

*ANNUAL FINANCIAL REPORT*

of

**DRAW ACADEMY, INC.**

*DBA*

*DRAW ACADEMY*

For the Years Ended  
August 31, 2014 and 2013

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# DRAW ACADEMY, INC.

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August 31, 2014 and 2013

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**DRAW ACADEMY, INC.**  
**CERTIFICATE OF BOARD**

The DRAW Academy, Inc.  
Name of Charter Holder

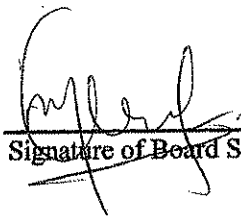
76-0680496  
Federal Employer ID Number

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, 2014, at a meeting of the governing body of the Charter Holder on the 27 day of JANUARY, 2015.

  
\_\_\_\_\_  
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.:

### **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, 2014 and 2013, 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.

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## 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, 2014 and 2013, 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 the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purposes of additional analysis and is 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 26, 2015 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 26, 2015



***FINANCIAL STATEMENTS***

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**DRAW ACADEMY, INC.**  
**STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1**  
August 31, 2014 and 2013

	2014	2013
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 271,009	\$ 261,323
Due from Texas Education Agency	260,637	208,221
Prepaid expenses	-	1,226
Other receivable	36,188	1,000
Total current assets	567,834	471,770
Non-current assets:		
Property and equipment, net	502,394	482,435
Total non-current assets	502,394	482,435
<b>Total Assets</b>	<b>\$ 1,070,228</b>	<b>\$ 954,205</b>
 <b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable	\$ 61,649	\$ 38,687
Accrued salaries payable	64,514	58,217
Loan payable	-	37,654
Total current liabilities	126,163	134,558
<b>Total Liabilities</b>	<b>126,163</b>	<b>134,558</b>
Net assets:		
Unrestricted	743,586	749,640
Temporarily restricted	200,479	70,007
<b>Total Net Assets</b>	<b>944,065</b>	<b>819,647</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,070,228</b>	<b>\$ 954,205</b>

See Notes to Financial Statements.

**DRAW ACADEMY, INC.**  
**STATEMENTS OF ACTIVITIES - EXHIBIT A-2**  
For the Years Ended August 31, 2014 and 2013

	2014			2013
	Unrestricted	Temporarily Restricted	Totals	Unrestricted
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 46,102	\$ -	\$ 46,102	\$ 81,577
5750 Revenue from cocurricular or enterprising	552	-	552	4,308
Total local support	<u>46,654</u>	<u>-</u>	<u>46,654</u>	<u>85,885</u>
State program revenues:				
5810 Foundation school program act revenues	-	3,565,902	3,565,902	-
5820 State program revenues distributed by Texas Education Agency	-	73,062	73,062	-
Total state program revenue	<u>-</u>	<u>3,638,964</u>	<u>3,638,964</u>	<u>-</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	602,988	602,988	-
Net assets released from restrictions:				
Restricted satisfied by payments	4,111,480	(4,111,480)	-	3,809,093
<b>Total Revenues</b>	<u>4,158,134</u>	<u>130,472</u>	<u>4,288,606</u>	<u>3,894,978</u>
<b>Expenses</b>				
11 Instruction	2,384,415	-	2,384,415	2,313,940
12 Instructional resources and media services	-	-	-	3,493
13 Curriculum development and instructional staff development	9,849	-	9,849	18,954
21 Instructional leadership	30,250	-	30,250	-
23 School leadership	218,663	-	218,663	222,196
31 Guidance, counseling, and evaluation services	1,599	-	1,599	-
33 Health services	5,847	-	5,847	469
35 Food services	316,515	-	316,515	310,310
41 General administration	143,447	-	143,447	85,027
51 Plant maintenance and operations	1,009,693	-	1,009,693	821,920
52 Security and monitoring services	4,652	-	4,652	4,543
53 Data processing services	37,375	-	37,375	31,619
71 Debt service	1,883	-	1,883	5,046
<b>Total Expenses</b>	<u>4,164,188</u>	<u>-</u>	<u>4,164,188</u>	<u>3,817,517</u>
<b>Change in Net Assets</b>	(6,054)	130,472	124,418	77,461
Beginning net assets	749,640	70,007	819,647	672,179
<b>Ending Net Assets</b>	<u>\$ 743,586</u>	<u>\$ 200,479</u>	<u>\$ 944,065</u>	<u>\$ 749,640</u>

See Notes to Financial Statements.

