



**RICHARD MILBURN ACADEMY, INC.**  
**ANNUAL AND FINANCIAL COMPLIANCE**  
**REPORT**  
**AUGUST 31, 2012**  
**(WITH SUMMARIZED COMPARATIVE**  
**INFORMATION FOR 2011)**



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

**CERTIFICATE OF BOARD**

We, the undersigned, certify that the attached Annual and Financial Compliance Report of Richard Milburn Academy, Inc. was reviewed and (check one)   x   approved        disapproved for the year ended August 31, 2012, at a meeting of the governing body of the charter holder on the   17  th day of January, 2013.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President



## Independent Auditor's Report

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

Members of the Board of Directors:

We have audited the accompanying statements of financial position of Richard Milburn Academy, Inc. (a nonprofit organization) (the "charter holder") as of August 31, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the charter holder's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the charter holder's 2011 financial statements which were audited by us and upon which our report dated January 25, 2012 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the charter holder as of August 31, 2012, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2013, on our consideration of the charter holder's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was conducted for the purpose of forming an opinion on the general-purpose financial statements of the charter holder as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. The specific-purpose financial statements and schedules on pages 17-44 are likewise presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*BKHM, P.A.*

Winter Park, Florida  
January 25, 2013

**RICHARD MILBURN ACADEMY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

**AUGUST 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 589,483	\$ 508,673
Accounts receivable	34,054	10,663
Due from governmental agencies	220,554	492,367
Prepaid assets	5,894	7,299
Assets of discontinued school	71,905	73,392
Total current assets	921,890	1,092,394
Capital assets, net	132,116	102,909
Other assets	15,869	20,141
Total assets	\$ 1,069,875	\$ 1,215,444
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 724,985	\$ 621,818
Accrued payroll	154,037	145,176
Deferred tenant allowance	61,250	-
Liabilities of discontinued school	81,557	435,264
Total liabilities	1,021,829	1,202,258
Net assets:		
Unrestricted - continuing operations	(160,146)	78,143
Unrestricted - discontinued school	(13,658)	(365,708)
Total unrestricted	(173,804)	(287,565)
Temporarily restricted	221,850	300,751
Total net assets	48,046	13,186
Total liabilities and net assets	\$ 1,069,875	\$ 1,215,444

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

**RICHARD MILBURN ACADEMY, INC.**

**STATEMENTS OF ACTIVITIES**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012  
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2011)**

<b>REVENUES</b>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
Local support:				
Interest and other revenue	\$ 5,720	\$ -	\$ 5,720	\$ 5,365
Total local support	<u>5,720</u>	<u>-</u>	<u>5,720</u>	<u>5,365</u>
State program revenues:				
Foundation School Program	5,026,909	-	5,026,909	4,992,838
Other state aid	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,733</u>
Total state program revenues	<u>5,026,909</u>	<u>-</u>	<u>5,026,909</u>	<u>5,008,571</u>
Federal program revenues:				
ESEA Title I, Part A	91,607	-	91,607	118,466
ESEA Title II, Part A	37,314	-	37,314	17,419
ESEA Title IV, Part A	-	-	-	666
ESEA School Improvement Plan	400,908	-	400,908	691,402
IDEA, Part B	69,934	-	69,934	85,473
Title V, Part B	100,379	-	100,379	-
State Fiscal Stabilization Funds	(3,320)	-	(3,320)	49,524
Education Jobs Funds	<u>7,207</u>	<u>-</u>	<u>7,207</u>	<u>97,001</u>
Total federal program revenues	<u>704,029</u>	<u>-</u>	<u>704,029</u>	<u>1,059,951</u>
Net assets released from restrictions:				
Restrictions satisfied by payment	<u>78,901</u>	<u>(78,901)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released from restrictions	<u>\$ 5,815,559</u>	<u>\$ (78,901)</u>	<u>\$ 5,736,658</u>	<u>\$ 6,073,887</u>

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



**RICHARD MILBURN ACADEMY, INC.**

**STATEMENTS OF ACTIVITIES**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012  
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2011)  
(continued)**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Totals</b>	
			<b>2012</b>	<b>2011</b>
<b>EXPENSES</b>				
Program services:				
Instruction and instruction-related	\$ 2,870,844	\$ -	\$ 2,870,844	\$ 3,369,999
Instructional and school leadership	594,999	-	594,999	666,669
Support services:				
Administrative support services	1,402,736	-	1,402,736	1,295,177
Support services - student	284,642	-	284,642	266,199
Support services - non-student based	900,627	-	900,627	801,241
Total expenses	6,053,848	-	6,053,848	6,399,285
Change in net assets from continuing schools	(238,289)	(78,901)	(317,190)	(325,398)
Discontinued school (see Note 10) Gain (loss) from operation of discontinued school	352,050	-	352,050	(102,161)
Change in net assets	113,761	(78,901)	34,860	(427,559)
Net assets, beginning of year	(287,565)	300,751	13,186	440,745
Net assets, end of year	\$ (173,804)	\$ 221,850	\$ 48,046	\$ 13,186

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

**RICHARD MILBURN ACADEMY, INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE FISCAL YEARS ENDED AUGUST 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Foundation School Program payments	\$ 5,080,500	\$ 4,960,547
Grant payments	922,251	891,873
Miscellaneous sources	5,720	5,365
Payments to vendors for goods and services rendered	(2,521,577)	(2,432,390)
Payments to personnel for services rendered	<u>(3,339,340)</u>	<u>(3,655,845)</u>
Net cash provided by (used for) operating activities, continuing operations	147,554	(230,450)
Net cash used for operating activities, discontinued school	<u>(1,092)</u>	<u>(17,417)</u>
Net cash provided by (used for) operating activities	<u>146,462</u>	<u>(247,867)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	<u>(66,574)</u>	<u>(25,142)</u>
Net cash used for investing activities, continuing operations	<u>(66,574)</u>	<u>(25,142)</u>
Net cash used for investing activities	<u>(66,574)</u>	<u>(25,142)</u>
Net increase (decrease) in cash	79,888	(273,009)
Cash and cash equivalents, beginning of year	<u>581,500</u>	<u>854,509</u>
Cash and cash equivalents, end of year	661,388	581,500
Less cash and cash equivalents of discontinued school, end of year	<u>(71,905)</u>	<u>(72,827)</u>
Cash and cash equivalents of continuing operations, end of year	<u>\$ 589,483</u>	<u>\$ 508,673</u>

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

**RICHARD MILBURN ACADEMY, INC.**

**STATEMENTS OF CASH FLOWS**  
**(continued)**

	<b>2012</b>	<b>2011</b>
Reconciliation of change in net assets to net cash used for operating activities:		
Change in net assets from continuing schools	\$ (317,190)	\$ (325,398)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	61,288	37,006
Deferred tenant allowance amortization	(8,750)	-
(Increase) decrease in assets:		
Accounts receivable	(23,391)	8,912
Due from governmental agencies	271,813	(216,102)
Prepaid assets	1,405	(5,954)
Other assets	4,272	798
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	149,246	288,012
Accrued payroll	8,861	(17,724)
	147,554	(230,450)
Net cash provided by (used for) operating activities, continuing operations		
Net cash used for operating activities, discontinued school	(1,092)	(17,417)
Net cash provided by (used for) operating activities	\$ 146,462	\$ (247,867)
 <b>NONCASH INVESTING ACTIVITIES</b>		
Purchase of capital assets with accounts payable	\$ -	\$ 46,079
Capital assets acquired with deferred tenant allowance	\$ 70,000	\$ -

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

**RICHARD MILBURN ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2012**

**1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

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

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

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

**Basis of presentation**

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

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

**RICHARD MILBURN ACADEMY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

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

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

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Revenues received that are temporarily restricted whose restrictions are met in the same year as received are shown as unrestricted revenues, which is a policy that has been applied consistently from period to period.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the fiscal year ended August 31, 2011, from which the summarized information was derived.

