004	2003
Expenses			
6100	Payroll Costs	\$ 444,365	\$ 406,109
6200	Professional and Contracted Services	265,553	237,933
6300	Supplies and Materials	26,429	47,261
6400	Other Operating Costs	44,598	23,749
Total Expenses		\$ 780,945	\$ 715,052

RICHARD MILBURN ACADEMY - MIDLAND
Schedule of Expenses
August 31, 2004 and 2003

Expenses	Totals	
	2004	2003
6100 Payroll Costs	\$ 436,700	\$ 333,771
6200 Professional and Contracted Services	258,326	225,330
6300 Supplies and Materials	27,316	54,004
6400 Other Operating Costs	38,281	29,809
Total Expenses	\$ 760,623	\$ 642,914

RICHARD MILBURN ACADEMY - AMARILLO
Schedule of Capital Assets
August 31, 2004

		<u>Ownership Interest</u>		
		<u>Local</u>	<u>State</u>	<u>Federal</u>
1110	Cash	\$ -	\$ 66,833	\$ -
1539	Furniture and Equipment	-	<u>27,254</u>	<u>121,191</u>
Total Property and Equipment		<u>\$ -</u>	<u>\$ 94,087</u>	<u>\$ 121,191</u>

RICHARD MILBURN ACADEMY - BEAUMONT
Schedule of Capital Assets
August 31, 2004

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 66,833	\$ -
1539	Furniture and Equipment	-	27,254	121,191
Total Property and Equipment		\$ -	\$ 94,087	\$ 121,191

RICHARD MILBURN ACADEMY - CORPUS CHRISTI
Schedule of Capital Assets
August 31, 2004

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 65,937	\$ -
1539	Furniture and Equipment	-	<u>19,537</u>	<u>9,508</u>
Total Property and Equipment		\$ -	\$ <u>85,474</u>	\$ <u>9,508</u>

RICHARD MILBURN ACADEMY - KILLEEN
Schedule of Capital Assets
August 31, 2004

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 89,461	\$ -
1539	Furniture and Equipment	-	8,552	105,103
Total Property and Equipment		\$ -	\$ 98,013	\$ 105,103

RICHARD MILBURN ACADEMY - LUBBOCK
Schedule of Capital Assets
August 31, 2004

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$ -	\$ 72,439	\$ -
1539 Furniture and Equipment	-	15,530	-
Total Property and Equipment	\$ -	\$ 87,969	\$ -

RICHARD MILBURN ACADEMY - MIDLAND
Schedule of Capital Assets
August 31, 2004

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 83,832	\$ -
1539	Furniture and Equipment	-	71,217	14,068
Total Property and Equipment		\$ -	\$ 155,049	\$ 14,068

RICHARD MILBURN ACADEMY - AMARILLO
Budgetary Comparison Schedule
August 31, 2004

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
State program revenues				
5810 Foundation School Program				
Act Revenues	\$ 541,837	\$ 541,837	\$ 616,144	\$ 74,307
Total state program revenues	<u>541,837</u>	<u>541,837</u>	<u>616,144</u>	<u>74,307</u>
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	-	-	51,430	51,430
Total Revenues	<u>\$ 541,837</u>	<u>\$ 541,837</u>	<u>\$ 667,574</u>	<u>\$ 125,737</u>
Expenses				
11 Instruction	200,923	200,923	284,933	84,010 19%
12 Instructional Resources and Media Services	3,145	3,145	1,435	(1,710)
13 Curriculum Development and Instructional Staff Development	3,000	3,000	2,835	(165)
21 Instructional Leadership	4,000	4,000	2,438	(1,562)
23 School Leadership	60,328	60,328	93,829	33,501 55%
31 Guidance, Counseling and Evaluation Services	30,037	30,037	26,778	(3,259)
33 Health Services	300	300	75	(225)
35 Food Services			42	42 100%
36 Cocurricular/Extracurricular Activities	1,750	1,750	191	(1,559)
41 General Administration	162,727	162,727	208,248	45,521 28%
51 Plant Maintenance and Operations	63,080	63,080	65,463	2,383 4%
52 Security and Monitoring Services	2,950	2,950	255	(2,695)
53 Data Processing Services	9,246	9,246	11,834	2,588 28%
61 Community Services				-
Total expenses	<u>\$ 541,486</u>	<u>\$ 541,486</u>	<u>\$ 698,356</u>	<u>\$ 156,870</u>
Change in net assets	351	351	(30,782)	(31,133)
Net assets at beginning of year	-	-	141,993	141,993
Net assets at end of year	<u>\$ 351</u>	<u>\$ 351</u>	<u>\$ 111,211</u>	<u>\$ 110,860</u>