2013

<u>Temporarily Restricted</u>	<u>Totals</u>
\$ -	\$ 81,577
-	4,308
<u>-</u>	<u>85,885</u>
3,207,402	3,207,402
15,783	15,783
<u>3,223,185</u>	<u>3,223,185</u>
639,899	639,899
<u>(3,809,093)</u>	<u>-</u>
<u>53,991</u>	<u>3,948,969</u>
-	2,313,940
-	3,493
-	18,954
-	-
-	222,196
-	-
-	469
-	310,310
-	85,027
-	821,920
-	4,543
-	31,619
-	5,046
<u>-</u>	<u>3,817,517</u>
53,991	131,452
16,016	688,195
<u>\$ 70,007</u>	<u>\$ 819,647</u>

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**DRAW ACADEMY, INC.**  
**STATEMENTS OF CASH FLOWS - EXHIBIT A-3**  
For the Years Ended August 31, 2014 and 2013

	2014	2013
<b>Cash Flows from Operating Activities</b>		
Revenue from co-curricular or enterprising	\$ 552	\$ 4,308
Foundation school program payments	3,586,548	3,194,832
Grant payments	602,988	639,899
Miscellaneous sources	46,102	81,577
Payments to vendors for goods and services rendered	(1,816,384)	(1,323,871)
Payments to charter school personnel for services rendered	(2,306,399)	(2,323,075)
Interest payments	(1,883)	(5,046)
<b>Net Cash Provided by Operating Activities</b>	<b>111,524</b>	<b>268,624</b>
<b>Cash Flows from Investing Activities</b>		
Payments for property and equipment	(101,838)	(74,534)
<b>Net Cash (Used) by Investing Activities</b>	<b>(101,838)</b>	<b>(74,534)</b>
<b>Cash Flows from Financing Activities</b>		
Cash advances	-	154
<b>Net Cash Provided by Financing Activities</b>	<b>-</b>	<b>154</b>
<b>Net Change in Cash and Cash Equivalents</b>	9,686	194,244
Beginning cash and cash equivalents	261,323	67,079
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 271,009</b>	<b>\$ 261,323</b>
<b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:</b>		
Change in net assets	\$ 124,418	\$ 131,452
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	81,879	77,795
(Increase) decrease in:		
Due from Texas Education Agency	(52,416)	(28,353)
Prepaid expenses	1,226	131,900
Accounts receivable	(35,188)	-
Increase (decrease) in:		
Accounts payable	22,962	3,197
Loan payable	(37,654)	-
Payroll liabilities	-	(21,998)
Accrued salaries payable	6,297	(25,369)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 111,524</b>	<b>\$ 268,624</b>

See Notes to Financial Statements.

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**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended August 31, 2014 and 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The general purpose financial statements of DRAW Academy, Inc. (the “Charter Holder”) dba DRAW Academy (a non-profit 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 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, DRAW Academy was opened. DRAW Academy was organized to provide educational services to students in grades pre-kindergarten through eight. The Charter Holder’s Board of Directors governs its programs, services, activities, and functions. For the school year 2013-2014, DRAW Academy primarily serves children who are at risk of dropping out using state-defined criteria. DRAW Academy’s vision is to create an environment in which every student receives a quality education in a safe environment, and ensure every student access to a learning environment that encourages them to be in school with other students learning to the best of their abilities.

**Basis of Accounting and Presentation**

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

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

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

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

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

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2014 and 2013

**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, 2014, the Charter Holder had deposits of \$35,865 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 fair value at the date of donation, which is then treated as cost.

**NOTE 2 – CAPITAL ASSETS**

Capital assets at August 31, 2014, and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Buildings and improvements	\$ 554,452	\$ 554,452
Construction in progress	89,079	-
Vehicles	85,767	73,008
Furniture and equipment	268,776	268,776
<b>Total Property and Equipment</b>	<u>998,074</u>	<u>896,236</u>
Less accumulated depreciation	(495,680)	(413,801)
<b>Property and Equipment, Net</b>	<u>\$ 502,394</u>	<u>\$ 482,435</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.