**Functional expenses**

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

**Cash and cash equivalents**

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

**Capitalized assets and depreciation**

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

**RICHARD MILBURN ACADEMY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

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

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

**Income taxes**

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

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

As of August 31, 2012, the Organization had no accrued interest expense or penalties related to tax positions. Interest and penalties, if incurred, would be recognized as a component of income tax expense. With few exceptions, the Organization is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2008.

**Use of estimates**

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

**RICHARD MILBURN ACADEMY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Subsequent events**

FASB ASC 855 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date (that is, whether that date represents the date the financial statements were issued or were available to be issued). The Organization has evaluated subsequent events through January 25, 2013, which is the date the financial statements were available to be issued.

**2 DUE FROM/TO GOVERNMENTAL AGENCIES**

Due from governmental agencies in the accompanying statements of financial position include approximately \$66,000 and \$286,000 in funds due from federal agencies and approximately \$155,000 and \$207,000 due from the TEA as of August 31, 2012 and 2011, respectively. Based on the collectibility of funds from these sources, in the opinion of management, an allowance for doubtful accounts is not considered necessary.

Liabilities of the discontinued school include approximately \$82,000 and \$151,000 due to state agencies as of August 31, 2012 and 2011, respectively.

**3 CAPITAL ASSETS**

Capital assets, net, as of August 31, 2012 and 2011 from continuing operations consisted of the following:

	<u>2012</u>	<u>2011</u>
Buildings and improvements	\$ 153,889	\$ 83,889
Furniture, fixtures and equipment	410,185	389,618
Total capital assets	564,074	473,507
Less: accumulated depreciation	(431,958)	(370,598)
Capital assets, net	<u>\$ 132,116</u>	<u>\$ 102,909</u>

Capitalized assets acquired with public funds received by the Organization for the operation of the individual schools of Richard Milburn Academy, Inc. constitute public property pursuant to Chapter 12 of the Texas Education Code. These capitalized asset amounts are identified on the Schedule of Capital Assets for each individual charter school by respective charter on pages 33-36 and for the corporate entity on page 37.

Depreciation expense from continuing operations for the fiscal years ended August 31, 2012 and 2011 was approximately \$61,000 and \$37,000, respectively.

**RICHARD MILBURN ACADEMY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**4 NET ASSET CLASSIFICATIONS**

Temporarily restricted net assets are available for the following purposes:

For the benefit of students	<u>\$ 221,850</u>
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**5 NET ASSETS RELEASED FROM RESTRICTIONS**

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

For the benefit of students	<u>\$ 78,901</u>
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**6 PENSION PLAN OBLIGATIONS**

**Defined benefit plan**

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

Under provisions in State law, plan members are required to contribute 7.4% of their annual covered salary, and the State of Texas contributes an amount equal to 6.0% of the Organization's covered payroll. Additionally, the Organization contributes 6.58% of the employees' annual covered salary during the first three months of employment, and 0.55% thereafter. The Organization's contributions to the System for the fiscal years ended August 31, 2012 and 2011 were approximately \$34,000 and \$61,000, respectively, and were equal to the required contributions for each year.

**401(k) plan**

The Organization also participates in a profit-sharing plan of a related party. The plan operates under Section 401(k) of the Internal Revenue Code, whereby all eligible employees are entitled to defer up to \$17,000 and \$16,500, respectively, during the 2012 and 2011 calendar years. Substantially all employees are eligible to participate in the plan depending on the length of service and attainment of minimum age requirements. Under the terms of the plan, the Organization contributes an amount to the plan at the discretion of the Board of Directors. The Organization's contributions to the plan in fiscal 2012 and 2011 were approximately \$400 and \$1,500, respectively.



**RICHARD MILBURN ACADEMY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**7 RELATED PARTY TRANSACTIONS**

During the routine course of business, invoices and payroll, which apply to both the Organization and other related entities or schools, may be paid by a single entity creating a receivable or payable. The Organization tracks the amounts due to or from each related entity or school separately. Amounts due from related parties as of August 31, 2012 and 2011 are approximately \$34,000 and \$11,000, respectively, and are included in accounts receivable in the accompanying statements of financial position.

**8 RISK MANAGEMENT PROGRAM**

Workers' compensation coverage, employee health, general liability, professional liability and property coverages are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have historically not exceeded commercial coverage.

**9 COMMITMENTS AND CONTINGENT LIABILITIES**

**Grants**

The Organization participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable as of August 31, 2012 may be impaired.

The Organization is required to spend a minimum amount of its allocation of special program allotments from the TEA during the year they are awarded. As of August 31, 2012, management does not believe there are any amounts due to the TEA for unexpended special program allotments.

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

**RICHARD MILBURN ACADEMY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Lease commitments**

The Organization's continuing operations lease facilities under non-cancelable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of August 31, 2012 under these leases are summarized as follows:

<u>Fiscal Year Ending August 31,</u>	
2013	\$ 520,434
2014	369,869
2015	371,138
2016	356,879
2017	269,110
Thereafter	<u>226,220</u>
Total	<u>\$ 2,113,650</u>

Rent expense for all operating leases for the fiscal years ended August 31, 2012 and 2011 was approximately \$468,000 and \$386,000, respectively.

**Management fees**

The Organization contracts with a management company for management and administrative services. The management agreements provide, among other things, for the payment of a management fee calculated based upon the gross revenues of each individual school within the Organization. The management agreements were executed following a full and open competition bidding process and were approved by the Board of Directors. For the fiscal years ended August 31, 2012 and 2011, the continuing operations of the Organization have incurred approximately \$854,000 and \$898,000 of management fees, respectively. For the fiscal years ended August 31, 2012 and 2011, the discontinued school (see Note 10) received a forgiveness of management fees totaling approximately \$283,000 and \$12,000, respectively. Management fees are included in general administration expense in the accompanying statements of activities.

Amounts due from continuing operations to the management company as of August 31, 2012 and 2011 are approximately \$579,000 and \$321,000, respectively, and are included in accounts payable and accrued expenses in the accompanying statements of financial position. Amounts due from the discontinued school (see Note 10) to the management company as of August 31, 2012 and 2011 are approximately \$0 and \$283,000, respectively, and are included in liabilities of discontinued school in the accompanying statements of financial position.