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - BEAUMONT
Budgetary Comparison Schedule
August 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance from</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State program revenues				
5810 Foundation School Program				
Act Revenues	\$ 566,720	\$ 566,720	\$ 779,602	\$ 212,882
Total state program revenues	<u>566,720</u>	<u>566,720</u>	<u>779,602</u>	<u>212,882</u>
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency			60,002	60,002
Total Revenues	<u>\$ 566,720</u>	<u>\$ 566,720</u>	<u>\$ 839,604</u>	<u>\$ 272,884</u>
Expenses				
11 Instruction	215,156	215,156	290,562	75,406
12 Instructional Resources and Media Services	3,300	3,300	2,837	(463)
13 Curriculum Development and Instructional Staff Development	2,900	2,900	41,320	38,420
21 Instructional Leadership	1,300	1,300	8,588	7,288
23 School Leadership	57,661	57,661	92,797	35,136
31 Guidance, Counseling and Evaluation Services	23,007	23,007	16,321	(6,686)
32 Social Work Services	1,500	1,500		(1,500)
33 Health Services	500	500	300	(200)
35 Food Services			71	71
36 Cocurricular/Extracurricular Activities	700	700		(700)
41 General Administration	164,272	164,272	232,097	67,825
51 Plant Maintenance and Operations	86,898	86,898	100,875	13,977
52 Security and Monitoring Services				-
53 Data Processing Services	9,246	9,246	6,283	(2,963)
Total expenses	<u>\$ 566,440</u>	<u>\$ 566,440</u>	<u>\$ 792,051</u>	<u>\$ 225,611</u>
Change in net assets	280	280	47,553	47,273
Net assets at beginning of year	-	-	242,010	242,010
Net assets at end of year	<u>\$ 280</u>	<u>\$ 280</u>	<u>\$ 289,563</u>	<u>\$ 289,283</u>

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - CORPUS CHRISTI
Budgetary Comparison Schedule
August 31, 2004

	<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	\$ -	\$ -	\$ 656	\$ 656
State program revenues				
5810 Foundation School Program Act Revenues	711,941	711,941	834,751	122,810
Total state program revenues	711,941	711,941	835,407	123,466
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency			66,762	66,762
Total Revenues	\$ 711,941	\$ 711,941	\$ 902,169	\$ 190,228
Expenses				
11 Instruction	307,612	307,612	319,171	11,559 37%
12 Instructional Resources and Media Services	4,000	4,000	1,285	(2,715)
13 Curriculum Development and Instructional Staff Development	4,400	4,400	6,561	2,161 33%
21 Instructional Leadership	200	200	6,216	6,016 30%
23 School Leadership	71,216	71,216	116,408	45,192 25%
31 Guidance, Counseling and Evaluation Services	19,388	19,388	52,226	32,838 70%
32 Social Work Services	1,500	1,500	-	(1,500)
33 Health Services	200	200	500	300 60%
36 Cocurricular/Extracurricular Activities	695	695	-	(695)
41 General Administration	179,355	179,355	206,916	27,561 15%
51 Plant Maintenance and Operations	74,988	74,988	121,702	46,714 62%
52 Security and Monitoring Services	17,040	17,040	14,302	(2,738)
53 Data Processing Services	7,246	7,246	7,774	528 7%
61 Community Services	1,600	1,600	-	(1,600)
Total expenses	\$ 689,440	\$ 689,440	\$ 853,061	\$ 163,621
Change in net assets	22,501	22,501	49,108	26,607
Net assets at beginning of year	-	-	59,680	59,680
Net assets at end of year	\$ 22,501	\$ 22,501	\$ 108,788	\$ 86,287