Depreciation expense for the the 2014 and 2013 fiscal years was \$81,879 and \$77,795, respectively.

**DRAW ACADEMY, INC.**  
*NOTES TO FINANCIAL STATEMENTS (Continued)*  
For the Years Ended August 31, 2014 and 2013

**NOTE 3 – LONG TERM DEBT**

The Charter Holder entered into an agreement with ALEPH Investments to repay a line of credit obtained by ALEPH Investments in the amount of \$150,000 if utilized in full, with interest of 4.9 percent for the Charter Holder's building improvements located at 3920 Stoney Brook, Drive, Houston, Texas. ALEPH investments is the main borrower, and the Charter Holder is the second borrower. During the 2012 fiscal year, \$75,000 was borrowed. ALEPH Investments and the Charter Holder agreed to repay the amount borrowed in monthly payments of \$7,500 plus interest. The balance of the line of credit was repaid in full during the 2014 fiscal year.

**NOTE 4 – 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](http://www.trs.state.tx.us), under the TRS Publication Heading.

**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's 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. State law provides for a member contribution rate of 6.4 percent for fiscal years 2014, 2013, and 2012, and a state contribution rate of 6.8 percent for fiscal year 2014, 6.4 percent for 2013, and 6.0 percent for 2012. The Charter Holder's employees' contributions to the System for the years ending August 31, 2014, 2013, and 2012 were \$133,199, \$133,532, and \$112,776, 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, 2014, 2013, and 2012 were \$15,926, \$12,616, and \$11,727, respectively, equal to the required contributions for each year.

**NOTE 5 – RETIREE HEALTH CARE PLAN**

**Plan Description**

The Charter 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

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2014 and 2013

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](http://www.trs.state.tx.us); by writing to the Communications Department of the Teacher Retirement System of Texas 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 one percent for fiscal year 2014, 0.50 percent for fiscal years 2013, and one percent for fiscal year 2012 and 0.65 percent of school payroll, respectively, with the Charter Holder contributing a percentage of payroll set at 0.55 percent for fiscal years 2014, 2013, and 2012. 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, 2014, 2013, and 2012, the State's contributions to TRS-Care were \$1,171, \$986, and \$1,955, respectively; the active member contributions were \$13,528, \$13,562, and \$11,454, respectively; and the Charter Holder's contributions were \$11,447, \$11,475, and \$9,692, respectively; which equaled the required contributions each year.

**NOTE 6 – HEALTH CARE COVERAGE**

During the years ended August 31, 2014 and 2013, employees of the Charter Holder were covered by an insurance plan offered by Assurant (the "Plan"). The Charter Holder contributed \$343 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, 2014 and 2013, the Charter Holder's total due from state consisted of the following:

	2014	2013
Foundation School Program	\$ 239,627	\$ 208,221
Child Nutrition Cluster	21,010	-
<b>Total</b>	<b>\$ 260,637</b>	<b>\$ 208,221</b>

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

As of August 31, 2014 and 2013, the Charter Holder's temporarily restricted net assets consisted of the following:

	2014	2013
Foundation School Program	109,530	\$ -
National School Lunch and Breakfast Program	90,949	70,007
<b>Total</b>	<b>\$ 200,479</b>	<b>\$ 70,007</b>

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2014 and 2013

**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, 2013, 2012, and 2011, filed with the IRS remain subject to examination.

**NOTE 10 – OPERATING LEASES**

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

The lease for space at 3920 Stoney Brook Drive, Houston, Texas became effective September 24, 2004 and extends through September 30, 2019. For the 2014 fiscal year, the monthly rent was \$22,942.

The lease for space at 7914 Westglen Drive, Houston, Texas became effective May 1, 2011 and extends through April 31, 2021. The lease provides for increases in rent. The Charter Holder paid a base monthly rent of \$13,192.

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

The lease for space at 3903 Stoney Brook Drive, Houston, Texas became effective May 1, 2014 and extends through April 31, 2019. For the 2014 fiscal year, the monthly rent was \$17,068 for May 2014 through July 2014, and increased to \$24,180 beginning August 2014.