**State funding**

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

**RICHARD MILBURN ACADEMY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
(continued)**

**Other contingent liabilities**

In fiscal 2009, the discontinued school (see Note 10) had computers and other equipment stolen and in fiscal 2010, the discontinued school received funds it believed to be more than their final Foundation School Program (“FSP”) allocation from the TEA. In prior years, management estimated that it was probable they would receive a request to return these amounts. During the year ended August 31, 2012, management revised their estimate to reasonably possible, based on current information and discussions with various third parties. As a result of this change in estimate, \$69,872 was recorded as a contra expense to school leadership in the accompanying discontinued school statement of activities.

In fiscal 2012, the Organization entered into an agreement with a third party to provide program evaluation services for a grant. The agreement requires the Organization to pay quarterly payments of 10% of the grant award amount plus travel expenses for all years awarded, regardless of the amount of the award that is actually drawn down. If the award funding is terminated for any reason, the Organization’s obligation ceases effective on the date the third party is notified. The anticipated payments are summarized as follows:

<u>Fiscal Year Ending August 31,</u>	
2013	\$ 111,916
2014	82,200
2015	180,220
2016	<u>180,128</u>
Total	<u>\$ 554,464</u>

**10 SCHOOL CLOSING**

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

The results of operations for this school have been classified as discontinued operations in the accompanying financial statements for the periods presented. During the year ended August 31, 2011, the TEA performed a closeout audit of the Beaumont school that reduced the school’s funding for the school year ended August 31, 2010, which was recorded as a reduction to the fiscal 2011 year’s revenue and is to be refunded back to the TEA. Revenues from the discontinued school were \$6 and (\$81,543) for the years ended August 31, 2012 and 2011, respectively. The change in net assets from discontinued operations was an increase of \$352,050 and a decrease of \$102,161 for the years ended August 31, 2012 and 2011, respectively.

RICHARD MILBURN ACADEMY, INC. - AMARILLO

STATEMENTS OF FINANCIAL POSITION

AUGUST 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 209,270	\$ 121,806
Due from governmental agencies	68,773	119,048
Prepaid assets	<u>1,648</u>	<u>5,085</u>
Total current assets	279,691	245,939
Capital assets, net	<u>84,934</u>	<u>46,972</u>
Total assets	<u><u>\$ 364,625</u></u>	<u><u>\$ 292,911</u></u>
<b>LIABILITIES AND NET (DEFICIT) ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 310,795	\$ 194,733
Accrued payroll	41,642	50,294
Deferred tenant allowance	61,250	-
Due to affiliates	<u>700</u>	<u>25,678</u>
Total liabilities	<u>414,387</u>	<u>270,705</u>
Net (deficit) assets:		
Unrestricted	<u>(49,762)</u>	<u>22,206</u>
Total net (deficit) assets	<u>(49,762)</u>	<u>22,206</u>
Total liabilities and net (deficit) assets	<u><u>\$ 364,625</u></u>	<u><u>\$ 292,911</u></u>

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

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

**STATEMENTS OF FINANCIAL POSITION**

**AUGUST 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 71,905	\$ 72,827
Due from governmental agencies	-	565
Total assets	<b>\$ 71,905</b>	<b>\$ 73,392</b>
 <b>LIABILITIES AND NET DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ -	\$ 283,323
Accrued payroll	-	512
Due to governmental agencies	81,557	151,429
Due to affiliates	4,006	3,836
Total liabilities	85,563	439,100
Net deficit		
Unrestricted	(13,658)	(365,708)
Total net deficit	(13,658)	(365,708)
Total liabilities and net deficit	<b>\$ 71,905</b>	<b>\$ 73,392</b>

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

**RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI**

**STATEMENTS OF FINANCIAL POSITION**

**AUGUST 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 152,738	\$ 112,866
Accounts receivable	1,438	-
Due from governmental agencies	95,190	241,436
Prepaid assets	2,110	-
Total current assets	251,476	354,302
Other assets	14,440	14,440
Total assets	<b>\$ 265,916</b>	<b>\$ 368,742</b>
<b>LIABILITIES AND NET (DEFICIT) ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 358,198	\$ 222,403
Accrued payroll	52,572	42,356
Due to affiliates	12,712	38,060
Total liabilities	423,482	302,819
Net (deficit) assets:		
Unrestricted	(157,566)	-
Temporarily restricted	-	65,923
Total net (deficit) assets	(157,566)	65,923
Total liabilities and net (deficit) assets	<b>\$ 265,916</b>	<b>\$ 368,742</b>

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

**RICHARD MILBURN ACADEMY, INC. - KILLEEN**

**STATEMENTS OF FINANCIAL POSITION**

**AUGUST 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 225,252	\$ 269,149
Accounts receivable	27,977	10,663
Due from governmental agencies	56,591	131,883
Prepaid assets	1,636	2,214
Due from affiliates	4,606	-
Total current assets	316,062	413,909
Capital assets, net	44,970	51,150
Other assets	-	2,430
Total assets	<b>\$ 361,032</b>	<b>\$ 467,489</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 33,833	\$ 106,714
Accrued payroll	58,167	50,170
Due to affiliates	-	19,840
Total liabilities	92,000	176,724
Net assets:		
Unrestricted	44,970	51,150
Temporarily restricted	224,062	239,615
Total net assets	269,032	290,765
Total liabilities and net assets	<b>\$ 361,032</b>	<b>\$ 467,489</b>

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

**RICHARD MILBURN ACADEMY, INC. - AMARILLO**

**STATEMENTS OF ACTIVITIES**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012  
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2011)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
<b>REVENUES</b>				
Local support:				
5740 Other revenues from local sources	\$ 442	\$ -	\$ 442	\$ 2,784
State program revenues:				
5810 Foundation School Program Act	1,635,982	-	1,635,982	1,707,706
5820 State program revenues distributed by Texas Education Agency	-	-	-	5,467
Total state program revenues	1,635,982	-	1,635,982	1,713,173
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	155,445	-	155,445	174,136
Total revenues	1,791,869	-	1,791,869	1,890,093
<b>EXPENSES</b>				
11 Instruction	837,128	-	837,128	973,040
12 Instructional resources and media	5,859	-	5,859	14,900
13 Curriculum development and instructional staff development	75,739	-	75,739	84,616
23 School leadership	188,736	-	188,736	220,203
31 Guidance, counseling and evaluation	97,537	-	97,537	90,168
33 Health services	4,986	-	4,986	-
36 Cocurricular/extracurricular activities	1,707	-	1,707	5,673
41 General administration	426,380	-	426,380	410,301
51 Plant maintenance and operation	164,554	-	164,554	131,663
52 Security and monitoring services	44,696	-	44,696	11,522
53 Data processing services	16,515	-	16,515	35,351
61 Community services	-	-	-	34,909
Total expenses	1,863,837	-	1,863,837	2,012,346
Change in net assets	(71,968)	-	(71,968)	(122,253)
Net assets, beginning of year	22,206	-	22,206	144,459
Net (deficit) assets, end of year	\$ (49,762)	\$ -	\$ (49,762)	\$ 22,206

