

ANNUAL FINANCIAL REPORT

of

DRAW ACADEMY, INC.

DBA

DRAW ACADEMY

For the Years Ended
August 31, 2011 and 2010

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DRAW ACADEMY, INC.

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For The Years Ended August 31, 2011 and 2010

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DRAW ACADEMY, INC.
CERTIFICATE OF BOARD

The DRAW Academy, Inc.
Name of Charter Holder

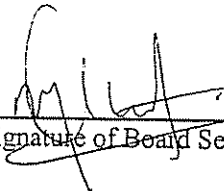
76-0680496
Federal Employer ID Number

DRAW Academy
Name of Charter School

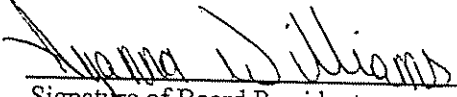
Harris
County

101-856
Co. Dist. Number

We, the undersigned, certify that the attached financial and compliance report of the above named Charter Holder were reviewed and (check one) approved disapproved for the year ended August 31, 2011, at a meeting of the governing body of the Charter Holder on the 24 day of February, 2012.



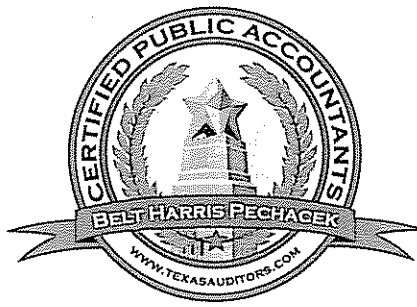
Signature of Board Secretary



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.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of DRAW Academy, Inc. (the "Charter Holder") dba DRAW Academy (a nonprofit organization), as of August 31, 2011 and 2010, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 February 10, 2012, 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* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken 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 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 taken as a whole.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 14, 2012

FINANCIAL STATEMENTS

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DRAW ACADEMY, INC.
STATEMENT OF FINANCIAL POSITION - EXHIBIT A-1
August 31, 2011 and 2010

	2011	2010
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 102,644	\$ 395,009
Due from Texas Education Agency	200,939	168,057
Prepaid expenses	10,589	9,090
Other receivable	300	-
Total current assets	314,472	572,156
Non-current assets:		
Property and equipment, net	425,241	155,898
Total non-current assets	425,241	155,898
Total Assets	\$ 739,713	\$ 728,054
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 6,173	\$ 11,416
Payroll liabilities	16,672	27,541
Accrued salaries payable	69,455	62,495
Total current liabilities	92,300	101,452
Total Liabilities	92,300	101,452
Net Assets		
Unrestricted	542,211	525,395
Temporarily restricted	105,202	101,207
Total Net Assets	647,413	626,602
Total Liabilities and Net Assets	\$ 739,713	\$ 728,054

See Notes to Financial Statements.

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DRAW ACADEMY, INC.
STATEMENT OF ACTIVITIES - EXHIBIT A-2
For the Years Ended August 31, 2011 and 2010

	Unrestricted	Temporarily Restricted	Totals	
			2011	2010
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 91,006	\$ -	\$ 91,006	\$ 78,713
5750 Revenue from cocurricular or enterprising	1,835	-	1,835	3,570
Total local support	<u>92,841</u>	<u>-</u>	<u>92,841</u>	<u>82,283</u>
State program revenues				
5810 Foundation school program act revenues	-	2,425,201	2,425,201	2,278,525
5820 State program revenues distributed by				
Texas Education Agency	-	40,360	40,360	10,867
Total state program revenue	<u>-</u>	<u>2,465,561</u>	<u>2,465,561</u>	<u>2,289,392</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas				
Education Agency	-	475,462	475,462	633,809
Net assets released from restrictions:				
Restricted satisfied by payments	2,937,028	(2,937,028)	-	-
Total Revenues	<u>3,029,869</u>	<u>3,995</u>	<u>3,033,864</u>	<u>3,005,484</u>
Expenses				
11 Instruction	1,858,454	-	1,858,454	1,819,958
12 Instructional resources and media services	1,490	-	1,490	10,651
13 Curriculum development and instructional				
staff development	25,977	-	25,977	32,718
23 School leadership	196,869	-	196,869	161,747
31 Guidance, counseling and evaluation				
services	106	-	106	3,639
33 Health services	4,715	-	4,715	3,773
35 Food services	155,124	-	155,124	176,538
36 Co-curricular/extracurricular activities	744	-	744	1,030
41 General administration	109,196	-	109,196	70,857
51 Plant maintenance and operations	639,407	-	639,407	539,732
52 Security and monitoring services	1,121	-	1,121	2,906
53 Data processing services	19,850	-	19,850	26,360
Total Expenses	<u>3,013,053</u>	<u>-</u>	<u>3,013,053</u>	<u>2,849,909</u>
Change in Net Assets	16,816	3,995	20,811	155,575
Beginning Net Assets	525,395	101,207	626,602	471,027
Ending Net Assets	<u>\$ 542,211</u>	<u>\$ 105,202</u>	<u>\$ 647,413</u>	<u>\$ 626,602</u>