Total rental expense for the years 2014 and 2013 was \$511,704 and \$426,807, respectively.

Future annual rental payments as of August 31, 2014 are:

<b>For the Year Ended August 31</b>	<b>Amount</b>
2015	\$ 737,730
2016	737,730
2017	737,730
2018	737,730
2019	641,010
2020-2021	300,041
<b>Total</b>	<b>\$ 3,891,971</b>

**NOTE 11 – ACCRUED SALARIES**

During August 2014 and 2013, the Charter Holder's teachers worked seven and ten days for which they were not paid until after September 1, 2014 and 2013, respectively. Based on the daily rate of pay and the number of days worked, \$64,514 and \$58,217 was accrued in 2014 and 2013, respectively.

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2014 and 2013

**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, 2014 and 2013, the Charter Holder was paid \$3,565,902 and \$3,207,402, respectively, of State Foundation Program funds of which all was earned (before any possible TEA enrollment and attendance audit).

During the years ended August 31, 2014 and 2013, the Charter Holder had ten days of instruction related to each of the 2014-2015 and 2013-2014 school years. Based on the estimated State Foundation Program revenue for the 2014-2015 school year and 2013-2014 school year as provided by the TEA, the Charter Holder earned \$218,997 and \$184,516, respectively, for these days of instruction. This revenue has been accrued at August 31, 2014 and 2013, and will be received after September 1, 2014 and 2013, respectively.

**NOTE 13 – RELATED PARTY TRANSACTIONS**

The Academy leases its facilities from ALEPH Investments and SOLEDO LLC, limited partnerships controlled by Fernando Donatti, Superintendent. Rental payments under these leases were \$511,704 during the 2013-2014 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 14 – CHARTER HOLDER OPERATIONS**

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

**NOTE 15 – SUBSEQUENT EVENTS**

The Charter Holder has evaluated subsequent events through January 26, 2015, the date which the financial statements were available for review.

***SUPPLEMENTAL INFORMATION***

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**DRAW ACADEMY, INC.**  
**SCHEDULE OF EXPENSES - EXHIBIT C-1**  
For the Years Ended August 31, 2014 and 2013

Expenses	Totals	
	2014	2013
6100 Payroll costs	\$ 2,306,399	\$ 2,323,075
6200 Professional and contracted services	985,051	773,828
6300 Supplies and materials	644,136	507,491
6400 Other operating costs	226,719	208,077
6500 Debt	1,883	5,046
<b>Total Expenses</b>	<b>\$ 4,164,188</b>	<b>\$ 3,817,517</b>

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**DRAW ACADEMY, INC.**  
**SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1**  
 August 31, 2014

	Ownership Interest		
	Local	State	Federal
1520 Buildings and improvements	\$ 37,500	\$ 516,952	\$ -
1520 Construction in progress		89,079	
1531 Vehicles	-	80,917	-
1539 Furniture and equipment	-	166,528	-
1541 Vehicles	-	4,850	-
1549 Furniture and equipment	-	102,248	-
<b>Total Property and Equipment</b>	<b>\$ 37,500</b>	<b>\$ 960,574</b>	<b>\$ -</b>

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# DRAW ACADEMY, INC.