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - KILLEEN
Budgetary Comparison Schedule
August 31, 2004

	<u>Budgeted Amounts</u>		Actual Amounts	Variance from Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues				
State program revenues				
5810 Foundation School Program Act Revenues	\$ 673,573	\$ 673,573	\$ 971,645	\$ 298,072
Total state program revenues	<u>673,573</u>	<u>673,573</u>	<u>971,645</u>	<u>298,072</u>
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	-	-	518,067	518,067
Total Revenues	<u>\$ 673,573</u>	<u>\$ 673,573</u>	<u>\$ 1,489,712</u>	<u>\$ 816,139</u>
Expenses				
11 Instruction	262,179	262,179	615,988	353,809 57%
12 Instructional Resources and Media Service	15,529	15,529	10	(15,519)
13 Curriculum Development and Instructional Staff Development	6,000	6,000	53,591	47,591 21%
21 Instructional Leadership	2,000	2,000	6,652	4,652 52%
23 School Leadership	74,516	74,516	165,058	90,542 54%
31 Guidance, Counseling and Evaluation Services	23,106	23,106	45,643	22,537 49%
33 Health Services	900	900	358	(542)
34 Student Transportation	500	500	-	(500)
35 Food Services	-	-	2,019	2,019 100%
36 Cocurricular/Extracurricular Activities	2,900	2,900	637	(2,263)
41 General Administration	180,449	180,449	298,909	118,460 39%
51 Plant Maintenance and Operations	67,110	67,110	99,771	32,661 32%
52 Security and Monitoring Services	17,960	17,960	2,294	(15,666)
53 Data Processing Services	7,246	7,246	6,524	(722)
61 Community Services	600	600	-	(600)
Total expenses	<u>\$ 660,995</u>	<u>\$ 660,995</u>	<u>\$ 1,297,454</u>	<u>\$ 636,459</u>
Change in net assets	12,578	12,578	192,258	179,680
Net assets at beginning of year	-	-	64,867	64,867
Net assets at end of year	<u>\$ 12,578</u>	<u>\$ 12,578</u>	<u>\$ 257,125</u>	<u>\$ 244,547</u>

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - LUBBOCK
Budgetary Comparison Schedule
August 31, 2004

	Budgeted Amounts		Actual Amounts	Variance from Final Budget	
	Original	Final			
Revenues					
State program revenues					
5810	Foundation School Program Act Revenues				
	\$ 657,734	\$ 657,734	\$ 625,478	\$ (32,256)	
	657,734	657,734	625,478	(32,256)	
Federal program revenues:					
5920	Federal Revenues Distributed by the Texas Education Agency				
			61,942	61,942	
Total Revenues					
	<u>\$ 657,734</u>	<u>\$ 657,734</u>	<u>\$ 687,420</u>	<u>\$ 29,686</u>	
Expenses					
11	Instruction	264,775	264,775	325,260	60,485
12	Instructional Resources and Media Ser	3,700	3,700	2,118	(1,582)
13	Curriculum Development and Instructional Staff Development	3,400	3,400	10,238	6,838
21	Instructional Leadership	5,900	5,900	5,903	3
23	School Leadership	71,700	71,700	101,241	29,541
31	Guidance, Counseling and Evaluation Services	27,000	27,000	30,207	3,207
33	Health Services	600	600	-	(600)
34	Student Transportation	300	300	-	(300)
35	Food Services	-	-	35	35
36	Cocurricular/Extracurricular Activities	1,200	1,200	195	(1,005)
41	General Administration	175,608	175,608	173,943	(1,665)
51	Plant Maintenance and Operations	86,782	86,782	110,088	23,306
52	Security and Monitoring Services	4,400	4,400	-	(4,400)
53	Data Processing Services	9,246	9,246	21,717	12,471
61	Community Services	1,141	1,141	-	(1,141)
Total expenses		<u>\$ 655,752</u>	<u>\$ 655,752</u>	<u>\$ 780,945</u>	<u>\$ 125,193</u>
Change in net assets		1,982	1,982	(93,525)	(95,507)
Net assets at beginning of year		-	-	110,020	110,020
Net assets at end of year		<u>\$ 1,982</u>	<u>\$ 1,982</u>	<u>\$ 16,495</u>	<u>\$ 14,513</u>

