



BEEMER, PRICHER, KUEHNHACKL & HEIDBRINK, P.A.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS



RICHARD MILBURN ACADEMY, INC.
ANNUAL AND FINANCIAL COMPLIANCE
REPORT
AUGUST 31, 2005

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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, 2005, at a meeting of the governing body of the charter holder on the 25th day of January, 2006.

Carole Renales
Signature of Board Secretary
Carole Renales

Peter G. Briggs
Signature of Board President
Peter G. Briggs



Independent Auditor's Report

Board of Directors
Richard Milburn Academy, Inc.
27 Congress Street, Suite 204
Salem, MA 01970

Members of the Board of Directors:

We have audited the accompanying general-purpose financial statements of Richard Milburn Academy, Inc. (the "charter holder") as of and for the year ended August 31, 2005. These general-purpose financial statements are the responsibility of the charter holder's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2004 financial statements and was audited by other auditors whose report dated January 10, 2005 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the charter holder, as of August 31, 2005, and the respective changes in 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 October 14, 2005 on our consideration of the School'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.

Our 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 purposes of additional analysis and is not a required part of the general-purpose financial statements. 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 in relation to the general-purpose financial statements taken as a whole.

Beemer, Pricher, Kuehnhaackel & Heidbink P.A.

Winter Park, Florida
October 14, 2005

RICHARD MILBURN ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2005 AND 2004

	2005	2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 717,435	\$ 570,924
Due from governmental agencies	373,853	658,063
Prepaid assets	40,165	16,278
Due from affiliates	6,421	74,267
Total current assets	1,137,874	1,319,532
Furniture, fixtures and equipment, net	373,230	286,330
Other assets	23,427	37,500
Total assets	\$ 1,534,531	\$ 1,643,362
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 306,029	\$ 413,502
Accrued liabilities	325,979	228,217
Deferred revenue	533	60,724
Due to affiliates	168	931
Total liabilities	632,709	703,374
Net assets:		
Unrestricted	901,822	179,301
Temporarily restricted	-	760,687
Total net assets	901,822	939,988
Total liabilities and net assets	\$ 1,534,531	\$ 1,643,362

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

RICHARD MILBURN ACADEMY, INC.

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2005
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)**

	Unrestricted	Temporarily Restricted	Totals	
			2005	2004
REVENUES				
Local support:				
Interest and other revenue	\$ 64,387	\$ -	\$ 64,387	\$ 18,474
Total local support	64,387	-	64,387	18,474
State program revenues:				
Foundation School Program	4,858,111	-	4,858,111	4,698,197
Other state aid	49,217	-	49,217	26,960
Total state program revenues	4,907,328	-	4,907,328	4,725,157
Federal program revenues:				
ESEA Title I, Part A	303,237	-	303,237	664,525
ESEA Title II, Part A	31,568	-	31,568	38,356
ESEA Title II, Part D	3,644	-	3,644	4,819
ESEA Title IV, Part A	101,014	-	101,014	62,854
ESEA Title V, Part A	1,891	-	1,891	2,625
E-Rate	-	-	-	3,806
REAP Grant	-	-	-	6,487
IDEA, Part B	-	-	-	13,485
Vocational Education - Basic Grant	6,413	-	6,413	774
Total federal program revenues	447,767	-	447,767	797,731
Net assets released from restrictions:				
Restrictions satisfied by payment	760,687	(760,687)	-	-
Total revenues	\$ 6,180,169	\$ (760,687)	\$ 5,419,482	\$ 5,541,362

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

RICHARD MILBURN ACADEMY, INC.

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2005
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)
(continued)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2005</u>	<u>2004</u>
EXPENSES				
Program services:				
Instruction and instruction-related	\$ 2,250,640	\$ -	\$ 2,250,640	\$ 2,298,477
Instructional and school leadership	705,318	-	705,318	714,532
Support services:				
Administrative support services	1,383,346	-	1,383,346	1,313,014
Support services - student	369,987	-	369,987	193,432
Support services - non-student based	748,357	-	748,357	663,035
Total expenses	<u>5,457,648</u>	<u>-</u>	<u>5,457,648</u>	<u>5,182,490</u>
Change in net assets	722,521	(760,687)	(38,166)	358,872
Net assets, beginning of year	<u>179,301</u>	<u>760,687</u>	<u>939,988</u>	<u>581,116</u>
Net assets, end of year	<u>\$ 901,822</u>	<u>\$ -</u>	<u>\$ 901,822</u>	<u>\$ 939,988</u>

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

RICHARD MILBURN ACADEMY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 5,144,940	\$ 4,303,907
Grant payments	491,998	865,807
Miscellaneous sources	6,563	2,400
Payments to vendors for goods and services rendered	(2,373,568)	(2,016,505)
Payments to personnel for services rendered	(2,997,135)	(2,760,341)
	<u>272,798</u>	<u>395,268</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(193,370)	(203,785)
Collection (issuance) of temporary financing	67,083	(73,336)
	<u>(126,287)</u>	<u>(277,121)</u>
Net cash used for investing activities		
Net increase in cash	146,511	118,147
Cash and cash equivalents, beginning of year	<u>570,924</u>	<u>452,777</u>
Cash and cash equivalents, end of year	<u>\$ 717,435</u>	<u>\$ 570,924</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (38,166)	\$ 358,872
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	106,740	75,336
(Increase) decrease in assets:		
Due from governmental agencies	284,210	(289,261)
Prepaid assets	(23,887)	18,773
Other assets	13,803	(7,216)
Increase (decrease) in liabilities:		
Accounts payable	(107,473)	156,235
Accrued liabilities	97,762	94,248
Deferred revenue	(60,191)	(11,719)
Net cash provided by operating activities	<u>\$ 272,798</u>	<u>\$ 395,268</u>

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

RICHARD MILBURN ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

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 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 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 Organization is part of the public school system of the State of Texas; and, therefore, is entitled to distribution 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 or to change the price of tuition.

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 *Audit and Accounting Guide - Not-for-Profit Organizations* issued by the American Institute of Certified Public Accountants. 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 Financial Accountability Resource Guide.

The Organization has adopted the provisions of Statements of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS 116) and No. 117, *Financial Statements of Not-For-Profit Organizations* (SFAS 117).

SFAS 116 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. SFAS 117 establishes standards for general-purpose external financial statements of not-for-profit

RICHARD MILBURN ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

organizations and requires a statement of financial position, a statement of activities, a statement of cash flows and a statement of functional expenses.