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

### GENERAL FUND

For the Year Ended August 31, 2014

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
5740 Other revenues from local sources	\$ -	\$ -	\$ 46,102	\$ 46,102
Total local support	-	-	46,102	46,102
State program revenues				
5810 Foundation school program act revenues	3,321,284	3,575,995	3,565,902	(10,093)
5820 State program revenues distributed by Texas Education Agency	-	-	34,856	34,856
Total state program revenue	3,321,284	3,575,995	3,600,758	24,763
<b>Total Revenues</b>	<b>3,321,284</b>	<b>3,575,995</b>	<b>3,646,860</b>	<b>70,865</b>
<b>Expenses</b>				
11 Instruction	2,005,810	2,075,810	2,110,376	(34,566)
12 Instructional resources and media services	5,000	500	-	500
13 Curriculum development and instructional staff development	12,000	12,000	9,849	2,151
23 School leadership	201,999	210,000	218,663	(8,663)
31 Guidance, counseling, and evaluation services	43,000	3,000	1,599	1,401
33 Health services	4,600	5,700	5,847	(147)
41 General administration	81,762	143,765	143,447	318
51 Plant maintenance and operations	1,090,016	1,010,000	1,009,693	307
52 Security and monitoring services	8,000	8,000	4,652	3,348
53 Data processing services	34,500	34,500	37,375	(2,875)
71 Debt service	2,000	2,000	1,883	117
<b>Total Expenses</b>	<b>3,488,687</b>	<b>3,505,275</b>	<b>3,543,384</b>	<b>(38,109)</b>
<b>Change in Net Assets</b>	<b>\$ (167,403)</b>	<b>\$ 70,720</b>	<b>103,476</b>	<b>\$ 32,756</b>
<b>Reconciliation to Ending Net Assets- all funds</b>				
Change in net assets due to activity in other funds			(60,937)	
Depreciation expense			81,879	
		<b>Change in Net Assets (all funds)</b>	124,418	
Beginning net assets			819,647	
		<b>Ending Net Assets</b>	<b>\$ 944,065</b>	

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*COMPLIANCE,  
INTERNAL CONTROL,  
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 26, 2015

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, 2014 and 2013, 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 26, 2015.

**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.

**Partners**

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### **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 OMB CIRCULAR A-133**

January 26, 2015

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 Circular A-133 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, 2014. The Charter Holder's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2014.

**Partners**

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## 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 a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 OMB Circular A-133. 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, 2014

### 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 section 510(a) of OMB Circular A-133?	No
Identification of major programs:	
<u>Program Title</u>	<u>CFDA Number</u>
Child Nutrition Cluster	10.553 and 10.555
Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

### 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, 2014

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

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# DRAW ACADEMY, INC.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT H-1

For the Year Ended August 31, 2014

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Texas Education Agency:</i>			
ESEA Title I Part A	84.010	14610101101856	\$ 147,343
IDEA-B Formula*	84.027	146600011018566600	62,151
IDEA-B Preschool*	84.173	146610011018566610	485
Title II Part A Teacher & Principal	84.367	14694501101856	23,338
Title III - Part A English Language Acquisition	84.365	14671001101856	34,862
<b>Total Passed Through Texas Education Agency</b>			<b>268,179</b>
<b>Total U.S Department of Education</b>			<b>268,179</b>
 <b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Texas Education Agency:</i>			
School Breakfast Program*	10.553	71401401	58,246
National School Lunch Program*	10.555	71301401	260,631
USDA Commodities	10.565	101-856	15,932
<b>Total Passed Through Texas Education Agency</b>			<b>334,809</b>
<b>Total U.S. Department of Agriculture</b>			<b>334,809</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 602,988</b>

\* Indicates cluster program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

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# **DRAW ACADEMY, INC.**

## ***NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

For the Year Ended August 31, 2014

### **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 includes the federal grant activity of the Charter Holder and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the general purpose financial statements.

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## Management Letter

January 26, 2015

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") dba DRAW Academy (a nonprofit organization) as of and for the year ended August 31, 2014, 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.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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.

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Our findings and additional comments are as follows:

*Other Matters:*

**2014-001. CUSTODIAL CREDIT RISK - DEPOSITS**

**Criteria**

Chapter 2257 of the Texas Government Code requires that public funds held in excess of Federal Deposit Insurance Corporation limits be insured by pledged collateral.

**Condition**

The Charter Holder had bank accounts that were not fully insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with pledged securities by the respective bank as of year end. As a result, the Charter Holder was exposed to custodial credit risk. Custodial credit risk, in the case of deposits, is the risk that in the event of a bank failure, the Charter Holder's deposits may not be returned to it.

**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.

**2014-002. UNAUTHORIZED CHECK SIGNER**

**Condition**

It was noted during the audit that a check was signed by an employee that was not listed on the bank signature card.

**Recommendation**

The Charter should update the bank signature cards so it reflects all current authorized signers. The Charter should establish procedures to ensure that bank signature cards are updated when an authorized signer is added or taken off of the signature cards.

This communication is intended solely for the information and 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.

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*

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