

ANNUAL FINANCIAL REPORT

of

DRAW ACADEMY, INC.

DBA

DRAW ACADEMY

For the Years Ended
August 31, 2017 and 2016

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DRAW ACADEMY, INC.

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August 31, 2017 and 2016

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DRAW ACADEMY, INC.
CERTIFICATE OF BOARD

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 and compliance report of the above named Charter Holder were reviewed and (check one) approved disapproved for the year ended August 31, 2017, at a meeting of the governing body of the Charter Holder on the 26 day of JANUARY 2018

Rosana Celis
Signature of Board Secretary

Rosana Celis

Ayanora Williams
Signature of Board President

AYANORA WILLIAMS

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.

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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, 2017 and 2016, 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.

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial schedules noted as supplemental information in the table of contents are presented for purposes of additional analysis and are not required parts of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title II U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2018 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter Holder's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 25, 2018

FINANCIAL STATEMENTS

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DRAW ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1
August 31, 2017 and 2016

	2017	2016
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 761,767	\$ 462,684
Due from Texas Education Agency	413,201	426,198
Prepaid expenses	20,470	-
Other receivables	27,672	39,804
Total current assets	1,223,110	928,686
Non-current assets:		
Property and equipment, net	492,258	584,694
Total noncurrent assets	492,258	584,694
Total Assets	\$ 1,715,368	\$ 1,513,380
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 75,454	\$ 74,530
Accrued salaries payable	135,267	125,526
Total current liabilities	210,721	200,056
Total Liabilities	210,721	200,056
Net assets:		
Unrestricted	306,498	444,455
Temporarily restricted	1,198,149	868,869
Total Net Assets	1,504,647	1,313,324
Total Liabilities and Net Assets	\$ 1,715,368	\$ 1,513,380

See Notes to Financial Statements.

DRAW ACADEMY, INC.
STATEMENTS OF ACTIVITIES - EXHIBIT A-2
For the Years Ended August 31, 2017 and 2016

	2017			2016
	Unrestricted	Temporarily Restricted	Totals	Unrestricted
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 44,600	\$ -	\$ 44,600	\$ 67,511
Total local support	44,600	-	44,600	67,511
State program revenues:				
5810 Foundation school program act revenues	-	5,321,764	5,321,764	-
5820 State program revenues distributed by Texas Education Agency	-	18,793	18,793	-
Total state program revenue	-	5,340,557	5,340,557	-
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	808,541	808,541	-
Net assets released from restrictions:	5,819,818	(5,819,818)	-	5,439,910
Total Revenues	5,864,418	329,280	6,193,698	5,507,421
Expenses				
11 Instruction	3,445,080	-	3,445,080	3,294,324
12 Instructional resources and media services	-	-	-	202
13 Curriculum development and instructional staff development	15,407	-	15,407	15,
21 Instructional leadership	94,901	-	94,901	86,809
23 School leadership	248,732	-	248,732	259,814
31 Guidance, counseling, and evaluation services	1,541	-	1,541	146
33 Health services	1,569	-	1,569	531
35 Food services	463,959	-	463,959	462,175
41 General administration	106,227	-	106,227	97,348
51 Plant maintenance and operations	1,576,123	-	1,576,123	1,411,140
52 Security and monitoring services	6,134	-	6,134	5,564
53 Data processing services	42,702	-	42,702	44,013
71 Debt service	-	-	-	1,984
Total Expenses	6,002,375	-	6,002,375	5,679,080
Change in Net Assets	(137,957)	329,280	191,323	(171,659)
Beginning net assets	444,455	868,869	1,313,324	616,114
Ending Net Assets	\$ 306,498	\$ 1,198,149	\$ 1,504,647	\$ 444,455

See Notes to Financial Statements.