See Notes to Financial Statements.

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DRAW ACADEMY, INC.
STATEMENT OF CASH FLOWS - EXHIBIT A-3
For the Years Ended August 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Foundation school program payments	\$ 2,432,379	\$ 2,340,351
Grant payments	475,462	633,809
Miscellaneous sources	91,342	73,193
Payments to vendors for goods and services rendered	(1,212,868)	(953,752)
Payments to charter school personnel for services rendered	(1,770,716)	(1,804,693)
Net Cash Provided by Operating Activities	15,599	288,908
Cash Flows from Investing Activities		
Payments for property and equipment	(307,964)	(62,115)
Net Cash (Used) in Investing Activities	(307,964)	(62,115)
Cash Flows from Financing Activities		
Payments on capital lease payable	-	(4,878)
Net Cash (Used) in Financing Activities	-	(4,878)
Net Change in Cash and Cash Equivalents	(292,365)	221,915
Beginning cash and cash equivalents	395,009	173,094
Ending cash and cash equivalents	\$ 102,644	\$ 395,009
Adjustments to Reconcile to Change in Net Assets to Net Cash Provided by Operating Activities:		
Change in net assets	\$ 20,811	\$ 155,575
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) in operating activities:		
Depreciation	38,621	51,820
(Increase) decrease in:		
Due from Texas Education Agency	(32,882)	50,959
Prepaid expenses	(1,499)	(9,090)
Accounts receivable	(300)	-
Increase (decrease) in:		
Accounts payable	(5,243)	7,716
Payroll liabilities	(10,869)	24,141
Accrued salaries payable	6,960	7,787
Net Cash Provided by Operating Activities	\$ 15,599	\$ 288,908

See Notes to Financial Statements.

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DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended August 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements of DRAW Academy, Inc. (the “Charter Holder”) were prepared in conformity with accounting principles generally accepted in the United States of America. 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 comprised of five members. The Board of Directors 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 of Directors 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, The DRAW Academy was opened. The DRAW Academy was organized to provide educational services to students in grades Prekindergarten through eighth. The Charter Holder’s board of directors governs their programs, services, activities and functions. For the school year 2010-2011, The DRAW Academy primarily serves children who are at risk of dropping out using state-defined criteria. The DRAW Academy’s vision is to create an environment in which every student receives a quality education in a safe environment, and assure every student access to a learning environment that encourages them to be in school with other students learning to the best of their ability.

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, 2011 and 2010

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.

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 twenty 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 fair value at the date of donation, which is then treated as cost.

NOTE 2 – CAPITAL ASSETS

Capital assets at August 31, 2011, and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
Buildings and improvements	\$ 166,824	\$ 83,873
Construction in progress	175,788	17,849
Vehicles	73,008	45,183
Furniture and equipment	263,303	224,054
Total property and equipment	678,923	370,959
Less accumulated depreciation	(253,682)	(215,061)
Property and equipment, net	\$ 425,241	\$ 155,898

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, 2011 and 2010

NOTE 3 – PENSION PLAN OBLIGATIONS

Plan Description

The Charter Holder contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple-employer 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. 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.