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 corporation, the charter school 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. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues.

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 year ended August 31, 2004, 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, which are insured by federal depository insurance. Amounts on deposit at August 31, 2005 over the maximum amount covered by federal depository insurance totaled approximately \$628,000. The School historically has not incurred losses on such accounts, and management believes that the School does not have significant credit risk with respect to these accounts at August 31, 2005.

RICHARD MILBURN ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

Capital assets and depreciation

Capital assets acquired, which include 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 costing over \$1,000 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.

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

	<u>Years</u>
Furniture, fixtures and equipment	5

Income taxes

The Organization has obtained a determination of tax-exempt status from the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

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 balance sheet and affect revenues and expenses for the period presented. Actual results could differ significantly from those estimates. In addition, Foundation School Program revenue in the accompanying financial statements is based upon the allocation of these funds by Texas Education Agency (TEA) at the time of issuance of these financial statements. The allocation by 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.

Reclassifications

Certain reclassifications were made in the presentation of the 2004 financial information in order to enhance comparability with the classifications in the 2005 financial statements.

RICHARD MILBURN ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

2 FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment, net at August 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Furniture, fixtures and equipment	\$ 669,783	\$ 499,188
Less: accumulated depreciation	<u>(296,553)</u>	<u>(212,858)</u>
Furniture, fixtures and equipment, net	<u>\$ 373,230</u>	<u>\$ 286,330</u>

Capital 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 assets are specifically identified on the Schedule of Capital Assets for each individual charter school.

3 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 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the Organization's covered payroll. The Organization's employees' contributions to the System for the years ending August 31, 2005 and 2004 were \$140,000 and \$138,000, respectively, and were equal to the required contributions for each year.

RICHARD MILBURN ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS (continued)

401(k) Plan

The Organization has also established a profit-sharing plan, under Section 401(k) of the Internal Revenue Code, whereby all eligible employees are entitled to defer up to the lesser of \$14,000 in 2005 and \$13,000 in 2004, on a calendar-year basis. 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 amount to the plan at the discretion of the Board of Directors. Employer contributions to the plan in fiscal 2005 and 2004 were \$1,998 and \$1,025, respectively.

4 RELATED PARTY TRANSACTIONS

During the routine course of business, invoices and payroll, which apply to both the Organization and an affiliate, Richard Milburn Academy/TX, Inc., may be paid by a single entity creating an affiliate receivable or payable. The Organization tracks the amounts due to or from each affiliated school separately, and these amounts are presented separately in the accompanying financial statements. Amounts due from affiliates as of August 31, 2005 and 2004 were \$6,421 and \$74,267, respectively. Amounts due to affiliates as of August 31, 2005 and 2004 were \$168 and \$931, respectively.

5 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 not exceeded commercial coverage.

For most of fiscal 2005, the Organization was partially self-insured for employee health and hospitalization coverage with stop-loss coverage for aggregate claims exceeding a maximum of \$50,000 per covered individual/family. The self-insurance premiums for coverage and the maximum self-insured amount applied to a group of related entities including the Organization and were allocated to each school based upon the coverage elected by each individual covered under the plan. This plan terminated effective August 27, 2005. Claims for insured events occurring prior to this date are required to be submitted within ninety days of the termination date. As of August 31, 2005, the Organization has accrued approximately \$700 for unreported health claims.

RICHARD MILBURN ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS
(continued)

6 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 at August 31, 2005 may be impaired.

In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Lease commitments

The Organization leases its facilities under non-cancelable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments at August 31, 2005 under these leases are summarized as follows:

<u>Fiscal Year</u>	
2006	\$ 417,000
2007	303,000
2008	287,000
2009	147,000
2010	<u>60,000</u>
Total	<u>\$ 1,214,000</u>

Rent expense for all operating leases for the fiscal years ended August 31, 2005 and 2004 was approximately \$459,000 and \$347,000, respectively.

RICHARD MILBURN ACADEMY, INC.

NOTES TO FINANCIAL STATEMENTS

(continued)