See accompanying notes to financial statements.

RICHARD MILBURN ACADEMY - MIDLAND
Budgetary Comparison Schedule
August 31, 2004

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
Revenues				
State program revenues				
5810 Foundation School Program Act Revenues	\$ 510,301	\$ 510,301	\$ 915,354	\$ 405,053
Total state program revenues	510,301	510,301	915,354	405,053
Federal program revenues:				
5920 Federal Revenues Distributed by the Texas Education Agency	-	-	39,529	39,529
Total Revenues	\$ 510,301	\$ 510,301	\$ 954,883	\$ 444,582
Expenses				
11 Instruction	165,652	165,652	331,885	166,233 <i>5260</i>
12 Instructional Resources and Media Services	2,256	2,256	5	(2,251)
13 Curriculum Development and Instructional Staff Development	7,000	7,000	8,843	1,843 <i>2070</i>
21 Instructional Leadership	1,000	1,000	3,630	2,630 <i>7270</i>
23 School Leadership	64,150	64,150	106,353	42,203 <i>3470</i>
31 Guidance, Counseling and Evaluation Services	28,107	28,107	11,403	(16,704)
33 Health Services	300	300	23	(277)
35 Food Services	-	-	115	115 <i>1000</i>
36 Cocurricular/Extracurricular Activities	1,000	1,000	15	(985)
41 General Administration	152,340	152,340	199,181	46,841 <i>2270</i>
51 Plant Maintenance and Operations	66,587	66,587	86,771	20,184 <i>1380</i>
52 Security and Monitoring Services	-	-	(572)	(572)
53 Data Processing Services	11,846	11,846	12,972	1,126 <i>870</i>
61 Community Services	3,000	3,000	-	(3,000)
Total expenses	\$ 503,238	\$ 503,238	\$ 760,623	\$ 257,385
Change in net assets	7,063	7,063	194,260	187,197
Net assets at beginning of year	-	-	(37,454)	(37,454)
Net assets at end of year	\$ 7,063	\$ 7,063	\$ 156,806	\$ 149,743

See accompanying notes to financial statements.



Raquel Olivier, C.P.A.

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**Independent Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

The Board of Directors
Richard Milburn Academy, Inc.
27 Congress St., Suite 204
Salem, Ma 01970

Members of the Board of Directors:

We have audited the financial statements of Richard Milburn Academy, Inc. (the Corporation) as of and for the period ended August 31, 2004, and have issued our report thereon dated January 10, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

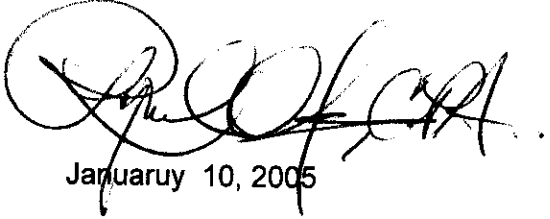
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Raquel Olivier, C.P.A.
January 10, 2005

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the School in a separate letter dated January 10, 2005.

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



January 10, 2005



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**Richard Milburn Academy, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2004**

A. Summary of Auditor's Results

Type of auditor's report issued:	<u>Unqualified</u>
Material weaknesses identified:	See management letter
Material weaknesses identified:	None Reported
Noncompliance material to financial Statements:	None

Federal awards: Corporation meets the requirements for a Single Audit.