2016

<u>Temporarily Restricted</u>	<u>Totals</u>
\$ -	\$ 67,511
<u>-</u>	<u>67,511</u>
4,997,456	4,997,456
56,645	56,645
<u>5,054,101</u>	<u>5,054,101</u>
747,598	747,598
<u>(5,439,910)</u>	<u>-</u>
<u>361,789</u>	<u>5,869,210</u>
-	3,294,324
-	202
-	15,030
-	86,809
-	259,814
-	146
-	531
-	462,175
-	97,348
-	1,411,140
-	5,564
-	44,013
-	1,984
<u>-</u>	<u>5,679,080</u>
361,789	190,130
507,080	1,123,194
<u>\$ 868,869</u>	<u>\$ 1,313,324</u>

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DRAW ACADEMY, INC.
STATEMENTS OF CASH FLOWS - EXHIBIT A-3
For the Years Ended August 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Foundation school program payments	\$ 5,353,554	\$ 4,969,106
Grant payments	808,541	747,598
Miscellaneous sources	44,600	67,511
Payments to vendors for goods and services rendered	(2,480,861)	(2,308,578)
Payments to charter school personnel for services rendered	(3,419,501)	(3,281,456)
Interest payments	-	(1,984)
Net Cash Provided by Operating Activities	306,333	192,197
Cash Flows from Investing Activities		
Payments for property and equipment	(7,250)	(26,278)
Net Cash (Used) by Investing Activities	(7,250)	(26,278)
Net Change in Cash and Cash Equivalents	299,083	165,919
Beginning cash and cash equivalents	462,684	296,765
Ending Cash and Cash Equivalents	\$ 761,767	\$ 462,684
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in net assets	\$ 191,323	\$ 190,130
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	99,686	105,386
(Increase) decrease in:		
Due from Texas Education Agency	12,997	(84,995)
Prepaid expenses	(20,470)	-
Accounts receivable	12,132	(14,624)
Increase (decrease) in:		
Accounts payable	924	(30,586)
Accrued salaries payable	9,741	26,886
Net Cash Provided by Operating Activities	\$ 306,333	\$ 192,197

See Notes to Financial Statements.

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DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended August 31, 2017 and 2016

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 governs its programs, services, activities, and functions. For the school year 2016-2017, 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 to 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, 2017 and 2016

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

The Charter Holder accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor 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.

Cash and Cash Equivalents

For financial statement purposes, the Charter Holder considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents. At August 31, 2017, the Charter Holder had cash deposits of \$439,597 in excess of federally insured limits.

Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general purpose financial statements. Capital assets are defined by the Charter Holder as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to 20 years, using the straight-line method of depreciation. Expenditures for additions, major renewals, and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at acquisition value at the date of donation, which is then treated as cost.

NOTE 2 – CAPITAL ASSETS

Capital assets at August 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 897,066	\$ 879,566
Construction in progress	-	10,250
Vehicles	75,414	75,414
Furniture and equipment	268,776	268,776
Total Property and Equipment	<u>1,241,256</u>	<u>1,234,006</u>
Less accumulated depreciation	(748,998)	(649,312)
Property and Equipment, Net	<u>\$ 492,258</u>	<u>\$ 584,694</u>

Capital assets acquired with public funds received by the Charter Holder for the operation of the charter school constitute public property pursuant to Chapter 12 of the Texas Education Code.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2017 and 2016

Depreciation expense for the 2017 and 2016 fiscal years was \$99,686 and \$105,386 respectively.

NOTE 3 – LONG-TERM DEBT

The Charter Holder has no long-term debt outside of their lease agreements.

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, 2016, TRS' total plan assets were \$134,008,637,473, accumulated benefit obligation (or total pension liability) was \$171,797,150,487, and the plan was 78.00 percent funded.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2017 and 2016

Contributions

State law provides for a member contribution rate of 7.7 percent for fiscal year 2017, 7.2 percent for fiscal year 2016, and 6.7 percent for fiscal year 2015, and a State contribution rate of 6.8 percent for fiscal years 2017, 2016, and 2015. In addition, State law provides for a member contribution rate of 7.7 percent for fiscal year 2018, while maintaining a state contribution rate of 6.8 percent for fiscal year 2018.

The Charter Holder's employees' contributions to TRS for the years ending August 31, 2017, 2016, and 2015 were \$233,034, \$208,578, and \$157,402, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants and from the Charter Holder for salaries above the statutory minimum for the years ending August 31, 2017, 2016, and 2015 were \$23,908, \$17,375, and \$15,660, respectively, equal to the required contributions for each year. These contributions did not represent more than five percent of the total contributions to TRS.