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 and were approved by the Board of Directors. For the year ended August 31, 2005 and 2004, the Organization has incurred approximately \$801,000 and \$804,000 of management fees, respectively. Amounts due to the management company at August 31, 2005 and 2004 are approximately \$148,000 and \$190,000, respectively, and are included in accounts payable in the accompanying financial statements.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 140,703	\$ 88,364
Due from governmental agencies	48,133	51,658
Prepaid assets	9,592	2,224
Due from affiliates	40,804	267,160
	<u>239,232</u>	<u>409,406</u>
Total current assets		
Furniture, fixtures and equipment, net	23,578	39,050
Other assets	-	66
	<u>-</u>	<u>66</u>
Total assets	<u>\$ 262,810</u>	<u>\$ 448,522</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 22,062	\$ 26,350
Accrued liabilities	43,436	35,649
Deferred revenue	-	48,015
Due to affiliates	-	227,297
	<u>65,498</u>	<u>337,311</u>
Total liabilities		
Net assets:		
Unrestricted	197,312	110,827
Temporarily restricted	-	384
	<u>197,312</u>	<u>111,211</u>
Total net assets		
Total liabilities and net assets	<u>\$ 262,810</u>	<u>\$ 448,522</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 204,550	\$ 66,833
Due from governmental agencies	70,031	153,980
Prepaid assets	5,962	2,436
Due from affiliates	66,425	66,540
	<hr/>	<hr/>
Total current assets	346,968	289,789
Furniture, fixtures and equipment, net	91,953	60,653
Other assets	-	62
	<hr/>	<hr/>
Total assets	<u>\$ 438,921</u>	<u>\$ 350,504</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 56,565	\$ 32,794
Accrued liabilities	51,336	18,246
Deferred revenue	-	9,809
Due to affiliates	-	93
	<hr/>	<hr/>
Total liabilities	107,901	60,942
Net assets:		
Unrestricted	331,020	35,712
Temporarily restricted	-	253,850
	<hr/>	<hr/>
Total net assets	331,020	289,562
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 438,921</u>	<u>\$ 350,504</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 112,310	\$ 65,937
Due from governmental agencies	72,692	5,692
Prepaid assets	5,703	2,640
Due from affiliates	-	112,282
	<u>190,705</u>	<u>186,551</u>
Total current assets		
Furniture, fixtures and equipment, net	26,086	29,045
Other assets	4,613	5,950
	<u>221,404</u>	<u>221,546</u>
Total assets		
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 28,913	\$ 45,819
Accrued liabilities	60,201	56,179
Due to affiliates	68,995	10,760
	<u>158,109</u>	<u>112,758</u>
Total liabilities		
Net assets:		
Unrestricted	63,295	32,760
Temporarily restricted	-	76,028
	<u>63,295</u>	<u>108,788</u>
Total net assets		
Total liabilities and net assets	<u>\$ 221,404</u>	<u>\$ 221,546</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 98,128	\$ 89,441
Due from governmental agencies	58,764	301,526
Prepaid assets	5,938	3,880
Due from affiliates	-	458
	<hr/>	<hr/>
Total current assets	162,830	395,305
Furniture, fixtures and equipment, net	98,756	92,358
Other assets	4,982	4,929
	<hr/>	<hr/>
Total assets	<u>\$ 266,568</u>	<u>\$ 492,592</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 27,313	\$ 149,323
Accrued liabilities	57,600	31,869
Deferred revenue	533	2,802
Due to affiliates	4,251	51,473
	<hr/>	<hr/>
Total liabilities	89,697	235,467
Net assets:		
Unrestricted	176,871	-
Temporarily restricted	-	257,125
	<hr/>	<hr/>
Total net assets	176,871	257,125
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 266,568</u>	<u>\$ 492,592</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 40,604	\$ 72,439
Due from governmental agencies	59,687	82,406
Prepaid assets	5,062	2,553
Total current assets	105,353	157,398
Furniture, fixtures and equipment, net	15,082	8,437
Other assets	5,000	5,052
Total assets	<u>\$ 125,435</u>	<u>\$ 170,887</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 77,001	\$ 34,395
Accrued liabilities	44,841	20,854
Deferred revenue	-	98
Due to affiliates	24,634	99,046
Total liabilities	146,476	154,393
Net assets:		
Unrestricted	(21,041)	-
Temporarily restricted	-	16,494
Total net assets	(21,041)	16,494
Total liabilities and net assets	<u>\$ 125,435</u>	<u>\$ 170,887</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 115,120	\$ 83,832
Due from governmental agencies	64,545	62,799
Prepaid assets	6,588	2,544
Due from affiliates	-	56,022
	<u>186,253</u>	<u>205,197</u>
Total current assets		
Furniture, fixtures and equipment, net	112,618	56,787
Other assets	6,300	21,440
	<u>118,918</u>	<u>78,227</u>
Total assets	<u>\$ 305,171</u>	<u>\$ 283,424</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 63,811	\$ 80,691
Accrued liabilities	63,705	26,425
Due to affiliates	23,290	19,502
	<u>150,806</u>	<u>126,618</u>
Total liabilities		
Net assets:		
Unrestricted	154,365	-
Temporarily restricted	-	156,806
	<u>154,365</u>	<u>156,806</u>
Total net assets		
Total liabilities and net assets	<u>\$ 305,171</u>	<u>\$ 283,424</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2005
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2005</u>	<u>2004</u>
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 49,343	\$ -	\$ 49,343	\$ -
State program revenues:				
5810 Foundation School Program Act	700,904	-	700,904	612,952
5820 State program revenues distributed by Texas Education Agency	<u>4,467</u>	<u>-</u>	<u>4,467</u>	<u>3,193</u>
Total state program revenues	<u>705,371</u>	<u>-</u>	<u>705,371</u>	<u>616,145</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	<u>54,241</u>	<u>-</u>	<u>54,241</u>	<u>51,430</u>
Net assets released from restrictions:				
Restrictions satisfied by payment	<u>384</u>	<u>(384)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>809,339</u>	<u>(384)</u>	<u>808,955</u>	<u>667,575</u>
EXPENSES				
11 Instruction	282,234	-	282,234	284,933
12 Instructional resources and media	990	-	990	1,435
13 Curriculum development and instructional staff development	4,783	-	4,783	2,450
21 Instructional leadership	-	-	-	2,475
23 School leadership	109,782	-	109,782	94,214
31 Guidance, counseling and evaluation	28,829	-	28,829	26,778
33 Health services	79	-	79	75
35 Food services	-	-	-	42
36 Cocurricular/extracurricular activities	2,852	-	2,852	191
41 General administration	202,489	-	202,489	208,248
51 Plant maintenance and operation	87,105	-	87,105	65,426
52 Security and monitoring services	310	-	310	255
53 Data processing services	3,379	-	3,379	11,835
61 Community services	<u>22</u>	<u>-</u>	<u>22</u>	<u>-</u>
Total expenses	<u>722,854</u>	<u>-</u>	<u>722,854</u>	<u>698,357</u>
Change in net assets	86,485	(384)	86,101	(30,782)
Net assets, beginning of year	<u>110,827</u>	<u>384</u>	<u>111,211</u>	<u>141,993</u>
Net assets, end of year	<u>\$ 197,312</u>	<u>\$ -</u>	<u>\$ 197,312</u>	<u>\$ 111,211</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2005
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals 2005</u>	<u>2004</u>
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 9,809	\$ -	\$ 9,809	\$ 14,978
State program revenues:				
5810 Foundation School Program Act	899,905	-	899,905	756,153
5820 State program revenues distributed by Texas Education Agency	<u>6,377</u>	<u>-</u>	<u>6,377</u>	<u>8,471</u>
Total state program revenues	<u>906,282</u>	<u>-</u>	<u>906,282</u>	<u>764,624</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	<u>65,461</u>	<u>-</u>	<u>65,461</u>	<u>60,002</u>
Net assets released from restrictions:				
Restrictions satisfied by payment	<u>253,850</u>	<u>(253,850)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,235,402</u>	<u>(253,850)</u>	<u>981,552</u>	<u>839,604</u>
EXPENSES				
11 Instruction	356,643	-	356,643	299,524
12 Instructional resources and media	4,410	-	4,410	2,837
13 Curriculum development and instructional staff development	58,700	-	58,700	31,859
21 Instructional leadership	-	-	-	8,588
23 School leadership	106,957	-	106,957	93,298
31 Guidance, counseling and evaluation	7,876	-	7,876	16,321
32 Social work services	10,856	-	10,856	-
35 Food services	-	-	-	71
36 Cocurricular/extracurricular activities	10,045	-	10,045	300
41 General administration	243,684	-	243,684	232,096
51 Plant maintenance and operation	123,977	-	123,977	100,875
52 Security and monitoring services	2,532	-	2,532	363
53 Data processing services	<u>14,414</u>	<u>-</u>	<u>14,414</u>	<u>5,920</u>
Total expenses	<u>940,094</u>	<u>-</u>	<u>940,094</u>	<u>792,052</u>
Change in net assets	295,308	(253,850)	41,458	47,552
Net assets, beginning of year	<u>35,712</u>	<u>253,850</u>	<u>289,562</u>	<u>242,010</u>
Net assets, end of year	<u>\$ 331,020</u>	<u>\$ -</u>	<u>\$ 331,020</u>	<u>\$ 289,562</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2005
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2005</u>	<u>2004</u>
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 91	\$ -	\$ 91	\$ 656
State program revenues:				
5810 Foundation School Program Act	841,399	-	841,399	830,899
5820 State program revenues distributed by Texas Education Agency	<u>5,396</u>	<u>-</u>	<u>5,396</u>	<u>3,852</u>
Total state program revenues	<u>846,795</u>	<u>-</u>	<u>846,795</u>	<u>834,751</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	<u>90,937</u>	<u>-</u>	<u>90,937</u>	<u>66,762</u>
Net assets released from restrictions:				
Restrictions satisfied by payment	<u>76,028</u>	<u>(76,028)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,013,851</u>	<u>(76,028)</u>	<u>937,823</u>	<u>902,169</u>
EXPENSES				
11 Instruction	404,900	-	404,900	319,657
12 Instructional resources and media	229	-	229	1,285
13 Curriculum development and instructional staff development	14,127	-	14,127	6,561
21 Instructional leadership	-	-	-	6,216
23 School leadership	121,502	-	121,502	116,054
31 Guidance, counseling and evaluation	74,146	-	74,146	52,226
32 Social work services	11,343	-	11,343	6,280
33 Health services	4,107	-	4,107	500
36 Cocurricular/extracurricular activities	2,319	-	2,319	-
41 General administration	233,001	-	233,001	200,635
51 Plant maintenance and operation	112,897	-	112,897	121,702
52 Security and monitoring services	335	-	335	14,170
53 Data processing services	<u>4,410</u>	<u>-</u>	<u>4,410</u>	<u>7,775</u>
Total expenses	<u>983,316</u>	<u>-</u>	<u>983,316</u>	<u>853,061</u>
Change in net assets	30,535	(76,028)	(45,493)	49,108
Net assets, beginning of year	<u>32,760</u>	<u>76,028</u>	<u>108,788</u>	<u>59,680</u>
Net assets, end of year	<u>\$ 63,295</u>	<u>\$ -</u>	<u>\$ 63,295</u>	<u>\$ 108,788</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2005
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)**