Funding Policy

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 or contribution reductions 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 one year, the period would be increased by such action. State law provides for a member contribution rate of 6.4 percent for fiscal years 2011, 2010, and 2009, and a state contribution rate of 6.64 percent for fiscal years 2011 and 2010 and 6.58 percent for fiscal year 2009. The Charter Holder's employees' contributions to the System for the years ending August 31, 2011, 2010, and 2009, were \$98,452, \$97,435, and \$118,061 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, 2011, 2010, and 2009 were \$10,429, \$16,621 and \$27,240, respectively, equal to the required contributions for each year.

NOTE 4 – HEALTH CARE COVERAGE

During the year ended August 31, 2011, employees of the Charter Holder were covered by an insurance plan offered by Assurant (the "Plan"). The Charter Holder contributed \$297 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.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2011 and 2010

NOTE 5 – DUE FROM STATE

	<u>2011</u>	<u>2010</u>
Foundation School Program Year	\$ 191,723	\$ 160,863
Student Success Initiative	275	232
IDEA Part B, Formula ARRA Program Year	-	1,527
ESEA Title I, Improving Basic Program Year	-	3,675
ESEA Title II, Teacher and Principal Program Year	-	984
Title III - English Language Program Year	-	776
Date Cycle 2, Year 1	8,941	-
Total	<u>\$ 200,939</u>	<u>\$ 168,057</u>

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets for the years ending August 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Foundation School Program	\$ 47,362	\$ 68,607
Child Nutrition Program	57,840	32,600
	<u>\$ 105,202</u>	<u>\$ 101,207</u>

NOTE 7 – 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 Texas Education Agency or the grantor agency.

NOTE 8 – OPERATING LEASES

The Charter Holder entered into a lease agreements with ALEPH Investments (see related party note) for space at 3920 Stoney Brook Drive, Houston, Texas 77063 and 7914 Westglen Drive, Houston, TX 77063. The lease for space at 3920 Stoney Brook Drive, Houston, TX 77063 became effective September 24, 2004 and extends through September 30, 2019. The lease provides for increases in rent. The Academy paid a base monthly rent of \$18,358 from September 2010 through January 2011. In February 2011, the rent increased to \$21,641.

The lease for space at 7914 Westglen Drive, Houston, TX 77063 became effective May 1, 2011 and extends through April 31, 2021. The lease provides for increases in rent. The Academy paid a base monthly rent of \$12,917 from May 2011 through August 2011.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2011 and 2010

Future annual rental payments as of August 31, 2011 are:

For the Year Ended August 31.	Amount
2012	\$ 414,700
2013	414,700
2014	414,700
2015	414,700
2016	414,700
2017 - 2021	<u>1,524,075</u>
Total	<u>\$ 3,597,575</u>

NOTE 9 – ACCRUED SALARIES

During August 2011, DRAW Academy, Inc.'s teachers worked 7 days for which they were not paid until after September 1, 2011. Based on the daily rate of pay and the number of days worked, the Charter Holder accrued \$69,455 in teachers' salaries to be paid after September 1, 2011.

NOTE 10 – 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 period ended August 31, 2011, the Charter Holder was paid \$2,425,201 of State foundation program funds of which all was earned (before any possible TEA enrollment and attendance audit).

The Charter Holder had 7 days of instruction before the fiscal year end related to the 2011-2012 school year. Based on the estimated State Foundation Program revenue for the 2010-2011 school year as provided by the Texas Education Agency, the Academy earned \$191,723 of State Foundation Program revenue for these days of instruction. This revenue has been accrued at August 31, 2011 and will be received after September 1, 2011.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Academy leases its facilities from ALEPH Investments, a limited partnership controlled by Fernando Donatti, Superintendent. Rental payments under this lease were \$300,210 during the 2010-2011 school year (see operating leases note). The superintendent has never voted in any matter related to this property. In instances where there were discussions or decisions related to this property, 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 12 – CHARTER HOLDER OPERATIONS

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

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SUPPLEMENTAL INFORMATION

7. 12

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DRAW ACADEMY, INC.
SCHEDULE OF EXPENSES - EXHIBIT C-1
 For the Years Ended August 31, 2011 and 2010