B. Financial Statement Findings

The audit did not disclose any findings that are required to be reported.

C. Federal Award Findings and Questioned Costs

NONE



Raquel Olivier, C.P.A.
Accounting, Auditing, Tax & Consulting Services

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SCHOOL FINANCIAL
AUDITS DIVISION

RICHARD MILBURN ACADEMY, INC.

**Single Audit
August 31, 2004**

**(With Independent Auditors'
Report Thereon)**

RICHARD MILBURN ACADEMY, INC.

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Independent Auditors' Report On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133

The Board of Trustees
Richard Milburn Academy, Inc.

Compliance

We have audited the compliance of Richard Milburn Academy, Inc. with the types of compliance requirements described in the *Circular A-133 Compliance Supplement* issued by the United States Office of Management and Budget (OMB) that are applicable to each of its major federal programs for the year ended August 31, 2004. Richard Milburn Academy, Inc.'s major federal programs are 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 Richard Milburn Academy, Inc.'s management. Our responsibility is to express an opinion on Richard Milburn Academy, Inc.'s compliance based on our audit.

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

In our opinion, Richard Milburn Academy, Inc., in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2004.

Internal Control over Compliance

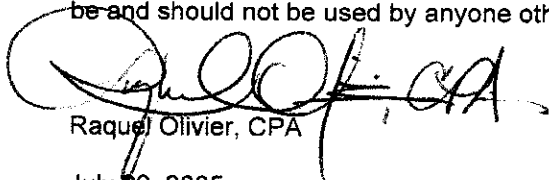
The management of Richard Milburn Academy, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Richard Milburn Academy, Inc.'s internal control over compliance with 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involved in the internal control over compliance and its operations that we consider to be material weaknesses.

We have audited the general-purpose financial statements of Richard Milburn Academy, Inc. as of and for the year ended August 31, 2004, and have issued our report thereon dated July 22, 2005. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the corporation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. This schedule is the responsibility of the management of the corporation. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the general-purpose financial statements taken as a whole.

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



Raquel Olivier, CPA

July 22, 2005



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**Richard Milburn Academy, Inc.
 Schedule of Findings and Questioned Costs
 For the Year Ended August 31, 2004**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Material weaknesses identified: See management letter

Reportable condition(s) identified that are not considered to be material weaknesses: None Reported

Noncompliance material to financial statements: None

2. Federal awards

Material weakness(es) identified in internal control over major programs: None

Reportable condition(s) 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 Circular A-133? None

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Contract Period</u>	<u>Name of Federal Program/Cluster</u>
84.010 A	8/28/2003 – 06/30/2004	ESEA Title I, Part A
84.367	8/28/2003 – 06/30/2004	ESEA Title II, Part A

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

Auditee qualified as low-risk auditee? Yes

B. Financial Statement Findings

The audit did not disclose any findings that are required to be reported.

C. Federal Award Findings and Questioned Costs

NONE



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**Richard Milburn Academy, Inc.
Schedule of Prior Year Findings and Questioned Costs
For the Year Ended August 31, 2003**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Material weaknesses identified: None

Reportable condition(s) identified that are not considered to be material weaknesses: None Reported

Noncompliance material to financial statements: None

2. Federal awards

Material weakness(es) identified in internal control over major programs: None

Reportable condition(s) 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 Circular A-133? None

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010 A	ESEA Title I, Part A

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

Auditee qualified as low-risk auditee? Yes

B. Financial Statement Findings

The audit did not disclose any findings that are required to be reported.

C. Federal Award Findings and Questioned Costs

NONE

D. Statement of Corrective Action Taken – Prior Year Disclosures

The Academy expended the required 85% of all State block grants during the 2002-03 fiscal year.