	Unrestricted	Temporarily Restricted	Totals	
			2005	2004
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 2,467	\$ -	\$ 2,467	\$ 1,851
State program revenues:				
5810 Foundation School Program Act	728,502	-	728,502	965,813
5820 State program revenues distributed by Texas Education Agency	23,468	-	23,468	3,981
Total state program revenues	751,970	-	751,970	969,794
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	113,736	-	113,736	518,067
Net assets released from restrictions:				
Restrictions satisfied by payment	257,125	(257,125)	-	-
Total revenues	1,125,298	(257,125)	868,173	1,489,712
EXPENSES				
11 Instruction	404,183	-	404,183	615,986
12 Instructional resources and media	131	-	131	10
13 Curriculum development and instructional staff development	13,937	-	13,937	53,590
21 Instructional leadership	-	-	-	6,651
23 School leadership	134,409	-	134,409	165,058
31 Guidance, counseling and evaluation	53,964	-	53,964	45,643
32 Social work services	3,549	-	3,549	-
33 Health services	387	-	387	358
34 Student transportation	1,000	-	1,000	-
35 Food services	-	-	-	2,019
36 Cocurricular/extracurricular activities	2,667	-	2,667	637
41 General administration	227,679	-	227,679	298,912
51 Plant maintenance and operation	94,023	-	94,023	99,771
52 Security and monitoring services	8,864	-	8,864	2,294
53 Data processing services	3,634	-	3,634	6,525
Total expenses	948,427	-	948,427	1,297,454
Change in net assets	176,871	(257,125)	(80,254)	192,258
Net assets, beginning of year	-	257,125	257,125	64,867
Net assets, end of year	\$ 176,871	\$ -	\$ 176,871	\$ 257,125

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2005
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)**

	Unrestricted	Temporarily Restricted	Totals	
			2005	2004
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 1,480	\$ -	\$ 1,480	\$ 2,103
State program revenues:				
5810 Foundation School Program Act	663,721	-	663,721	620,764
5820 State program revenues distributed by Texas Education Agency	4,367	-	4,367	2,611
Total state program revenues	668,088	-	668,088	623,375
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	63,510	-	63,510	61,942
Net assets released from restrictions:				
Restrictions satisfied by payment	16,494	(16,494)	-	-
Total revenues	749,572	(16,494)	733,078	687,420
EXPENSES				
11 Instruction	313,446	-	313,446	325,262
12 Instructional resources and media	90	-	90	2,118
13 Curriculum development and instructional staff development	6,989	-	6,989	10,238
21 Instructional leadership	-	-	-	5,903
23 School leadership	105,267	-	105,267	101,241
31 Guidance, counseling and evaluation	36,101	-	36,101	30,207
33 Health services	23	-	23	-
35 Food services	-	-	-	35
36 Cocurricular/extracurricular activities	3,050	-	3,050	195
41 General administration	204,984	-	204,984	173,942
51 Plant maintenance and operation	90,995	-	90,995	110,088
52 Security and monitoring services	1,203	-	1,203	-
53 Data processing services	8,465	-	8,465	21,717
Total expenses	770,613	-	770,613	780,946
Change in net assets	(21,041)	(16,494)	(37,535)	(93,526)
Net assets, beginning of year	-	16,494	16,494	110,020
Net assets, end of year	\$ (21,041)	\$ -	\$ (21,041)	\$ 16,494