In addition to the Charter Holder's contributions given above, when employing a new member to TRS, the Charter Holder is required to pay the state contribution for the new members in their first 90 days of employment. The Charter Holder's contributions for new members for fiscal year ending August 31, 2017 was \$9,219.

Effective for fiscal year 2016, the Charter Holder made contributions for the Non-Old Age Survivor and Disability Insurance (Non-OASDI) for certain employees. The total amount contributed for Non-OASDI for the fiscal years ending August 31, 2017 and 2016 were \$45,396 and \$43,454, respectively.

NOTE 5 – RETIREE HEALTH CARE PLAN

Plan Description

The Charter Holder contributes to the Texas Public School Retired Employees Group Insurance Program (“TRS-Care”), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us; by writing to the Communications Department of TRS at 1000 Red River Street, Austin, Texas 78701; or by calling 1-800-223-8778.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.00 percent for fiscal years 2017, 2016, and 2015 and 0.65 percent of school payroll, with the Charter Holder contributing a percentage of payroll set at 0.55 percent for fiscal years 2017, 2016, and 2015. Per Texas Insurance Code, Chapter 1575, the school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the years ended August 31, 2017, 2016, and 2015, the State's contributions to TRS-Care were \$3,527, \$2,617, and \$2,315, respectively; the active member contributions were \$19,672, \$18,830, and \$15,267, respectively; and the Charter Holder's contributions were \$16,645, \$15,933, and \$12,919, respectively; which equaled the required contributions each year.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2017 and 2016

NOTE 6 – HEALTH CARE COVERAGE

During the years ended August 31, 2017 and 2016, employees of the Charter Holder were covered by an insurance plan offered by Assurant (the “Plan”). The Charter Holder contributed \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

NOTE 7 – DUE FROM STATE

At August 31, 2017 and 2016, the Charter Holder’s total due from the Texas Education Agency consisted of the following:

	<u>2017</u>	<u>2016</u>
Foundation School Program	\$ 394,914	\$ 399,053
Child Nutrition Cluster	18,287	27,145
Total	<u>\$ 413,201</u>	<u>\$ 426,198</u>

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

As of August 31, 2017 and 2016, the Charter Holder’s temporarily restricted net assets consisted of the following:

	<u>2017</u>	<u>2016</u>
Foundation School Program	\$ 1,196,231	\$ 818,030
National School Lunch and Breakfast Program	1,918	50,839
Total	<u>\$ 1,198,149</u>	<u>\$ 868,869</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2017</u>	<u>2016</u>
State funds	\$ 5,011,277	\$ 4,692,312
Federal funds	808,541	747,598
Total	<u>\$ 5,819,818</u>	<u>\$ 5,439,910</u>

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, 2016, 2015, and 2014, filed with the IRS remain subject to examination.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2017 and 2016

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 2017 fiscal year, the monthly rent was \$24,030 through April 2017 and increased to \$24,530 in May 2017.

The lease for space at Westglen became effective May 1, 2011 and extends through April 31, 2021. The lease provides for increases in rent. For the 2017 fiscal year, the Charter Holder paid a base monthly rent of \$14,064 through April 2017 and it increased to \$14,402 beginning May 2017.

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 2017 fiscal year, the monthly rent was \$22,188 through April 2017 and increased to \$22,593 beginning May 2017.

Total rental expense for the fiscal years 2017 and 2016 was \$733,363 and \$719,336, respectively.

Future annual rental payments as of August 31, 2017 are:

<u>For the Year Ended August 31</u>	<u>Amount</u>
2018	\$ 738,294
2019	647,923
2020	197,357
2021	115,218
Total	<u>\$ 1,698,792</u>

NOTE 11 – ACCRUED SALARIES

During August 2017 and 2016, the Charter Holder’s teachers worked ten and eight days for which they were not paid until after September 1, 2017 and 2016, respectively. Based on the daily rate of pay and the number of days worked, \$135,267 and \$125,526 was accrued in 2017 and 2016, respectively.

NOTE 12 – STATE FOUNDATION PROGRAM REVENUE

Charter schools in the State of Texas participate in the State Foundation Program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period and, at the close of the year, actual attendance is calculated by the TEA. The attendance reports are subject to audit by the TEA and final State foundation program earnings may be adjusted as a result of any such audit. During the years ended August 31, 2017 and 2016, the Charter Holder was paid \$5,321,764 and \$4,997,456, respectively, of State Foundation Program funds of which all was earned (before any possible TEA enrollment and attendance audit).