RICHARD MILBURN ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2004

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Project Number	Federal Expenditures
ESEA Title I, Part A	84.010	04610101123804	36,078
ESEA Title I, Part A	84.010	04610101178804	35,701
ESEA Title I, Part A	84.010	04610101165801	21,688
ESEA Title I, Part A	84.010	04610101014801	16,968
ESEA Title I, Part A	84.010	04610101152801	30,818
ESEA Title I, Part A	84.010	04610101188801	26,434
ESEA Title I, Part A-School Improvement	84.010	0361014014801001	389,060
IDEA-B Cap., Bldg., Impr.	84.027	04660404123804	352
IDEA-B Cap., Bldg., Impr.	84.027	046600041528016604	315
IDEA-B Cap., Bldg., Impr.	84.027	04660404188801	322
IDEA-B Formula	84.027	0466001165801	5,328
IDEA-B Formula	84.027	04660001178804	13,788
IDEA-B Formula	84.027	04660001188801	15,609
IDEA-B Formula	84.027	04660001123804	11,839
IDEA-B Formula	84.027	046600011528016600	14,139
ESEA Title IV, Part A	84.186	04691001152801	817
ESEA Title IV, Part A	84.186	04691001188801	819
ESEA Title IV, Part A	84.186	04691001014801	489
Title - V, Part A, Innovative	84.298	04685001178804	519
Title - V, Part A, Innovative	84.298	04685001152801	712
Title - V, Part A, Innovative	84.298	04685001123804	397
Title - V, Part A, Innovative	84.298	04685001188801	601
Title - V, Part A, Innovative	84.298	04685001014801	395
Title - V, Part A, Innovative	84.027	04660404165801	256
Title - V, Part A, Innovative	84.027	04660404178804	398
ESEA, Title II, Part D	84.318	04630001152801	793
ESEA, Title II, Part D	84.318	04630001177804	1,599
ESEA, Title II, Part D	84.318	04630001188801	732
ESEA, Title II, Part D	84.318	04630001014801	472
ESEA Title II, Part A	84.367	04694501152801	7,419
ESEA Title II, Part A	84.367	04694501178804	8,117
ESEA Title II, Part A	84.367	04694501165801	5,728
ESEA Title II, Part A	84.367	04694501123804	6,147
ESEA Title II, Part A	84.367	04694501188801	6,913
ESEA Title II, Part A	84.367	04694501014801	3,806
Vocational Education	84.048		774
E-Rate			2,712
REAP Grant			7,980
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 677,034</u></u>

RICHARD MILBURN ACADEMY, INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended August 31, 2004

(1) General

For all federal programs, the corporation used the net asset classes and codes specified by the Texas Education Agency in the Special Supplement To Financial Accounting and Reporting, Nonprofit Charter School Chart of Accounts. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by a grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.



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RECEIVED

January 10, 2005

JAN 2 8 2005

Confidential

Richard Milburn Academy, Inc.
The Board of Trustees:

**SCHOOL FINANCIAL
AUDITS DIVISION**

Members of the Board and Management:

We have audited the financial statements of Richard Milburn Academy, Inc. (the Organization) as of and for the period ended August 31, 2004 and 2003. In planning and performing our audit of the financial statements of the Organization, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our reports.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies and are summarized as follows.

FIXED ASSETS

Our review of the fixed assets procedures, noted the following:

- Disposition of assets are not monitored or reported to the accounting department for write-off.
- The physical fixed asset listing is not consistently maintained by each site, although accounting has established a reporting policy to address this matter.

We recommend that the Organization enforce its data reporting requirement for each site by performing the following procedures:

- As reports are submitted to accounting, the general accounting team will have supporting documentation to make adjustments to its fixed asset accounts and reconciliation schedules.

Adherence to this recommendation would provide the Organization with proper documentation of general ledger transactions and balances, and strengthen its internal controls in the area of fixed assets.

Management Response: Management will adhere to the recommendation.

