

ANNUAL FINANCIAL REPORT

of

DRAW ACADEMY, INC.

DBA

DRAW ACADEMY

**For the Years Ended
August 31, 2016 and 2015**

DRAW ACADEMY, INC.

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August 31, 2016 and 2015

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DRAW ACADEMY, INC.
CERTIFICATE OF BOARD

The DRAW Academy, Inc.
Name of Charter Holder

76-0680496
Federal Employer ID Number

DRAW Academy
Name of Charter School

Harris
County

101-856
Co. Dist. Number

We, the undersigned, certify that the attached ~~financial~~ financial and compliance report of the above named Charter Holder were reviewed and (check one) approved disapproved for the year ended August 31, 2016, at a meeting of the governing body of the Charter Holder on the 24th day of January, 2017.



Signature of Board Secretary



Signature of Board President

NOTE: If the governing body of the Charter Holder does not approve the independent auditors' report, it must forward a written statement discussing the reason(s) for not approving the report.



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
DRAW Academy, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of DRAW Academy, Inc. (the "Charter Holder") dba DRAW Academy (a nonprofit organization), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Charter Holder's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter Holder's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

FINANCIAL STATEMENTS

DRAW ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1
August 31, 2016 and 2015

	2016	2015
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 462,684	\$ 296,765
Due from Texas Education Agency	426,198	341,203
Prepaid expenses	-	-
Other receivable	39,804	25,180
Total current assets	928,686	663,148
Non-current assets:		
Property and equipment, net	584,694	663,802
Total non-current assets	584,694	663,802
Total Assets	\$ 1,513,380	\$ 1,326,950
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 74,530	\$ 105,116
Accrued salaries payable	125,526	98,640
Total current liabilities	200,056	203,756
Total Liabilities	200,056	203,756
Net assets:		
Unrestricted	444,455	616,114
Temporarily restricted	868,869	507,080
Total Net Assets	1,313,324	1,123,194
Total Liabilities and Net Assets	\$ 1,513,380	\$ 1,326,950

See Notes to Financial Statements.

2015

<u>Temporarily Restricted</u>	<u>Totals</u>
\$ -	\$ 42,888
-	42,888
4,080,175	4,080,175
83,242	83,242
<u>4,163,417</u>	<u>4,163,417</u>
645,958	645,958
(4,724,205)	-
<u>85,170</u>	<u>4,852,263</u>
-	2,596,339
-	92
-	10,095
-	38,410
-	218,819
-	1,241
-	794
-	373,979
-	131,836
-	1,259,961
-	4,857
-	36,711
-	-
<u>-</u>	<u>4,673,134</u>
85,170	179,129
421,910	944,065
<u>\$ 507,080</u>	<u>\$ 1,123,194</u>

DRAW ACADEMY, INC.
STATEMENTS OF CASH FLOWS - EXHIBIT A-3
For the Years Ended August 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Foundation school program payments	\$ 4,969,106	\$ 4,082,851
Grant payments	747,598	645,958
Miscellaneous sources	67,511	42,888
Payments to vendors for goods and services rendered	(2,308,578)	(1,834,241)
Payments to charter school personnel for services rendered	(3,281,456)	(2,672,696)
Interest payments	(1,984)	-
Net Cash Provided by Operating Activities	192,197	264,760
Cash Flows from Investing Activities		
Payments for property and equipment	(26,278)	(239,004)
Net Cash (Used) by Investing Activities	(26,278)	(239,004)
Net Change in Cash and Cash Equivalents	165,919	25,756
Beginning cash and cash equivalents	296,765	271,009
Ending Cash and Cash Equivalents	\$ 462,684	\$ 296,765
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Change in net assets	\$ 190,130	\$ 179,129
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	105,386	77,596
(Increase) decrease in:		
Due from Texas Education Agency	(84,995)	(80,566)
Accounts receivable	(14,624)	11,008
Increase (decrease) in:		
Accounts payable	(30,586)	43,467
Accrued salaries payable	26,886	34,126
Net Cash Provided by Operating Activities	\$ 192,197	\$ 264,760

See Notes to Financial Statements.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended August 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of DRAW Academy, Inc. (the “Charter Holder”) dba DRAW Academy (a nonprofit organization) were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The Charter Holder is a not-for-profit organization incorporated in the State of Texas in 2004 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Charter Holder is governed by a Board of Directors (the “Board”) comprised of five members. The Board is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer of the Charter Holder, and significantly influence operations. The Board has the primary accountability for the fiscal affairs of the Charter Holder.