Expenses	Totals	
	2011	2010
6100 Payroll costs	\$ 1,770,716	\$ 1,804,693
6200 Professional and contracted services	692,290	533,113
6300 Supplies and materials	437,044	344,648
6400 Other operating costs	113,003	162,577
6500 Debt	-	4,878
Total Expenses	\$ 3,013,053	\$ 2,849,909

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DRAW ACADEMY, INC.
SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1
 August 31, 2011

	Ownership Interest		
	Local	State	Federal
1520 Buildings and improvements	\$ -	\$ 166,824	\$ -
1520 Construction in progress	-	175,788	-
1531 Vehicles	-	68,158	-
1539 Furniture and equipment	-	161,055	-
1541 Vehicles	-	4,850	-
1549 Furniture and equipment	-	102,248	-
Total Property and Equipment	<u>\$ -</u>	<u>\$ 678,923</u>	<u>\$ -</u>

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DRAW ACADEMY, INC.

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

GENERAL FUND ONLY

For the Year Ended August 31, 2011

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget Positive (Negative)
Revenues				
5740 Other revenues from local sources	\$ 11,750	\$ 11,750	\$ 31,255	\$ (19,505)
Total Local Support	<u>11,750</u>	<u>11,750</u>	<u>31,255</u>	<u>(19,505)</u>
State program revenues				
5810 Foundation school program act revenues	2,458,788	2,421,245	2,439,241	(17,996)
Total State Program Revenue	<u>2,458,788</u>	<u>2,421,245</u>	<u>2,439,241</u>	<u>(17,996)</u>
Total Revenues	<u>2,470,538</u>	<u>2,432,995</u>	<u>2,470,496</u>	<u>(37,501)</u>
Expenses				
11 Instruction	1,592,402	1,691,470	1,495,890	195,580
12 Instructional resources and media				
12 services	11,000	11,000	1,490	9,510
13 Curriculum development and				
13 instructional staff development	22,000	24,000	14,991	9,009
23 School leadership	154,250	169,500	184,972	(15,472)
31 Guidance, counseling and evaluation				
31 services	3,500	3,500	106	3,394
33 Health services	3,500	3,825	4,715	(890) *
41 General administration	78,500	86,000	108,969	(22,969) *
51 Plant maintenance and operations	698,900	670,900	628,382	42,518
52 Security and monitoring services	1,700	1,700	1,121	579
53 Data processing services	25,500	25,500	19,850	5,650
Total Expenses	<u>2,591,252</u>	<u>2,687,395</u>	<u>2,460,486</u>	<u>226,909</u>
Change in Net Assets	<u>\$ (120,714)</u>	<u>\$ (254,400)</u>	10,010	<u>\$ 264,410</u>
Reconciliation to Ending Net Assets				
Change in net Assets due to activity in other funds			<u>10,801</u>	
Change in Net Assets (all funds)			<u>20,811</u>	
Beginning Net Assets			<u>626,602</u>	
Ending Net Assets			<u>\$ 647,413</u>	

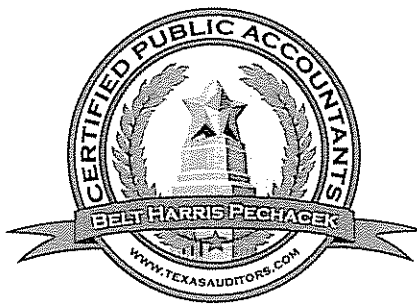
* Expenditures exceeded appropriations by more than ten percent.

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*COMPLIANCE
AND
INTERNAL CONTROL*

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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*

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

We have audited the financial statements of DRAW Academy, Inc. (the "Charter Holder") dba DRAW Academy (a nonprofit organization) as of and for the years ended August 31, 2011 and 2010, and have issued our report thereon dated February 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Charter Holder'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 Charter Holder's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter Holder'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 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 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.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Charter Holder in a separate letter dated February 14, 2012.

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

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 14, 2012

DRAW ACADEMY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT F-1

For the Year Ended August 31, 2011

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of audit report issued Unqualified

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 STATE AND FEDERAL AWARDS

None identified.

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DRAW ACADEMY, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - EXHIBIT G-1

For the Year Ended August 31, 2011

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

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