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



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

**STATEMENTS OF ACTIVITIES**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012  
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2011)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
<b>REVENUES</b>				
Local support:				
5740 Other revenues from local sources	\$ 6	\$ -	\$ 6	\$ 14
State program revenues:				
5810 Foundation School Program Act	-	-	-	(81,557)
Total revenues	<u>6</u>	<u>-</u>	<u>6</u>	<u>(81,543)</u>
<b>EXPENSES AND LOSSES</b>				
11 Instruction	-	-	-	368
12 Instructional resources and media	-	-	-	(110)
13 Curriculum development and instructional staff development	-	-	-	(38)
23 School leadership	(68,992)	-	(68,992)	11,810
41 General administration	(283,052)	-	(283,052)	(10,137)
51 Plant maintenance and operation	-	-	-	6,058
53 Data processing services	-	-	-	581
Total expenses	<u>(352,044)</u>	<u>-</u>	<u>(352,044)</u>	<u>8,532</u>
Loss on disposal of capital assets	-	-	-	12,086
Total expenses and losses	<u>(352,044)</u>	<u>-</u>	<u>(352,044)</u>	<u>20,618</u>
Change in net assets	352,050	-	352,050	(102,161)
Net deficit, beginning of year	<u>(365,708)</u>	<u>-</u>	<u>(365,708)</u>	<u>(263,547)</u>
Net deficit, end of year	<u>\$ (13,658)</u>	<u>\$ -</u>	<u>\$ (13,658)</u>	<u>\$ (365,708)</u>

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

**RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI**

**STATEMENTS OF ACTIVITIES**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012  
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2011)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
<b>REVENUES</b>				
Local support:				
5740 Other revenues from local sources	\$ 4,064	\$ -	\$ 4,064	\$ 2,540
State program revenues:				
5810 Foundation School Program Act	1,841,026	-	1,841,026	1,884,683
5820 State program revenues distributed by Texas Education Agency	-	-	-	6,081
Total state program revenues	<u>1,841,026</u>	<u>-</u>	<u>1,841,026</u>	<u>1,890,764</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	<u>385,699</u>	<u>-</u>	<u>385,699</u>	<u>458,294</u>
Net assets released from restrictions:				
Restrictions satisfied by payment	<u>65,923</u>	<u>(65,923)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released from restrictions	<u>2,296,712</u>	<u>(65,923)</u>	<u>2,230,789</u>	<u>2,351,598</u>
<b>EXPENSES</b>				
11 Instruction	1,037,278	-	1,037,278	1,196,927
12 Instructional resources and media	10,766	-	10,766	8,262
13 Curriculum development and instructional staff development	96,695	-	96,695	110,995
21 Instructional leadership	-	-	-	104
23 School leadership	217,838	-	217,838	210,326
31 Guidance, counseling and evaluation	96,727	-	96,727	94,794
32 Social work services	14,735	-	14,735	7,846
33 Health services	381	-	381	199
36 Cocurricular/extracurricular activities	1,333	-	1,333	3,002
41 General administration	567,181	-	567,181	484,228
51 Plant maintenance and operation	304,237	-	304,237	278,114
52 Security and monitoring services	48,511	-	48,511	46,349
53 Data processing services	54,981	-	54,981	22,397
61 Community services	3,615	-	3,615	-
Total expenses	<u>2,454,278</u>	<u>-</u>	<u>2,454,278</u>	<u>2,463,543</u>
Change in net assets	<u>(157,566)</u>	<u>(65,923)</u>	<u>(223,489)</u>	<u>(111,945)</u>
Net assets, beginning of year	<u>-</u>	<u>65,923</u>	<u>65,923</u>	<u>177,868</u>
Net (deficit) assets, end of year	<u>\$ (157,566)</u>	<u>\$ -</u>	<u>\$ (157,566)</u>	<u>\$ 65,923</u>

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

**RICHARD MILBURN ACADEMY, INC. - KILLEEN**

**STATEMENTS OF ACTIVITIES**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012  
(WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED AUGUST 31, 2011)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2012</u>	<u>2011</u>
<b>REVENUES</b>				
Local support:				
5740 Other revenues from local sources	\$ 1,214	\$ -	\$ 1,214	\$ 41
State program revenues:				
5810 Foundation School Program Act	1,549,901	-	1,549,901	1,400,449
5820 State program revenues distributed by Texas Education Agency	-	-	-	4,185
Total state program revenues	<u>1,549,901</u>	<u>-</u>	<u>1,549,901</u>	<u>1,404,634</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	<u>162,885</u>	<u>-</u>	<u>162,885</u>	<u>427,521</u>
Net assets released from restrictions:				
Restrictions satisfied by payment	<u>15,553</u>	<u>(15,553)</u>	<u>-</u>	<u>-</u>
Total revenues and net assets released from restrictions	<u>1,729,553</u>	<u>(15,553)</u>	<u>1,714,000</u>	<u>1,832,196</u>
<b>EXPENSES</b>				
11 Instruction	725,405	-	725,405	919,606
12 Instructional resources and media	6,967	-	6,967	11,456
13 Curriculum development and instructional staff development	75,007	-	75,007	50,197
23 School leadership	188,425	-	188,425	236,036
31 Guidance, counseling and evaluation	61,385	-	61,385	60,211
33 Health services	-	-	-	238
36 Cocurricular/extracurricular activities	5,851	-	5,851	4,068
41 General administration	409,175	-	409,175	400,648
51 Plant maintenance and operation	180,467	-	180,467	170,845
52 Security and monitoring services	52,192	-	52,192	41,603
53 Data processing services	30,859	-	30,859	28,398
61 Community services	-	-	-	90
Total expenses	<u>1,735,733</u>	<u>-</u>	<u>1,735,733</u>	<u>1,923,396</u>
Change in net assets	<u>(6,180)</u>	<u>(15,553)</u>	<u>(21,733)</u>	<u>(91,200)</u>
Net assets, beginning of year	<u>51,150</u>	<u>239,615</u>	<u>290,765</u>	<u>381,965</u>
Net assets, end of year	<u>\$ 44,970</u>	<u>\$ 224,062</u>	<u>\$ 269,032</u>	<u>\$ 290,765</u>