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

Corporate Operations

In 2004, the State Board of Education of the State of Texas granted the Charter Holder an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable contract for charter, DRAW Academy was opened. DRAW Academy was organized to provide educational services to students in grades pre-kindergarten through eight. The Charter Holder’s Board of Directors governs its programs, services, activities, and functions. For the school year 2015-2016, DRAW Academy primarily serves children who are at risk of dropping out using state-defined criteria. DRAW Academy’s vision is to create an environment in which every student receives a quality education in a safe environment, and ensure every student access to a learning environment that encourages them to be in school with other students learning to the best of their abilities.

Basis of Accounting and Presentation

The accompanying general purpose financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Unrestricted – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted – net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Charter Holder, the charter school, and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently restricted – net assets required to be maintained in perpetuity with only the income to be used for the charter school activities due to donor-imposed restrictions.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2016 and 2015

NOTE 3 – LONG-TERM DEBT

Revolving Line of Credit

The Charter Holder has a \$100,000 revolving line of credit with the Bank of Texas. All advances on the credit line are payable on demand and carry a variable interest rate based upon 0.5 points over the Bank of Oklahoma National Prime Rate. The line of credit matures on September 11, 2016. The line of credit is unsecured. There were no draws outstanding as of August 31, 2016.

NOTE 4 – PENSION PLAN OBLIGATIONS

Plan Description

The Charter Holder contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, defined benefit pension plan with one exception: all risks and costs are not shared by the Charter Holder, but are the liability of the State of Texas. Based on FASB Statement No. 87, a multiemployer plan is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. Although TRS has no collective bargaining agreements, the defined benefit pension plan is considered to be a multiemployer plan for the purposes of a not-for-profit charter holder due to various significant factors. These factors include: 1) charter holders are legally separate entities from the state and each other; 2) assets contributed by one participating entity may be used to provide benefits to employees of other participating employers since assets contributed by one entity are not segregated in a separate account or restricted to provide benefits only to employees of that entity; 3) upon withdrawal from the plan, the unfunded obligation or net pension liability of that entity will be passed along to the remaining other entities who contribute to the plan; and 4) there is not a withdrawal penalty for leaving the TRS system.

TRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas State Legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701; by calling the TRS Communications Department at 1-800-223-8778; or by downloading the report from the TRS website, www.trs.state.tx.us, under the TRS Publication Heading.

Funding Policy and Funded Status

Contribution requirements are not actuarially determined but are established and amended by the Texas State Legislature. The State funding policy is as follows: (1) the State constitution requires the legislature to establish a member contribution rate of not less than six percent of the member's annual compensation and a State contribution rate of not less than six percent and not more than ten percent of the aggregate annual compensation of all members of the system; (2) State statute prohibits benefit improvements if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years or, if the amortization period already exceeds 31 years, the period would be increased by such action.

As of August 31, 2015, TRS' total plan assets were \$128,538,706,212, accumulated benefit obligation (or total pension liability) was \$163,887,375,172, and the plan was 78.43 percent funded.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2016 and 2015

NOTE 7 – DUE FROM STATE

At August 31, 2016 and 2015, the Charter Holder’s total due from state consisted of the following:

	2016	2015
Foundation School Program	\$ 399,053	\$ 313,842
Child Nutrition Cluster	27,145	27,361
Total	\$ 426,198	\$ 341,203

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

As of August 31, 2016 and 2015, the Charter Holder’s temporarily restricted net assets consisted of the following:

	2016	2015
Foundation School Program	\$ 818,030	\$ 428,852
National School Lunch and Breakfast Program	50,839	78,228
Total	\$ 868,869	\$ 507,080

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Charter Holder receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency (TEA) and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the Charter Holder have complex compliance requirements and, should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the TEA or the grantor agency.

The last three years of informational tax returns, 2015, 2014, and 2013, filed with the IRS remain subject to examination.

NOTE 10 – OPERATING LEASES

The Charter Holder entered into lease agreements with ALEPH Investments (see Note 13-Related Party Transactions) for space at 3920 Stoney Brook Drive, Houston, Texas (“3920 Stoney Brook”) and 7914 Westglen Drive, Houston, Texas (“Westglen”).

The lease for space, at 3920 Stoney Brook became effective September 24, 2004 and extends through September 30, 2019. For the 2016 fiscal year, the monthly rent was \$24,031.