PERSONNEL AND PAYROLL PROCESS

Our review of the personnel and payroll process, noted the following:

- Observed strict guidelines associated with payroll costs for time not worked, which is quite commendable; however, we noted several immaterial instances, whereby, employees were not remunerated for time worked outside of the contractual agreement.

To address this matter, we recommend that all hours worked beyond the stated contractual terms be paid to employees accordingly. Contracts should be evaluated and negotiated based on actual days required to work beyond the contractual term.

- Salaries paid from federal grant funding were not reported or paid to TRS during the year.

In order to eliminate any state regulatory noncompliances, the payroll service should be informed of any state regulatory changes that may affect payroll. In addition, for salaries funded by federal grants, TRS expenditures should be reported and paid throughout the year to ensure proper reporting and availability of grant funds.

Adherence to this recommendation would provide the Organization with proper reporting of payroll transactions in the general ledger and compliance with the regulatory agencies. In addition, material cost savings of payroll costs to the Corporation.

Management Response: We will remunerate people worked beyond their contractual agreement, and federal grant reporting to the Teacher Retirement System has been implemented.

GOVERNANCE AND OTHER ISSUES

Our review of the governance associated with the Corporation noted the following practices:

- Cash management practices associated with the charter schools need to be modified to in order to avoid temporary financing between and among charter programs. Although the charterholder has a contract to operate several charters within the same legal corporate structure, it has been determined that the funds generated by a charter is entitled to the funds associated with the charter. NOTE: The Organization has maintained the integrity of the cash flow; however, internal controls should be implemented so that temporary financing among and between corporate affiliates can be eliminated.

Management Response: Management will implement internal controls that will eliminate the need for temporary financing situations.

- Generation of PEIMS Attendance data is a vital and critical part of operating the Organization. It has been observed that there are several inconsistencies of reporting and recording data throughout the Organization. As well, the Organization uses different software modules that contributes to the inconsistency. There have been several adjustments made after the reporting deadline that has a significant impact to cashflow. No analytical reports generated by the PEIMS coordinator were observed that would allow for immediate response to discrepancies or unplanned events associated with the financial impact of attendance data. Attendance clerks are tracking the same data in two different softwares which creates a potential for input errors.

Because of the critical nature of the PEIMS information, the PEIMS coordinator should adopt and implement a Company procedural manual that identifies the standard approach to tracking the data, reporting the data, verifying the data, filing the data, and submitting the data on a routine basis at each site. In addition, there should be a reconciliation of the data prepared every six weeks by comparing the daily logs to computer database versus teacher gradebooks. Further, the PEIMS coordinator should prepare analytical reports that signify any potential discrepancies so that they can be investigated and resolved more timely.

Management response: Management has hired a full-time PEIMS coordinator and the procedures are being implemented.

FEDERAL AND STATE PROGRAMS

In the course of our field testing, we noted that procedures for allocating special intent funding at the campus level should be tightened. Campus directors should maintain a fiscal knowledge of the special population of students in order to allocate costs.

The Organization qualifies for a Single Audit as stipulated by the Office of Management and Budget (OMB Circular A-133), and a separate report is required to identify specific adherence to compliances associated with federal funds for submission.

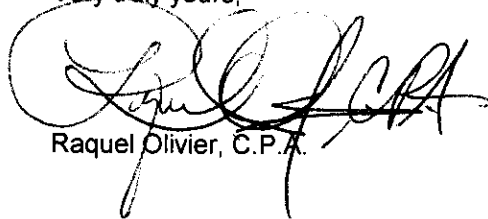
Adherence to the above procedures will allow the Organization to be more effective in their management and maintenance of state funded special intent programs.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Organization gained during our work to make comments and suggestions that we hope will be useful to you.

This report is intended solely for the information and use of the Board of Trustees, management, and others within the organization. The preceding comments have been reviewed with the Organization's management; however, we shall be pleased to discuss them with you at your convenience.

We take this opportunity to express our appreciation for the courtesy and cooperation extended to us by employees of the Organization during the course of our audit.

Very truly yours,



Raquel Olivier, C.P.A.