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

**RICHARD MILBURN ACADEMY, INC. - AMARILLO**

**STATEMENTS OF CASH FLOWS**

**FOR THE FISCAL YEARS ENDED AUGUST 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Foundation School Program payments	\$ 1,635,189	\$ 1,719,807
Grant payments	206,513	127,936
Miscellaneous sources	442	2,784
Payments to vendors for goods and services rendered	(652,944)	(640,293)
Payments to personnel for services rendered	<u>(1,082,426)</u>	<u>(1,229,466)</u>
Net cash provided by (used for) operating activities	<u>106,774</u>	<u>(19,232)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	<u>(19,310)</u>	<u>-</u>
Net cash used for investing activities	<u>(19,310)</u>	<u>-</u>
Net increase (decrease) in cash	87,464	(19,232)
Cash and cash equivalents, beginning of year	<u>121,806</u>	<u>141,038</u>
Cash and cash equivalents, end of year	<u><u>\$ 209,270</u></u>	<u><u>\$ 121,806</u></u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ (71,968)	\$ (122,253)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	32,896	18,756
Deferred tenant allowance amortization	(8,750)	-
(Increase) decrease in assets:		
Due from governmental agencies	50,275	(39,300)
Prepaid assets	3,437	(5,085)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	135,372	107,072
Accrued payroll	(8,652)	1,236
Due to affiliates	<u>(25,836)</u>	<u>20,342</u>
Net cash provided by (used for) operating activities	<u><u>\$ 106,774</u></u>	<u><u>\$ (19,232)</u></u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Purchase of capital assets with accounts payable	<u>\$ -</u>	<u>\$ 19,310</u>
Capital assets acquired with deferred tenant allowance	<u><u>\$ 70,000</u></u>	<u><u>\$ -</u></u>

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

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

**STATEMENTS OF CASH FLOWS**

**FOR THE FISCAL YEARS ENDED AUGUST 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Miscellaneous sources	\$ 6	\$ 14
Payments to vendors for goods and services rendered	(416)	(19,954)
Payments to personnel for services rendered	<u>(512)</u>	<u>(3,100)</u>
Net cash used for operating activities	(922)	(23,040)
Cash and cash equivalents, beginning of year	<u>72,827</u>	<u>95,867</u>
Cash and cash equivalents, end of year	<u><u>\$ 71,905</u></u>	<u><u>\$ 72,827</u></u>
Reconciliation of change in net assets to net cash used for operating activities:		
Change in net assets	\$ 352,050	\$ (102,161)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Loss on disposal of furniture, fixtures and equipment	-	12,086
Decrease in assets:		
Due from governmental agencies	565	-
Other assets	-	7,107
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(283,323)	(16,518)
Accrued payroll	(512)	512
Due to governmental agencies	(69,872)	81,557
Due to affiliates	<u>170</u>	<u>(5,623)</u>
Net cash used for operating activities	<u><u>\$ (922)</u></u>	<u><u>\$ (23,040)</u></u>

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

**RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI**

**STATEMENTS OF CASH FLOWS**

**FOR THE FISCAL YEARS ENDED AUGUST 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Foundation School Program payments	\$ 1,870,908	\$ 1,866,362
Grant payments	502,063	339,325
Miscellaneous sources	4,064	2,540
Payments to vendors for goods and services rendered	(1,042,091)	(1,026,170)
Payments to personnel for services rendered	<u>(1,295,072)</u>	<u>(1,277,180)</u>
Net cash provided by (used for) operating activities	39,872	(95,123)
Cash and cash equivalents, beginning of year	<u>112,866</u>	<u>207,989</u>
Cash and cash equivalents, end of year	<u>\$ 152,738</u>	<u>\$ 112,866</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ (223,489)	\$ (111,945)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	858	5,657
(Increase) decrease in assets:		
Accounts receivable	(1,438)	-
Due from governmental agencies	146,246	(143,371)
Prepaid assets	(2,110)	-
Other assets	-	266
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	135,795	130,205
Accrued payroll	10,216	(7,449)
Due to affiliates	<u>(26,206)</u>	<u>31,514</u>
Net cash provided by (used for) operating activities	<u>\$ 39,872</u>	<u>\$ (95,123)</u>

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

**RICHARD MILBURN ACADEMY, INC. - KILLEEN**

**STATEMENTS OF CASH FLOWS**

**FOR THE FISCAL YEARS ENDED AUGUST 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Foundation School Program payments	\$ 1,574,403	\$ 1,374,378
Grant payments	213,675	424,612
Miscellaneous sources	1,214	41
Payments to vendors for goods and services rendered	(824,711)	(757,651)
Payments to personnel for services rendered	(961,142)	(1,150,023)
	<u>3,439</u>	<u>(108,643)</u>
Net cash provided by (used for) operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	(47,336)	(25,356)
	<u>(47,336)</u>	<u>(25,356)</u>
Net cash used for investing activities		
	<u>(43,897)</u>	<u>(133,999)</u>
Net decrease in cash		
	<u>(43,897)</u>	<u>(133,999)</u>
Cash and cash equivalents, beginning of year	269,149	403,148
Cash and cash equivalents, end of year	<u>\$ 225,252</u>	<u>\$ 269,149</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	\$ (21,733)	\$ (91,200)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	27,534	12,594
(Increase) decrease in assets:		
Accounts receivable	(17,314)	8,912
Due from governmental agencies	75,292	(33,165)
Prepaid assets	578	(2,214)
Other assets	2,430	266
Due from affiliates	(5,393)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(46,112)	(6,944)
Accrued payroll	7,997	(12,335)
Due to affiliates	(19,840)	15,443
	<u>\$ 3,439</u>	<u>\$ (108,643)</u>
Net cash provided by (used for) operating activities		
	<u>\$ 3,439</u>	<u>\$ (108,643)</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Purchase of capital assets with accounts payable	<u>\$ -</u>	<u>\$ 26,769</u>

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

**RICHARD MILBURN ACADEMY, INC. - AMARILLO**

**SCHEDULES OF EXPENSES**

**FOR THE FISCAL YEARS ENDED AUGUST 31, 2012 AND 2011**

		<u>2012</u>	<u>2011</u>
<b>EXPENSES</b>			
6100	Payroll costs	\$ 1,073,774	\$ 1,230,702
6200	Professional and contracted services	621,143	552,449
6300	Supplies and materials	68,757	118,807
6400	Other operating costs	<u>100,163</u>	<u>110,388</u>
	Total expenses	<u>\$ 1,863,837</u>	<u>\$ 2,012,346</u>

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



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

**SCHEDULES OF EXPENSES**

**FOR THE FISCAL YEARS ENDED AUGUST 31, 2012 AND 2011**

<b>EXPENSES</b>	<u><b>2012</b></u>	<u><b>2011</b></u>
6100 Payroll costs	\$ -	\$ 3,612
6200 Professional and contracted services	(283,052)	(828)
6300 Supplies and materials	-	27
6400 Other operating costs	<u>(68,992)</u>	<u>5,721</u>
Total expenses	<u>\$ (352,044)</u>	<u>\$ 8,532</u>

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

**RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI**

**SCHEDULES OF EXPENSES**

**FOR THE FISCAL YEARS ENDED AUGUST 31, 2012 AND 2011**

		<u>2012</u>	<u>2011</u>
<b>EXPENSES</b>			
6100	Payroll costs	\$ 1,305,288	\$ 1,269,731
6200	Professional and contracted services	902,235	854,314
6300	Supplies and materials	141,583	206,054
6400	Other operating costs	<u>105,172</u>	<u>133,444</u>
	Total expenses	<u>\$ 2,454,278</u>	<u>\$ 2,463,543</u>