The lease for space at Westglen became effective May 1, 2011 and extends through April 31, 2021. The lease provides for increases in rent. The Charter Holder paid a base monthly rent of \$14,064.

The Charter Holder also entered into a lease agreement with SOLEDO LLC for space at 3903 Stoney Brook Drive, Houston, Texas (“3903 Stoney Brook”).

The lease for space at 3903 Stoney Brook became effective May 1, 2014 and extends through April 31, 2019. For the 2016 fiscal year, the monthly rent was \$21,497 for September 2015 through December 2015, and increased to \$22,188 beginning January 2016.

Total rental expense for the fiscal years 2016 and 2015 was \$719,336 and \$694,717, respectively.

SUPPLEMENTAL INFORMATION

DRAW ACADEMY, INC.
SCHEDULES OF EXPENSES - EXHIBIT C-1
For the Years Ended August 31, 2016 and 2015

	Totals	
	2016	2015
Expenses		
6100 Payroll costs	\$ 3,281,456	\$ 2,672,696
6200 Professional and contracted services	1,214,676	1,110,443
6300 Supplies and materials	913,674	647,027
6400 Other operating costs	267,290	242,968
6500 Debt	1,984	-
Total Expenses	\$ 5,679,080	\$ 4,673,134

DRAW ACADEMY, INC.
SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1
August 31, 2016

	Ownership Interest		
	Local	State	Federal
1520 Buildings and improvements	\$ 37,500	\$ 842,066	\$ -
1520 Construction in progress	-	10,250	-
1531 Vehicles	-	75,414	-
1539 Furniture and equipment	-	166,528	-
1549 Furniture and equipment	-	102,248	-
Total Property and Equipment	\$ 37,500	\$ 1,196,506	\$ -

DRAW ACADEMY, INC.

BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS) - EXHIBIT E-1

GENERAL FUND

For the Year Ended August 31, 2016

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
5740 Other revenues from local sources	\$ -	\$ -	\$ 6,073	\$ 6,073
Total local support	-	-	6,073	6,073
State program revenues				
5810 Foundation school program act revenues	5,184,619	5,011,000	4,997,456	(13,544)
5820 State program revenues distributed by Texas Education Agency	-	-	13,590	13,590
Total state program revenue	5,184,619	5,011,000	5,011,046	46
Total Revenues	5,184,619	5,011,000	5,017,119	6,119
Expenses				
11 Instruction	3,180,745	2,917,185	2,931,405	(14,220)
12 Instructional resources and media	5,000	1,000	202	798
13 Curriculum development and instructional staff development	12,100	13,000	9,832	3,168
21 Instructional leadership	40,000	43,120	45,994	(2,874)
23 School leadership	217,200	240,000	243,370	(3,370)
31 Guidance, counseling, and evaluation services	2,125	1,000	146	854
33 Health services	4,000	1,000	191	809
41 General administration	146,260	100,000	84,958	15,042
51 Plant maintenance and operations	1,303,100	1,400,000	1,355,228	44,772
52 Security and monitoring services	8,000	10,000	5,564	4,436
53 Data processing services	37,500	45,000	44,013	987
71 Debt service	5,000	5,000	1,984	3,016
Total Expenses	4,961,030	4,776,305	4,722,887	53,418
Change in Net Assets	\$ 223,589	\$ 234,695	294,232	\$ 59,537
Reconciliation to Ending Net Assets - all funds				
Change in net assets due to activity in other funds			(209,488)	
Depreciation expense			105,386	
			<u>190,130</u>	
Beginning net assets			1,123,194	
		Ending Net Assets	<u><u>\$ 1,313,324</u></u>	



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

January 16, 2017

To the Board of Directors of
DRAW Academy, Inc.:

We have audited, 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, the financial statements of DRAW Academy, Inc. (the "Charter Holder") dba DRAW Academy (a nonprofit organization), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 16, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Charter Holder's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Holder's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter Holder's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Charter Holder's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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DRAW ACADEMY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT F-1

For the Year Ended August 31, 2016

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of audit report issued Unmodified

Internal control over financial reporting:

One or more material weakness(es) identified? No

One or more significant deficiency(ies) identified that are not considered to be material weaknesses? No

Noncompliance material to financial statements noted? No

II. FINANCIAL STATEMENT FINDINGS

None identified.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None identified.

DRAW ACADEMY, INC.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - EXHIBIT G-1

For the Year Ended August 31, 2016

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
None		