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2017 and 2016

During the years ended August 31, 2017 and 2016, the Charter Holder had 13 days of instruction related to the 2016-2017 school year and 13 days of instruction for 2015-2016 school year. Based on the estimated State Foundation Program revenue for the 2016-2017 school year and 2015-2016 school year as provided by the TEA, the Charter Holder earned \$394,914 and \$399,053, respectively, for these days of instruction. This revenue has been accrued at August 31, 2017 and 2016, and will be received after September 1, 2017 and 2016, respectively.

NOTE 13 – RELATED PARTY TRANSACTIONS

The Academy leases its facilities from ALEPH Investments and SOLEDO LLC, limited partnerships controlled by Fernando Donatti, Superintendent (the “Superintendent”). Rental payments under these leases were \$733,363 during the 2016-2017 school year (see Note – 10 Operating Leases). The Superintendent has never voted in any matter related to these properties. In instances where there were discussions or decisions related to these properties, the Superintendent filed an “Affidavit and Abstention from Voting” form with the Board secretary in accordance with Local Government Code, Chapter 171, Subtitle C.

NOTE 14 – CHARTER HOLDER OPERATIONS

The Charter Holder operated one charter school and did not conduct any other charter or noncharter activities.

NOTE 15 – SUBSEQUENT EVENTS

The Charter Holder has evaluated subsequent events through the date of the independent auditors’ report.

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SUPPLEMENTAL INFORMATION

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DRAW ACADEMY, INC.
SCHEDULES OF EXPENSES - EXHIBIT C-1
For the Years Ended August 31, 2017 and 2016

Expenses	Totals	
	2017	2016
6100 Payroll costs	\$ 3,419,501	\$ 3,320,221
6200 Professional and contracted services	1,406,422	1,175,910
6300 Supplies and materials	879,943	913,674
6400 Other operating costs	296,509	267,291
6500 Debt	-	1,984
Total Expenses	\$ 6,002,375	\$ 5,679,080

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DRAW ACADEMY, INC.
SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1
 August 31, 2017

	Ownership Interest		
	Local	State	Federal
1520 Buildings and improvements	\$ 37,500	\$ 859,566	\$ -
1531 Vehicles	-	75,414	-
1539 Furniture and equipment	-	166,528	-
1549 Furniture and equipment	-	102,248	-
Total Property and Equipment	<u>\$ 37,500</u>	<u>\$ 1,203,756</u>	<u>\$ -</u>

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DRAW ACADEMY, INC.

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

GENERAL FUND

For the Year Ended August 31, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
5740 Other revenues from local sources	\$ 20,000	\$ 20,000	\$ 19,097	\$ (903)
Total local support	20,000	20,000	19,097	(903)
State program revenues				
5810 Foundation school program act revenues	4,985,000	5,086,500	5,321,764	235,264
5820 State program revenues distributed by				
Texas Education Agency	-	-	15,857	15,857
Total state program revenue	4,985,000	5,086,500	5,337,621	251,121
Total Revenues	5,005,000	5,106,500	5,356,718	250,218
Expenses				
11 Instruction	2,709,975	2,879,250	3,010,981	(131,731)
12 Instructional resources and media	1,100	1,100	-	1,100
13 Curriculum development and instructional staff development	15,000	15,000	14,107	893
21 Instructional leadership	30,025	30,025	31,426	(1,401)
3 School leadership	230,000	235,000	233,360	1,640
31 Guidance, counseling, and evaluation services	1,000	1,000	1,541	(541) *
33 Health services	1,000	1,100	1,190	(90)
41 General administration	100,000	105,000	101,046	3,954
51 Plant maintenance and operations	1,350,000	1,400,000	1,388,542	11,458
52 Security and monitoring services	10,000	10,000	6,134	3,866
53 Data processing services	45,000	45,000	42,702	2,298
71 Debt service	5,000	5,000	-	5,000
Total Expenses	4,498,100	4,727,475	4,831,029	(103,554)
Change in Net Assets	\$ 506,900	\$ 379,025	525,689	\$ 146,664
Reconciliation to Ending Net Assets - all funds				
Change in net assets due to activity in other funds			(234,680)	
Depreciation expense			(99,686)	
		Change in Net Assets (all funds)	191,323	
Beginning net assets			1,313,324	
		Ending Net Assets	\$ 1,504,647	

* Expenses exceeded appropriations in excess of ten percent in function 31 primarily due to the unforeseen purchase of special education software.