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

STATEMENTS OF ACTIVITIES

**FOR THE YEAR ENDED AUGUST 31, 2005
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED AUGUST 31, 2004)**

	Unrestricted	Temporarily Restricted	Totals	
			2005	2004
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ 1,197	\$ -	\$ 1,197	\$ -
State program revenues:				
5810 Foundation School Program Act	1,023,680	-	1,023,680	910,502
5820 State program revenues distributed by Texas Education Agency	<u>5,142</u>	<u>-</u>	<u>5,142</u>	<u>4,852</u>
Total state program revenues	<u>1,028,822</u>	<u>-</u>	<u>1,028,822</u>	<u>915,354</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	<u>59,883</u>	<u>-</u>	<u>59,883</u>	<u>39,529</u>
Net assets released from restrictions:				
Restrictions satisfied by payment	<u>156,806</u>	<u>(156,806)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>1,246,708</u>	<u>(156,806)</u>	<u>1,089,902</u>	<u>954,883</u>
EXPENSES				
11 Instruction	360,699	-	360,699	331,885
12 Instructional resources and media	3,182	-	3,182	5
13 Curriculum development and instructional staff development	20,967	-	20,967	8,843
21 Instructional leadership	-	-	-	8,481
23 School leadership	127,403	-	127,403	106,353
31 Guidance, counseling and evaluation	82,506	-	82,506	11,403
32 Social work services	30,555	-	30,555	-
33 Health services	19	-	19	23
35 Food services	-	-	-	115
36 Cocurricular/extracurricular activities	3,715	-	3,715	15
41 General administration	271,508	-	271,508	199,181
51 Plant maintenance and operation	158,785	-	158,785	81,347
52 Security and monitoring services	6,843	-	6,843	-
53 Data processing services	<u>26,161</u>	<u>-</u>	<u>26,161</u>	<u>12,972</u>
Total expenses	<u>1,092,343</u>	<u>-</u>	<u>1,092,343</u>	<u>760,623</u>
Change in net assets	154,365	(156,806)	(2,441)	194,260
Net assets, beginning of year	<u>-</u>	<u>156,806</u>	<u>156,806</u>	<u>(37,454)</u>
Net assets, end of year	<u>\$ 154,365</u>	<u>\$ -</u>	<u>\$ 154,365</u>	<u>\$ 156,806</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 708,915	\$ 585,699
Grant payments	54,222	99,445
Miscellaneous sources	1,328	808
Payments to vendors for goods and services rendered	(284,216)	(324,145)
Payments to personnel for services rendered	(421,567)	(389,995)
	<u>58,682</u>	<u>(28,188)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(5,402)	(507)
Issuance of affiliate financing	(941)	(249,864)
	<u>(6,343)</u>	<u>(250,371)</u>
Net cash used for investing activities	(6,343)	(250,371)
Net increase (decrease) in cash	52,339	(278,559)
Cash and cash equivalents, beginning of year	<u>88,364</u>	<u>366,923</u>
Cash and cash equivalents, end of year	<u>\$ 140,703</u>	<u>\$ 88,364</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ 86,101	\$ (30,782)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	20,940	20,340
(Increase) decrease in assets:		
Due from governmental agencies	3,525	25,737
Prepaid expenses	(7,368)	3,934
Other assets	-	4,260
Increase (decrease) in liabilities:		
Accounts payable	(4,288)	(116,615)
Accrued liabilities	7,787	16,923
Deferred revenue	(48,015)	48,015
Net cash provided by (used for) operating activities	<u>\$ 58,682</u>	<u>\$ (28,188)</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 990,510	\$ 709,856
Grant payments	65,182	125,321
Miscellaneous sources	-	1,592
Payments to vendors for goods and services rendered	(381,979)	(328,260)
Payments to personnel for services rendered	<u>(472,329)</u>	<u>(427,075)</u>
Net cash provided by operating activities	<u>201,384</u>	<u>81,434</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(63,689)	(6,637)
Collection (issuance) of affiliate financing	<u>22</u>	<u>(27,677)</u>
Net cash used for investing activities	<u>(63,667)</u>	<u>(34,314)</u>
Net increase in cash	137,717	47,120
Cash and cash equivalents, beginning of year	<u>66,833</u>	<u>19,713</u>
Cash and cash equivalents, end of year	<u>\$ 204,550</u>	<u>\$ 66,833</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 41,458	\$ 47,552
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	32,451	28,650
(Increase) decrease in assets:		
Due from governmental agencies	83,949	(3,325)
Prepaid assets	(3,526)	3,703
Other assets	-	1,034
Increase (decrease) in liabilities:		
Accounts payable	23,771	7,568
Accrued liabilities	33,090	(8,557)
Deferred revenue	<u>(9,809)</u>	<u>4,809</u>
Net cash provided by operating activities	<u>\$ 201,384</u>	<u>\$ 81,434</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 789,259	\$ 808,042
Grant payments	81,473	65,984
Miscellaneous sources	91	-
Payments to vendors for goods and services rendered	(409,031)	(300,327)
Payments to personnel for services rendered	<u>(581,826)</u>	<u>(466,402)</u>
Net cash provided by (used for) operating activities	<u>(120,034)</u>	<u>107,297</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(4,110)	(26,575)
Collection (issuance) of affiliate financing	<u>170,517</u>	<u>(28,365)</u>
Net cash provided by (used for) investing activities	<u>166,407</u>	<u>(54,940)</u>
Net increase in cash	46,373	52,357
Cash and cash equivalents, beginning of year	<u>65,937</u>	<u>13,580</u>
Cash and cash equivalents, end of year	<u>\$ 112,310</u>	<u>\$ 65,937</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ (45,493)	\$ 49,108
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	7,069	2,401
(Increase) decrease in assets:		
Due from governmental agencies	(67,000)	47,262
Prepaid assets	(3,063)	3,650
Other assets	1,337	5,117
Increase (decrease) in liabilities:		
Accounts payable	(16,906)	(10,489)
Accrued liabilities	4,022	35,904
Deferred revenue	<u>-</u>	<u>(25,656)</u>
Net cash provided by (used for) operating activities	<u>\$ (120,034)</u>	<u>\$ 107,297</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 937,094	\$ 772,138
Grant payments	169,105	474,025
Miscellaneous sources	2,467	-
Payments to vendors for goods and services rendered	(514,913)	(591,428)
Payments to personnel for services rendered	(507,252)	(603,614)
	<u>86,501</u>	<u>51,121</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(31,050)	(105,613)
Collection (issuance) of affiliate financing	(46,764)	115,921
	<u>(77,814)</u>	<u>10,308</u>
Net increase in cash	8,687	61,429
Cash and cash equivalents, beginning of year	<u>89,441</u>	<u>28,012</u>
Cash and cash equivalents, end of year	<u>\$ 98,128</u>	<u>\$ 89,441</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (80,254)	\$ 192,258
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	24,702	15,034
(Increase) decrease in assets:		
Due from governmental agencies	242,762	(222,175)
Prepaid assets	(2,058)	1,754
Other assets	(103)	(199)
Increase (decrease) in liabilities:		
Accounts payable	(122,010)	80,977
Accrued liabilities	25,731	1,330
Deferred revenue	(2,269)	(17,858)
Net cash provided by operating activities	<u>\$ 86,501</u>	<u>\$ 51,121</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 692,086	\$ 572,566
Grant payments	62,133	61,599
Miscellaneous sources	1,480	-
Payments to vendors for goods and services rendered	(274,247)	(339,129)
Payments to personnel for services rendered	(429,251)	(444,192)
Net cash provided by (used for) operating activities	52,201	(149,156)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(9,624)	(8,550)
Collection (issuance) of affiliate financing	(74,412)	224,613
Net cash provided by (used for) investing activities	(84,036)	216,063
Net increase (decrease) in cash	(31,835)	66,907
Cash and cash equivalents, beginning of year	72,439	5,532
Cash and cash equivalents, end of year	\$ 40,604	\$ 72,439
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ (37,535)	\$ (93,526)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation and amortization	3,031	2,192
(Increase) decrease in assets:		
Due from governmental agencies	22,719	(48,586)
Prepaid assets	(2,509)	3,642
Other assets	-	573
Increase (decrease) in liabilities:		
Accounts payable	42,606	(13,644)
Accrued liabilities	23,987	174
Deferred revenue	(98)	19
Net cash provided by (used for) operating activities	\$ 52,201	\$ (149,156)