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

**RICHARD MILBURN ACADEMY, INC. - KILLEEN**

**SCHEDULES OF EXPENSES**

**FOR THE FISCAL YEARS ENDED AUGUST 31, 2012 AND 2011**

<b>EXPENSES</b>		<u><b>2012</b></u>	<u><b>2011</b></u>
6100	Payroll costs	\$ 969,139	\$ 1,137,688
6200	Professional and contracted services	630,330	619,794
6300	Supplies and materials	55,179	89,493
6400	Other operating costs	<u>81,085</u>	<u>76,421</u>
	Total expenses	<u><u>\$ 1,735,733</u></u>	<u><u>\$ 1,923,396</u></u>

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

RICHARD MILBURN ACADEMY, INC. - AMARILLO

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2012

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 209,270	\$ -
1520	Buildings and improvements	-	130,026	-
1539	Furniture and equipment	-	130,613	3,131
	Total	<u>\$ -</u>	<u>\$ 469,909</u>	<u>\$ 3,131</u>

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

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

**SCHEDULE OF CAPITAL ASSETS**

**AUGUST 31, 2012**

		<b>Ownership Interest</b>		
		<b>Local</b>	<b>State</b>	<b>Federal</b>
1110	Cash	\$ -	\$ 71,905	\$ -
	Total	<u>\$ -</u>	<u>\$ 71,905</u>	<u>\$ -</u>

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

RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2012

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 152,738	\$ -
1539	Furniture and equipment	-	48,368	19,231
	Total	<u>\$ -</u>	<u>\$ 201,106</u>	<u>\$ 19,231</u>

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

RICHARD MILBURN ACADEMY, INC. - KILLEEN

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2012

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 225,252	\$ -
1520	Buildings and improvements	-	23,863	-
1539	Furniture and equipment	-	90,080	105,426
Total		<u>\$ -</u>	<u>\$ 339,195</u>	<u>\$ 105,426</u>

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

RICHARD MILBURN ACADEMY, INC. - CORPORATE

SCHEDULE OF CAPITAL ASSETS

AUGUST 31, 2012

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 2,223	\$ -
1539	Furniture and equipment	-	13,336	-
	Total	<u>\$ -</u>	<u>\$ 15,559</u>	<u>\$ -</u>

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



**RICHARD MILBURN ACADEMY, INC. - AMARILLO**

**BUDGETARY COMPARISON SCHEDULE (UNAUDITED)**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 442	\$ 442 f
State program revenues:				
5810 Foundation School Program Act	1,589,475	1,634,513	1,635,982	1,469
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	341,499	341,499	155,445	(186,054) g
Total revenues	<u>1,930,974</u>	<u>1,976,012</u>	<u>1,791,869</u>	<u>(184,143)</u>
<b>EXPENSES</b>				
11 Instruction	1,056,843	1,067,728	837,128	230,600 h
12 Instructional resources and media	3,000	3,800 a	5,859	(2,059) i
13 Curriculum development and instructional staff development	51,304	55,304	75,739	(20,435) j
21 Instructional leadership	-	-	-	-
23 School leadership	161,084	165,332	188,736	(23,404) k
31 Guidance, counseling and evaluation	76,648	94,348 b	97,537	(3,189)
32 Social work services	-	500 c	-	500 l
33 Health services	5,486	4,986	4,986	-
36 Cocurricular/extracurricular activities	2,500	2,500	1,707	793 m
41 General administration	298,171	314,183	426,380	(112,197) n
51 Plant maintenance and operation	168,639	164,639	164,554	85
52 Security and monitoring services	40,380	49,870 d	44,696	5,174 o
53 Data processing services	14,350	7,210 e	16,515	(9,305) p
61 Community services	-	-	-	-
Total expenses	<u>1,878,405</u>	<u>1,930,400</u>	<u>1,863,837</u>	<u>66,563</u>
Change in net assets	52,569	45,612	(71,968)	(117,580)
Net assets, beginning of year	<u>22,206</u>	<u>22,206</u>	<u>22,206</u>	<u>-</u>
Net assets, end of year	<u>\$ 74,775</u>	<u>\$ 67,818</u>	<u>\$ (49,762)</u>	<u>\$ (117,580)</u>

See independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - AMARILLO**

**BUDGETARY COMPARISON SCHEDULE (UNAUDITED)  
(continued)**

- a The amended budget consisted of an increase for Professional and Contracted Services in the amount of \$800.
- b The amended budget consisted of an increase for Payroll Costs in the amount of \$17,700.
- c The amended budget consisted of an increase for Supplies and Materials in the amount of \$500.
- d The amended budget consisted of an increase for Professional and Contracted Services in the amount of \$9,490.
- e The amended budget consisted of a decrease for Professional and Contracted Services in the amount of \$7,140.
- f This amount consists of miscellaneous revenues of \$8.13 in interest income and \$434.34 in deposits which were not budgeted items.
- g The school had federal grant funds available of \$341,499 but only used \$155,445 in expenses, therefore declaring revenue of \$155,455.
- h The budget was higher than expenses incurred due to federal grant funds that were not utilized (almost \$190,000) and \$33,320 for Charles & Linda Gill expenses that were not budgeted.
- i Copier lease expense was higher than budgeted.
- j No budget amendments were made to compensate for the additional \$55,670 in professional and contracted services. When netted with payroll costs (\$32,411 under budget), the net of \$23,259 deems the variance immaterial.
- k Higher Education Service Center expense than budgeted.
- l Supplies and materials expense slightly under budget.
- m Supplies and materials expense slightly under budget; yearbook expenses budgeted were not booked to function 36.
- n Payroll cost variance was not amended; management fees on grant revenue were not budgeted; professional fees higher than budgeted; expenses for corporate office higher than budgeted.
- o \$7,300 budgeted for TXEIS was expensed in function 23; depreciation expenses was not budgeted.
- p. Higher Education Service Center expense than budgeted

See independent auditor's report.

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

**BUDGETARY COMPARISON SCHEDULE (UNAUDITED)**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 6	\$ 6
Total revenues	-	-	6	6
<b>EXPENSES AND LOSSES</b>				
23 School leadership	-	-	(68,992)	68,992 a
41 General administration	-	-	(283,052)	283,052 b
Total expenses	-	-	(352,044)	352,044
Change in net assets	-	-	352,050	(352,038)
Net assets, beginning of year	(365,708)	(365,708)	(365,708)	-
Net assets, end of year	<u>\$ (365,708)</u>	<u>\$ (365,708)</u>	<u>\$ (13,658)</u>	<u>\$ (352,038)</u>

a Due to a change in estimate that was not budgeted.

b Due to the forgiveness of management fees that was not budgeted.

See independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI**

**BUDGETARY COMPARISON SCHEDULE (UNAUDITED)**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 4,064	\$ 4,064
State program revenues:				
5810 Foundation School Program Act	1,700,051	1,700,051	1,841,026	140,975
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	<u>477,471</u>	<u>477,471</u>	<u>385,699</u>	<u>(91,772) a</u>
Total revenues	<u>2,177,522</u>	<u>2,177,522</u>	<u>2,230,789</u>	<u>53,267</u>
<b>EXPENSES</b>				
11 Instruction	1,228,163	1,228,163	1,037,278	190,885 b
12 Instructional resources and media	14,000	14,000	10,766	3,234 c
13 Curriculum development and instructional staff development	6,000	6,000	96,695	(90,695) d
21 Instructional leadership	2,800	2,800	-	2,800 e
23 School leadership	164,240	164,240	217,838	(53,598) f
31 Guidance, counseling and evaluation	64,292	64,292	96,727	(32,435) g
32 Social work services	9,240	9,240	14,735	(5,495) h
33 Health services	4,400	4,400	381	4,019 i
36 Cocurricular/extracurricular activities	6,500	6,500	1,333	5,167 j
41 General administration	306,100	306,100	567,181	(261,081) k
51 Plant maintenance and operation	278,370	278,370	304,237	(25,867) l
52 Security and monitoring services	42,315	42,315	48,511	(6,196) m
53 Data processing services	20,125	20,125	54,981	(34,856) n
61 Community services	<u>3,520</u>	<u>3,520</u>	<u>3,615</u>	<u>(95)</u>
Total expenses	<u>2,150,065</u>	<u>2,150,065</u>	<u>2,454,278</u>	<u>(304,213)</u>
Change in net assets	27,457	27,457	(223,489)	(250,946)
Net assets, beginning of year	<u>65,923</u>	<u>65,923</u>	<u>65,923</u>	<u>-</u>
Net assets, end of year	<u>\$ 93,380</u>	<u>\$ 93,380</u>	<u>\$ (157,566)</u>	<u>\$ (250,946)</u>

See independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - CORPUS CHRISTI**

**BUDGETARY COMPARISON SCHEDULE (UNAUDITED)**

**(continued)**

- a Federal grant funds available were not utilized.
- b No budget amendment to incorporate additional instructional payroll expenses of \$233,091 due to the calculated increase on a per student cost ratio. Budget for objects 6200, 6300, and 6400 was higher than expenses incurred. \$206,734 federal grant funds available not utilized.
- c No budget amendment to incorporate additional expenses.
- d 6400 expenses charged incorrectly to state 6400 instead of fund 211-30 and/or 255.
- e No expenses incurred against budgeted numbers.
- f No budget amendment to incorporate additional expenses.
- g Payroll cost variance of \$32,435; budget was not amended.
- h Payroll cost variance of \$5,495; grant covered \$9,240, but general budget was not amended for additional expenditure incurred.
- i Budget was higher than expenses incurred.
- j Budget was higher than expenses incurred.
- k Object 6100 - No budget amendments to incorporate additional payroll expenditures. Object 6200-no budget amendments to incorporate additional expenses. No budget amendments to incorporate increase in management fees calculated on a per student cost ratio and budget did not allow for management fees on federal grants. Object 6300 & 6400 - No budget amendments to incorporate additional expenditures and student transportation.
- l Budget was higher than expenses incurred.
- m No budget amendments to incorporate additional payroll expenses.
- n Contracted services exceeded budget by \$34,458 due to costs of annual contract, insurance, and e-rate discounts that were not available.

See independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - KILLEEN**

**BUDGETARY COMPARISON SCHEDULE (UNAUDITED)**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local support:				
5740 Other revenues from local sources	\$ -	\$ -	\$ 1,214	\$ 1,214 a
State program revenues:				
5810 Foundation School Program Act	1,314,895	1,314,895	1,549,901	235,006 b
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	391,101	391,101	162,885	(228,216) c
Total revenues	<u>1,705,996</u>	<u>1,705,996</u>	<u>1,714,000</u>	<u>8,004</u>
<b>EXPENSES</b>				
11 Instruction	842,660	842,660	725,405	117,255 d
12 Instructional resources and media	5,095	5,095	6,967	(1,872) e
13 Curriculum development and instructional staff development	7,500	7,500	75,007	(67,507) f
21 Instructional leadership	5,000	5,000	-	5,000 g
23 School leadership	188,722	188,722	188,425	297
31 Guidance, counseling and evaluation	67,243	67,243	61,385	5,858
32 Social work services	2,500	2,500	-	2,500 h
33 Health services	5,258	5,258	-	5,258 i
36 Cocurricular/extracurricular activities	6,000	6,000	5,851	149
41 General administration	291,136	291,136	409,175	(118,039) j
51 Plant maintenance and operation	120,500	120,500	180,467	(59,967) k
52 Security and monitoring services	38,000	38,000	52,192	(14,192) l
53 Data processing services	12,548	12,548	30,859	(18,311) m
61 Community services	3,500	3,500	-	3,500 n
81 Fund raising	200	200	-	200 o
Total expenses	<u>1,595,862</u>	<u>1,595,862</u>	<u>1,735,733</u>	<u>(139,871)</u>
Change in net assets	110,134	110,134	(21,733)	(131,867)
Net assets, beginning of year	<u>290,765</u>	<u>290,765</u>	<u>290,765</u>	<u>-</u>
Net assets, end of year	<u>\$ 400,899</u>	<u>\$ 400,899</u>	<u>\$ 269,032</u>	<u>\$ (131,867)</u>

See independent auditor's report.

**RICHARD MILBURN ACADEMY, INC. - KILLEEN**

**BUDGETARY COMPARISON SCHEDULE (UNAUDITED)**

**(continued)**

- a This amount consists of miscellaneous revenues of \$14.17 in interest income and a Thanksgiving donation in the amount of \$1,200, which were not budgeted items.
- b Received more money from the state than anticipated and there was not a budget amendment to accommodate additional revenue.
- c Federal grant funds available not utilized.
- d The budget was higher than expenses incurred due to federal grant funds that were not utilized.
- e Amendment was needed for object code 6200 to decrease variance below 10%.
- f Expenses are in the correct account. Budget was not amended to accommodate increased expenses.
- g No expenses incurred against budgeted numbers.
- h No expenses incurred against budgeted numbers.
- i No expenses incurred against budgeted numbers.
- j Budget amendments were not done to accommodate the cost variance of \$64,623 in management fees, nor an increase in payroll costs.
- k Budget amendments should have been completed to increase rent payments and moving costs.
- l Budget amendments should have been completed to accommodate increased security payroll needed due to unexpected school incident.
- m Added /replaced equipment that was needed in new building which exceeded the original budget; loss of e-rate funding discounts.
- n No expenses incurred against budgeted numbers.
- o No expenses incurred against budgeted numbers.

See independent auditor's report.