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***COMPLIANCE,
INTERNAL CONTROLS,
AND
FEDERAL AWARDS***

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**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 25, 2018

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, 2017 and 2016, 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 25, 2018.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Holder's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter Holder's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter Holder's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

January 25, 2018

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

Report on Compliance for Each Major Federal Program

We have audited DRAW Academy, Inc.'s (the "Charter Holder") dba DRAW Academy (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Charter Holder's major federal programs for the year ended August 31, 2017. The Charter Holder's major federal programs are identified in the summary of auditors' results and the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Charter Holder's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Charter Holder'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Charter Holder's compliance.

Opinion on Each Major Federal Program

In our opinion, the Charter Holder complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

Report on Internal Control Over Compliance

Management of the Charter Holder is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Charter Holder's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Charter Holder'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

DRAW ACADEMY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT F-1
For the Year Ended August 31, 2017

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

Federal Awards

Internal control over major programs:

One or more material weakness(es) identified? No

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

Type of audit report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.5.516(a)? No

Identification of major programs:

<u>CFDA Number</u>	<u>Program Title</u>
10.553 & 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs \$ 750,000

Auditee qualified as low-risk auditee? No

II. FINANCIAL STATEMENT FINDINGS

None identified.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None identified.

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DRAW ACADEMY, INC.

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

For the Year Ended August 31, 2017

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

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DRAW ACADEMY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1

For the Year Ended August 31, 2017

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Texas Education Agency:</i>			
Title I, Part A - Improving Basic Programs	84.010	17610101101856	\$ 219,603
Title II, Part A - Teacher/Principal Training	84.367	17694501101856	23,350
Title III, Part A - English Language Acquisition	84.365	17671001101856	53,301
Special Education Cluster			
IDEA-B Formula	84.027	176600011018566000	99,588
IDEA-B Preschool	84.173	176610011018566000	598
		Total U.S. Department of Education	<u>396,440</u>
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Texas Education Agency:</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	71401701	45,246
National School Lunch Program	10.555	71301701	345,355
USDA Commodity	10.565	120901A	21,500
		Total U.S. Department of Agriculture	<u>412,101</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 808,541</u></u>

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DRAW ACADEMY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2017

NOTE 1 – STANDARD FINANCIAL ACCOUNTING SYSTEM

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

NOTE 2 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the Charter Holder and is presented on the accrual basis of accounting. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

NOTE 3 – INDIRECT COST RATE

The Charter Holder has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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Required Auditor Disclosure Letter

January 25, 2018

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

We have audited the financial statements of DRAW Academy, Inc., (the "Charter Holder") for the year ended August 31, 2017, and have issued our report thereon dated January 25, 2018. Professional standards require that we provide the Board of Directors (the "governing body") with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards and the Uniform Guidance*), as well as certain information related to the planned scope and timing of the audit.

I. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 13, 2017, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with the governing body's oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve the governing body or management of its responsibilities.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the governing body in our engagement letter dated December 13, 2017.

III. Significant Audit Findings

1. Qualitative Aspects of Accounting Practices

- A. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Charter Holder are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Charter Holder during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

- B. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of capital assets as based on industry standards relating to capital assets. We evaluated the key factors and assumptions used to develop the useful lives of capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.

- C. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the Charter Holder's leases is the most sensitive due to future payment requirements, as well as related party transactions between the Superintendent/CEO and the Charter Holder.

2. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

3. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes both material and immaterial misstatements detected as a result of our audit procedures.

4. Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

5. Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 25, 2018.

6. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Charter Holder's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Charter Holder's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

IV. Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. general accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the governing body and management of the Charter Holder and is not intended to be, and should not be, used by anyone other than these specified parties.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

Client: **DRAW Academy, Inc.**
 Engagement: **4.1 - D.R.A.W. Academy 8/31/17**
 Period Ending: **8/31/2017**
 Trial Balance: **2.2.01 - TB**
 Workpaper: **2.5.06 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		C.07		
To accrue commodities				
2403563440099999000	USDA Commodities		21,500.18	
2400059230000000000	USDA Commodities			21,500.18
Total			21,500.18	21,500.18
Adjusting Journal Entries JE # 2		H.01		
To correct over depreciation				
4200015700000000000	ACCUMULATED DEPRECIATION		2,784.00	
4205164490099999000	DEPRECIATION EXPENSE			2,784.00
Total			2,784.00	2,784.00
Adjusting Journal Entries JE # 3		H.01		
To reclassify materials expense				
4201163990010311000	GENERAL SUPPLIES		3,877.52	
4200021220000000000	LOANS			3,877.52
Total			3,877.52	3,877.52
Adjusting Journal Entries JE # 4				
To reclassify prepaid expense				
8630012900000000000	Other Receivables		3,492.31	
8630014100000000000	DEFERRED EXPENSES			3,492.31
Total			3,492.31	3,492.31



Management Letter

January 25, 2018

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

The American Institute of Certified Public Accountants Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, (SAS 115) provides guidance to auditors on communicating internal control matters to management and the governing body, board of directors, or equivalent body.

It is important to note when reviewing findings reported within this letter that classification of findings is based on the definitions required by SAS 115 as further discussed below. Please note that these classifications are based on the potential impact to the financial statements, not necessarily the likelihood of actual loss to the Charter Holder. Accordingly, the Charter Holder's assessment of the "significance" or ranking of severity will likely be substantially different based on a number of factors including, but not limited to, its assessment of risk and the cost benefit of making the change.

Our report is as follows;

In planning and performing our audit of the financial statements of DRAW Academy, Inc. (the "Charter Holder") as of and for the year ended August 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter Holder's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be other matters.

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 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 findings and additional comments are as follows:

CURRENT YEAR MATTERS

Other Matters:

2017-001 EXPENSES IN EXCESS OF APPROPRIATIONS

Criteria

The Texas Education Agency, Division of Financial Audits, monitors compliance with original and final amended budgets of Texas charter holders. Budget variances in excess of ten percent require a written statement discussing the cause of the variance and corrective action that will be taken to ensure the Charter Holder adheres to its budget, as specified in section 1.7.2.8 of the *Special Supplement to the Financial Accountability System Resource Guide, Charter Schools*.

Condition

As of August 31, 2017, the Charter Holder had an unfavorable budget variance greater than ten percent for function 31.

Cause

This difference is primarily due to the unforeseen purchase of special education software.

Recommendation

The Charter Holder should make any necessary budget amendments prior to year end to ensure sufficient appropriations are available prior to the expenditure of funds.

Management's Corrective Action Plan

Management concurs with the recommendation and will closely monitor expenses.

MATTERS PREVIOUSLY REPORTED

Other Matters:

2017-002. CUSTODIAL CREDIT RISK – DEPOSITS

Criteria

According to TEA's Special Supplement to the Financial Accountability System Resource Guide – Charter Schools, charters must follow section 2257.021 and 2257.022 of the Government Code. 2257.021 states that "a deposit of public funds shall be secured by eligible security", and 2257.022 states that "the total value of eligible security to secure a deposit of public funds must be in an amount not less than the amount of the deposit of public funds".

Condition

Based on our analysis of bank collateralization in which we requested a confirmation of balances from DRAW's Bank of Texas accounts, they were undercollateralized by \$439,597.19.

Cause

The Charter Holder has not acquired pledged securities from the bank to insure its bank balances.

Recommendation

The Charter should seek to eliminate this risk by allocating funds to various banks or seek pledged securities from the banks as collateral for account balances in excess of FDIC limits.

Management's Corrective Action Plan

Management concurs with the recommendation and plans to analyze the cost versus benefit of making any change to reduce the risk to an appropriate level.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Charter Holder, and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to thank the Board of Directors and the Charter Holder's management for their cooperation during the course of our audit. Please feel free to contact us at your convenience to discuss this report or any other concerns that you may have.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