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Foundation School Program payments	\$ 1,027,076	\$ 855,606
Grant payments	59,883	39,433
Miscellaneous sources	1,197	-
Payments to vendors for goods and services rendered	(492,018)	(216,339)
Payments to personnel for services rendered	(550,775)	(429,063)
	<u>45,363</u>	<u>249,637</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(73,885)	(55,903)
Collection (issuance) of affiliate financing	59,810	(128,919)
	<u>(14,075)</u>	<u>(184,822)</u>
Net cash used for investing activities	(14,075)	(184,822)
Net increase in cash	31,288	64,815
Cash and cash equivalents, beginning of year	<u>83,832</u>	<u>19,017</u>
Cash and cash equivalents, end of year	<u>\$ 115,120</u>	<u>\$ 83,832</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ (2,441)	\$ 194,260
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	18,094	6,719
(Increase) decrease in assets:		
Due from governmental agencies	(1,746)	8,876
Prepaid assets	(4,044)	2,091
Other assets	15,100	(18,000)
Increase (decrease) in liabilities:		
Accounts payable	(16,880)	67,260
Accrued liabilities	37,280	9,479
Deferred revenue	-	(21,048)
Net cash provided by operating activities	<u>\$ 45,363</u>	<u>\$ 249,637</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

EXPENSES		<u>2005</u>	<u>2004</u>
6100	Payroll costs	\$ 429,354	\$ 406,918
6200	Professional and contracted services	213,532	227,951
6300	Supplies and materials	20,380	17,403
6400	Other operating costs	59,588	46,085
	Total expenses	<u>\$ 722,854</u>	<u>\$ 698,357</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

		<u>2005</u>	<u>2004</u>
EXPENSES			
6100	Payroll costs	\$ 505,419	\$ 425,227
6200	Professional and contracted services	305,608	281,988
6300	Supplies and materials	42,147	24,562
6400	Other operating costs	86,920	60,275
	Total expenses	<u>\$ 940,094</u>	<u>\$ 792,052</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

		<u>2005</u>	<u>2004</u>
EXPENSES			
6100	Payroll costs	\$ 585,848	\$ 468,668
6200	Professional and contracted services	313,797	318,799
6300	Supplies and materials	29,053	22,247
6400	Other operating costs	54,618	43,347
	Total expenses	<u>\$ 983,316</u>	<u>\$ 853,061</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

		<u>2005</u>	<u>2004</u>
EXPENSES			
6100	Payroll costs	\$ 532,983	\$ 604,639
6200	Professional and contracted services	284,502	440,639
6300	Supplies and materials	47,908	179,158
6400	Other operating costs	83,034	73,018
	Total expenses	<u>\$ 948,427</u>	<u>\$ 1,297,454</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

		<u>2005</u>	<u>2004</u>
EXPENSES			
6100	Payroll costs	\$ 453,238	\$ 444,365
6200	Professional and contracted services	243,870	265,548
6300	Supplies and materials	25,408	26,434
6400	Other operating costs	48,097	44,599
	Total expenses	<u>\$ 770,613</u>	<u>\$ 780,946</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

SCHEDULES OF EXPENSES

FOR THE YEARS ENDED AUGUST 31, 2005 AND 2004

		<u>2005</u>	<u>2004</u>
EXPENSES			
6100	Payroll costs	\$ 588,055	\$ 436,699
6200	Professional and contracted services	366,995	258,328
6300	Supplies and materials	68,173	27,315
6400	Other operating costs	<u>69,120</u>	<u>38,281</u>
	Total expenses	<u>\$ 1,092,343</u>	<u>\$ 760,623</u>

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2005

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 140,703	\$ -
1539	Furniture and equipment	-	103,885	3,131
	Total	\$ -	\$ 244,588	\$ 3,131

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2005

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 204,550	\$ -
1539	Furniture and equipment	-	59,299	152,835
	Total	\$ -	\$ 263,849	\$ 152,835

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2005

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 112,310	\$ -
1539	Furniture and equipment	-	19,538	19,231
	Total	\$ -	\$ 131,848	\$ 19,231

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2005

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 98,128	\$ -
1539	Furniture and equipment	-	8,552	136,153
	Total	\$ -	\$ 106,680	\$ 136,153

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2005

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 40,604	\$ -
1539	Furniture and equipment	-	16,905	8,249
	Total	\$ -	\$ 57,509	\$ 8,249