**RICHARD MILBURN ACADEMY, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012**

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>NOGA ID Numbers</b>	<b>Federal CFDA Number</b>	<b>Grant Period</b>	<b>Expenditures</b>
United States Department of Education / Texas Board of Education / Title I Grants to Local Educational Agencies	12610101188801 12610101178804 12610101014801	84.010	8/14/11 - 9/30/12	\$ 89,851
United States Department of Education / Texas Board of Education / ARRA - Title I Grants to Local Educational Agencies	10551001178804	84.389	8/25/09 - 9/30/11	<u>1,756</u>
Total Title I Cluster				<u>91,607</u>
United States Department of Education / Texas Board of Education / Special Education-Grants to States (IDEA, Part B)	126600011888016600 126600011788046600	84.027	9/2/11 - 9/30/12	69,934
United States Department of Education / Charter School Program for Replication and Expansion of High-Quality Charter Schools	N/A	84.282M	10/1/11 - 9/30/12	100,379
United States Department of Education / Texas Board of Education / Title II Improving Teacher Quality State Grants	12694501188801 12694501178804 12694501014801	84.367	8/14/11 - 9/30/12	37,314

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



**RICHARD MILBURN ACADEMY, INC.**

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

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>NOGA ID Numbers</b>	<b>Federal CFDA Number</b>	<b>Grant Period</b>	<b>Expenditures</b>
United States Department of Education / Texas Board of Education / School Improvement Grants	12610110188801001 12610110178804000 12610110014801001	84.377	10/23/11 - 9/30/12	399,828
United States Department of Education / Texas Board of Education / ARRA - School Improvement Grants	10551004178804001	84.388	1/31/11 - 9/30/11	<u>1,080</u>
Total School Improvement Grant Cluster				<u>400,908</u>
United States Department of Education / Texas Board of Education/ ARRA - State Fiscal Stabilization Fund - Return of Education State Grants	10557001188801	84.394	9/1/10 - 9/30/11	(3,320)
United States Department of Education / Texas Board of Education/ Education Jobs Fund - ARRA - Education State Grants	11550101188801	84.410	8/10/10 - 9/30/12	<u>7,207</u>
Total Expenditures of Federal Awards				<u><u>\$ 704,029</u></u>

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

**RICHARD MILBURN ACADEMY, INC.**

**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012**

**1 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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



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

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

Members of the Board of Directors:

We have audited the financial statements of Richard Milburn Academy, Inc., (a nonprofit organization) (the "Organization"), as of and for the year ended August 31, 2012, and have issued our report thereon dated January 25, 2013. 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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as



defined above. However, we identified a deficiency in internal control over financial reporting, described as finding 2012-1 in the accompanying schedule of findings and questioned costs, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-2.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs and in the corrective action plan on pages 55-56. We did not audit the Organization's response and, accordingly, we express no opinion on it.

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

*BKHM, P.A.*

Winter Park, Florida  
January 25, 2013



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

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

Members of the Board of Directors:

Compliance

We have audited the compliance of Richard Milburn Academy, Inc. (a nonprofit organization) (the “Organization”) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2012. The Organization’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 the Organization’s management. Our responsibility is to express an opinion on the Organization’s compliance based on our audit.

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

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2012.



## Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

*BKHM, P.A.*

Winter Park, Florida  
January 25, 2013

**RICHARD MILBURN ACADEMY, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE FISCAL YEAR ENDED AUGUST 31, 2012**

**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? No

*Federal Awards*

Internal control over major programs:

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

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

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

Identification of major federal programs:

<u>CFDA Number</u>	<u>Grant Period</u>	<u>Name of Federal Program</u>
84.377	10/23/11 – 9/30/12	School Improvement Grants
84.388	1/31/11 – 9/30/11	School Improvement Grants - ARRA

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

Auditee qualified as a low-risk auditee? No

**Section II - Financial Statement Findings**

Finding No. 2012-1 – Significant Deficiency

Statement of condition:

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

**RICHARD MILBURN ACADEMY, INC.**

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

Context:

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

Effect of condition:

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

Recommendation:

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

Management's response:

Management agreed with this finding and will implement formal policies and procedures to improve upon their internal control over financial reporting. See corrective action plan on pages 55-56.

**Section III – Federal Award Findings and Questioned Costs**

None

**Section IV – State Award Findings and Questioned Costs**

Finding No. 2012-2

Statement of condition:

The Organization did not spend the required amount of allotments of Foundation School Program ("FSP") funding. The amount of unspent allotments are summarized below:

<b>Career &amp; Technology</b>	<b>Special Education</b>	<b>Compensatory Education</b>	<b>Pregnancy- Related</b>	<b>High School Allotment</b>	<b>Technology Allotment</b>
<u>\$ 142,916</u>	<u>\$ 290,555</u>	<u>\$ 258,805</u>	<u>\$ 16,385</u>	<u>\$ 86,648</u>	<u>\$ 9,155</u>

Context:

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

Effect of condition:

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



**RICHARD MILBURN ACADEMY, INC.**

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

Recommendation:

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

Management's response:

Management agreed with this finding and will implement formal policies and procedures to improve upon their compliance with state award requirements. See corrective action plan on pages 55-56.

**Section V – Status of Prior Year Audit Findings**

Finding No. 2011-1: Fixed asset schedule reconciliation

Statement of condition:

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

Status:

This item is repeated as Finding No. 2012-1.

Finding No. 2011-2: Required expenditure of allotments

Statement of condition:

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

Status:

This item is repeated as Finding No. 2012-2.

**RICHARD MILBURN ACADEMY, INC.  
CORRECTIVE ACTION PLAN  
FOR FISCAL YEAR ENDED AUGUST 31, 2012**

<b>Findings</b>	<b>Corrective Action Activities</b>	<b>Responsible Personnel</b>	<b>Timeline for Implementation</b>
<p><b><u>2012-1: Reconciliation of Fixed Assets</u></b>            The Organization's locations did not consistently communicate all adjustments and disposals of fixed assets to the corporate office. In addition, the fixed asset schedules were not reconciled between the location's listing and the corporate office's listing on a timely basis.</p>	<p>Management Company in cooperation/collaboration will develop and implement policies and procedures within 30 days to address the reconciliation of reporting fixed assets.</p> <p>Verification of reconciled fixed assets, adjustments, and disposals will be conducted every 60 days and records will be maintained at the Corporate office and in the Superintendent's office.</p>	<p>Superintendent, Chief Financial Officer (Management)</p> <p>Superintendent, Finance Department (Management Company)</p>	<p>February, 2013 (Complete policies and distribute to School Directors)</p> <p>February, 2013 - August 31, 2013</p>

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

<b>Findings</b>	<b>Corrective Action Activities</b>	<b>Responsible Personnel</b>	<b>Timeline for Implementation</b>
<p><b><u>2012-2: Foundation School Program (FSP) Allocations</u></b>            The Organization did not spend the required amount of allotments of Foundation School Program (“FSP”) funding.</p>	<p>Training will be provided by the State Director for all parties who are responsible for documentation, monitoring, and proper coding regarding the weighted FSP funds.</p> <p>Monthly conference calls will be held with school directors, the State Director, and appropriate management personnel to review financials by the 10<sup>th</sup> of each month in order to track revenue and expenses in a timely manner regarding weighted FSP funding in order to spend required percentages as set by the State.</p>	<p>State Director, School Directors, Corporate Management Personnel</p> <p>School Directors, State Director, Corporate Management Personnel</p>	<p>February, 2013 - August 31, 2013</p> <p>February, 2013 - August 31, 2013</p>