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2005

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 115,120	\$ -
1539	Furniture and equipment	-	119,963	16,432
	Total	\$ -	\$ 235,083	\$ 16,432

See accompanying notes to financial statements and independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – AMARILLO

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 49,343	\$ 49,343
State program revenues:				
5810 Foundation School Program Act	589,228	589,228	700,904	111,676
5820 State program revenues distributed by Texas Education Agency	-	-	4,467	4,467
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	54,241	54,241	54,241	-
Total revenues	643,469	643,469	808,955	165,486
EXPENSES				
11 Instruction	272,191	272,191	282,234	(10,043)
12 Instructional resources and media	5,674	5,674	990	4,684
13 Curriculum development and instructional staff development	4,836	4,836	4,783	53
21 Instructional leadership	3,000	3,000	-	3,000
23 School leadership	61,418	61,418	109,782	(48,364)
31 Guidance, counseling and evaluation	27,971	27,971	28,829	(858)
33 Health services	800	800	79	721
36 Cocurricular/extracurricular activities	2,000	2,000	2,852	(852)
41 General administration	178,976	178,976	202,489	(23,513)
51 Plant maintenance and operation	81,980	81,980	87,105	(5,125)
52 Security and monitoring services	14,450	14,450	310	14,140
53 Data processing services	13,840	13,840	3,379	10,461
61 Community services	1,300	1,300	22	1,278
Total expenses	668,436	668,436	722,854	(54,418)
Change in net assets	(24,967)	(24,967)	86,101	111,068
Net assets, beginning of year	111,211	111,211	111,211	-
Net assets, end of year	\$ 86,244	\$ 86,244	\$ 197,312	\$ 111,068

See independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – BEAUMONT

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 9,809	\$ 9,809
State program revenues:				
5810 Foundation School Program Act	708,980	708,980	899,905	190,925
5820 State program revenues distributed by Texas Education Agency	-	-	6,377	6,377
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	65,461	65,461	65,461	-
Total revenues	<u>774,441</u>	<u>774,441</u>	<u>981,552</u>	<u>207,111</u>
EXPENSES				
11 Instruction	325,769	325,769	356,643	(30,874)
12 Instructional resources and media	6,268	6,268	4,410	1,858
13 Curriculum development and instructional staff development	9,459	9,459	58,700	(49,241)
21 Instructional leadership	12,500	12,500	-	12,500
23 School leadership	67,483	67,483	106,957	(39,474)
31 Guidance, counseling and evaluation	47,309	47,309	7,876	39,433
32 Social work services	3,400	3,400	10,856	(7,456)
33 Health services	500	500	-	500
34 Student transportation	1,500	1,500	-	1,500
35 Food services	150	150	-	150
36 Cocurricular/extracurricular activities	2,000	2,000	10,045	(8,045)
41 General administration	191,529	191,529	243,684	(52,155)
51 Plant maintenance and operation	90,648	90,648	123,977	(33,329)
52 Security and monitoring services	4,100	4,100	2,532	1,568
53 Data processing services	9,300	9,300	14,414	(5,114)
61 Community services	200	200	-	200
81 Fund raising	250	250	-	250
Total expenses	<u>772,365</u>	<u>772,365</u>	<u>940,094</u>	<u>(167,729)</u>
Change in net assets	2,076	2,076	41,458	39,382
Net assets, beginning of year	<u>289,562</u>	<u>289,562</u>	<u>289,562</u>	<u>-</u>
Net assets, end of year	<u>\$ 291,638</u>	<u>\$ 291,638</u>	<u>\$ 331,020</u>	<u>\$ 39,382</u>

See independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – CORPUS CHRISTI

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 91	\$ 91
State program revenues:				
5810 Foundation School Program Act	829,715	829,715	841,399	11,684
5820 State program revenues distributed by Texas Education Agency	-	-	5,396	5,396
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	91,896	91,896	90,937	(959)
Total revenues	<u>921,611</u>	<u>921,611</u>	<u>937,823</u>	<u>16,212</u>
EXPENSES				
11 Instruction	391,073	391,073	404,900	(13,827)
12 Instructional resources and media	4,000	4,000	229	3,771
13 Curriculum development and instructional staff development	22,249	22,249	14,127	8,122
21 Instructional leadership	5,100	5,100	-	5,100
23 School leadership	88,700	88,700	121,502	(32,802)
31 Guidance, counseling and evaluation	44,742	44,742	74,146	(29,404)
32 Social work services	7,302	7,302	11,343	(4,041)
33 Health services	1,200	1,200	4,107	(2,907)
36 Cocurricular/extracurricular activities	2,705	2,705	2,319	386
41 General administration	207,138	207,138	233,001	(25,863)
51 Plant maintenance and operation	96,356	96,356	112,897	(16,541)
52 Security and monitoring services	38,619	38,619	335	38,284
53 Data processing services	8,200	8,200	4,410	3,790
61 Community services	3,000	3,000	-	3,000
Total expenses	<u>920,384</u>	<u>920,384</u>	<u>983,316</u>	<u>(62,932)</u>
Change in net assets	1,227	1,227	(45,493)	(46,720)
Net assets, beginning of year	<u>108,788</u>	<u>108,788</u>	<u>108,788</u>	<u>-</u>
Net assets, end of year	<u>\$ 110,015</u>	<u>\$ 110,015</u>	<u>\$ 63,295</u>	<u>\$ (46,720)</u>

See independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – KILLEEN

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget-Positive (Negative)
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 2,467	\$ 2,467
State program revenues:				
5810 Foundation School Program Act	767,881	767,881	728,502	(39,379)
5820 State program revenues distributed by Texas Education Agency	25,000	25,000	23,468	(1,532)
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	177,835	177,835	113,736	(64,099)
Total revenues	<u>970,716</u>	<u>970,716</u>	<u>868,173</u>	<u>(102,543)</u>
EXPENSES				
11 Instruction	510,338	510,338	404,183	106,155
12 Instructional resources and media	5,200	5,200	131	5,069
13 Curriculum development and instructional staff development	18,940	18,940	13,937	5,003
21 Instructional leadership	4,500	4,500	-	4,500
23 School leadership	91,500	91,500	134,409	(42,909)
31 Guidance, counseling and evaluation	26,435	26,435	53,964	(27,529)
32 Social work services	500	500	3,549	(3,049)
33 Health services	900	900	387	513
34 Student transportation	2,000	2,000	1,000	1,000
35 Food services	1,500	1,500	-	1,500
36 Cocurricular/extracurricular activities	3,500	3,500	2,667	833
41 General administration	190,927	190,927	227,679	(36,752)
51 Plant maintenance and operation	67,616	67,616	94,023	(26,407)
52 Security and monitoring services	37,491	37,491	8,864	28,627
53 Data processing services	7,000	7,000	3,634	3,366
61 Community services	1,500	1,500	-	1,500
81 Fund raising	500	500	-	500
Total expenses	<u>970,347</u>	<u>970,347</u>	<u>948,427</u>	<u>21,920</u>
Change in net assets	369	369	(80,254)	(80,623)
Net assets, beginning of year	<u>257,125</u>	<u>257,125</u>	<u>257,125</u>	<u>-</u>
Net assets, end of year	<u>\$ 257,494</u>	<u>\$ 257,494</u>	<u>\$ 176,871</u>	<u>\$ (80,623)</u>

See independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – LUBBOCK

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 1,480	\$ 1,480
State program revenues:				
5810 Foundation School Program Act	612,239	612,239	663,721	51,482
5820 State program revenues distributed by Texas Education Agency	-	-	4,367	4,367
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	63,285	63,285	63,510	225
Total revenues	<u>675,524</u>	<u>675,524</u>	<u>733,078</u>	<u>57,554</u>
EXPENSES				
11 Instruction	344,749	344,749	313,446	31,303
12 Instructional resources and media	3,200	3,200	90	3,110
13 Curriculum development and instructional staff development	7,681	7,681	6,989	692
21 Instructional leadership	1,150	1,150	-	1,150
23 School leadership	66,252	66,252	105,267	(39,015)
31 Guidance, counseling and evaluation	26,404	26,404	36,101	(9,697)
33 Health services	600	600	23	577
36 Cocurricular/extracurricular activities	2,500	2,500	3,050	(550)
41 General administration	158,006	158,006	204,984	(46,978)
51 Plant maintenance and operation	88,302	88,302	90,995	(2,693)
52 Security and monitoring services	5,000	5,000	1,203	3,797
53 Data processing services	4,848	4,848	8,465	(3,617)
61 Community services	885	885	-	885
Total expenses	<u>709,577</u>	<u>709,577</u>	<u>770,613</u>	<u>(61,036)</u>
Change in net assets	(34,053)	(34,053)	(37,535)	(3,482)
Net assets, beginning of year	<u>16,494</u>	<u>16,494</u>	<u>16,494</u>	<u>-</u>
Net assets, end of year	<u>\$ (17,559)</u>	<u>\$ (17,559)</u>	<u>\$ (21,041)</u>	<u>\$ (3,482)</u>

See independent auditors' report.

RICHARD MILBURN ACADEMY, INC. – MIDLAND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 1,197	\$ 1,197
State program revenues:				
5810 Foundation School Program Act	805,566	805,566	1,023,680	218,114
5820 State program revenues distributed by Texas Education Agency	-	-	5,142	5,142
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	59,883	59,883	59,883	-
Total revenues	865,449	865,449	1,089,902	224,453
EXPENSES				
11 Instruction	345,383	345,383	360,699	(15,316)
12 Instructional resources and media	9,700	9,700	3,182	6,518
13 Curriculum development and instructional staff development	11,839	11,839	20,967	(9,128)
21 Instructional leadership	1,500	1,500	-	1,500
23 School leadership	71,645	71,645	127,403	(55,758)
31 Guidance, counseling and evaluation	34,703	34,703	82,506	(47,803)
32 Social work services	15,500	15,500	30,555	(15,055)
33 Health services	2,800	2,800	19	2,781
36 Cocurricular/extracurricular activities	2,000	2,000	3,715	(1,715)
41 General administration	197,698	197,698	271,508	(73,810)
51 Plant maintenance and operation	114,800	114,800	158,785	(43,985)
52 Security and monitoring services	31,240	31,240	6,843	24,397
53 Data processing services	19,000	19,000	26,161	(7,161)
61 Community services	2,000	2,000	-	2,000
Total expenses	859,808	859,808	1,092,343	(232,535)
Change in net assets	5,641	5,641	(2,441)	(8,082)
Net assets, beginning of year	156,806	156,806	156,806	-
Net assets, end of year	\$ 162,447	\$ 162,447	\$ 154,365	\$ (8,082)

See independent auditors' report.



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 general-purpose financial statements of Richard Milburn Academy, Inc. (the "Organization") as of and for the year ended August 31, 2005, and have issued our report thereon dated October 14, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization'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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 three instances of noncompliance that are required to be reported under *Government Auditing Standards*. These are described in the attached Schedule of Findings and Questioned Costs as findings 2005-1, 2005-2 and 2005-3.

This report is intended solely for the information and use of 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.

Beemer, Pricher, Kuehnhackel & Heidbrink P.A.

Winter Park, Florida
October 14, 2005

RICHARD MILBURN ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2005

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
• Reportable conditions identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

A Single Audit was not required. This section is not applicable.

Section II - Financial Statement Findings

2005-1: Pledged Securities

The Organization's depository bank did not pledge securities to cover bank balances exceeding FDIC insurance coverage.

Section III – State and Federal Award Findings and Questioned Costs

2005-2: Reporting of PEIMS Data

During our testing of the accuracy of the data reported through the PEIMS system during fiscal 2005, we noted certain discrepancies in the various submissions as compared to the corresponding source data, files and documents. We have summarized these discrepancies as follows:

- The submission of the prior year financial data did not agree in certain instances to the final balances from the prior year's audit.
- The information as reported for student grading, course completion and attendance information did not agree in certain instances to the source documentation or the source documentation could not be located.

RICHARD MILBURN ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2005
(continued)

Section III – State and Federal Award Findings and Questioned Costs (continued)

2005-3: Appropriated Funds

During our testing of the maintenance of effort for each school, we noted the following expenditure shortages for the year ended August 31, 2005:

Amarillo:	Career and Technology, \$35,782; Pregnancy-Related, \$1,487
Killeen:	Special Education, \$28,452
Lubbock:	Special Education, \$18,227; Pregnancy-Related, \$3,443
Midland:	Special Education, \$9,587; Compensatory Education, \$23,239; Pregnancy-Related, \$2,932

Section IV - Status of Prior Year Audit Findings

There were no prior year audit findings.