

*ANNUAL FINANCIAL REPORT*

of

**DRAW ACADEMY, INC.**

*DBA*

*DRAW ACADEMY*

For the Years Ended  
August 31, 2018 and 2017

# DRAW ACADEMY, INC.

## TABLE OF CONTENTS

August 31, 2018 and 2017

	<u>Page</u>	<u>Exhibit</u>
Certificate of Board	1	
Independent Auditors' Report	3	
<b><u>Financial Statements</u></b>		
Statements of Financial Position	7	A-1
Statements of Activities	8	A-2
Statements of Cash Flows	11	A-3
Notes to Financial Statements	13	
<b><u>Supplemental Information</u></b>		
Schedules of Expenses	23	C-1
Schedule of Capital Assets	25	D-1
Budgetary Comparison Schedule (Budgetary Basis) – General Fund	27	E-1
<b><u>Compliance, Internal Control, and Federal Awards</u></b>		
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 <i>Government Auditing Standards</i>	31	
Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	33	
Schedule of Findings and Questioned Costs	35	F-1
Summary Schedule of Prior Year Audit Findings	37	G-1
Schedule of Expenditures of Federal Awards	39	K-1
Notes to Schedule of Expenditures of Federal Awards	41	

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

DRAW Academy, Inc.  
Name of Charter Holder

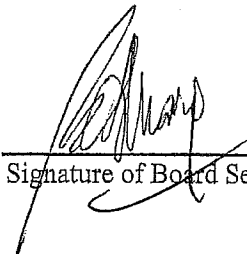
76-0680496  
Federal Employer ID Number

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, 2018, at a meeting of the governing body of the Charter Holder on the 24 day of JANUARY, 19.

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

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

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



## *INDEPENDENT AUDITORS' REPORT*

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of DRAW Academy, Inc. (the "Charter Holder") dba DRAW Academy (a nonprofit organization), which comprise the statements of financial position as of August 31, 2018 and 2017, 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, 2018 and 2017, 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, 2019 on our consideration of the Charter Holder's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Charter Holder's 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, 2019

***FINANCIAL STATEMENTS***

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**DRAW ACADEMY, INC.**  
**STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1**  
August 31, 2018 and 2017

	2018	2017
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 826,555	\$ 761,767
Due from Texas Education Agency	518,509	413,201
Prepaid expenses	30,053	20,470
Other receivables	24,180	27,672
Total current assets	1,399,297	1,223,110
Non-current assets:		
Property and equipment, net	527,470	492,258
Total noncurrent assets	527,470	492,258
<b>Total Assets</b>	<b>\$ 1,926,767</b>	<b>\$ 1,715,368</b>
 <b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable	\$ 152,058	\$ 75,454
Accrued salaries payable	176,105	135,267
Total current liabilities	328,163	210,721
<b>Total Liabilities</b>	<b>328,163</b>	<b>210,721</b>
Net assets:		
Unrestricted	497,411	306,498
Temporarily restricted	1,101,193	1,198,149
<b>Total Net Assets</b>	<b>1,598,604</b>	<b>1,504,647</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 1,926,767</b>	<b>\$ 1,715,368</b>

See Notes to Financial Statements.



**DRAW ACADEMY, INC.**  
**STATEMENTS OF ACTIVITIES - EXHIBIT A-2**  
For the Years Ended August 31, 2018 and 2017

	2018			2017
	Unrestricted	Temporarily Restricted	Totals	Unrestricted
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 85,735	\$ -	\$ 85,735	\$ 44,600
Total local support	85,735	-	85,735	44,600
State program revenues:				
5810 Foundation school program act revenues	-	5,628,829	5,628,829	-
5820 State program revenues distributed by Texas Education Agency	-	31,770	31,770	-
Total state program revenue	-	5,660,599	5,660,599	-
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	997,571	997,571	-
Net assets released from restrictions	6,755,126	(6,755,126)	-	5,819,818
<b>Total Revenues</b>	<b>6,840,861</b>	<b>(96,956)</b>	<b>6,743,905</b>	<b>5,864,418</b>
<b>Expenses</b>				
11 Instruction	3,897,626	-	3,897,626	3,445,080
13 Curriculum development and instructional staff development	13,928	-	13,928	15,407
21 Instructional leadership	101,122	-	101,122	94,901
23 School leadership	282,218	-	282,218	248,732
31 Guidance, counseling, and evaluation services	2,085	-	2,085	1,541
33 Health services	4,344	-	4,344	1,569
34 Student (pupil) transportation	10,038	-	10,038	-
35 Food services	559,383	-	559,383	463,959
41 General administration	103,208	-	103,208	106,227
51 Plant maintenance and operations	1,618,571	-	1,618,571	1,576,123
52 Security and monitoring services	10,772	-	10,772	6,134
53 Data processing services	46,653	-	46,653	42,702
<b>Total Expenses</b>	<b>6,649,948</b>	<b>-</b>	<b>6,649,948</b>	<b>6,002,375</b>
<b>Change in Net Assets</b>	<b>190,913</b>	<b>(96,956)</b>	<b>93,957</b>	<b>(137,957)</b>
Beginning net assets	306,498	1,198,149	1,504,647	444,455
<b>Ending Net Assets</b>	<b>\$ 497,411</b>	<b>\$ 1,101,193</b>	<b>\$ 1,598,604</b>	<b>\$ 306,498</b>

See Notes to Financial Statements.

2017

Temporarily Restricted	Totals
\$ -	\$ 44,600
-	44,600
5,321,764	5,321,764
18,793	18,793
<u>5,340,557</u>	<u>5,340,557</u>
808,541	808,541
<u>(5,819,818)</u>	-
<u>329,280</u>	<u>6,193,698</u>
-	3,445,080
-	15,407
-	94,901
-	248,732
-	1,541
-	1,569
-	-
-	463,959
-	106,227
-	1,576,123
-	6,134
-	42,702
<u>-</u>	<u>6,002,375</u>
329,280	191,323
868,869	1,313,324
<u>\$ 1,198,149</u>	<u>\$ 1,504,647</u>

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**DRAW ACADEMY, INC.**  
**STATEMENTS OF CASH FLOWS - EXHIBIT A-3**  
For the Years Ended August 31, 2018 and 2017

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Foundation school program payments	\$ 5,555,291	\$ 5,353,554
Grant payments	997,571	808,541
Miscellaneous sources	85,735	44,600
Payments to vendors for goods and services rendered	(2,618,846)	(2,480,861)
Payments to charter school personnel for services rendered	(3,806,538)	(3,419,501)
<b>Net Cash Provided by Operating Activities</b>	<b>213,213</b>	<b>306,333</b>
<b>Cash Flows from Investing Activities</b>		
Payments for property and equipment	(148,425)	(7,250)
<b>Net Cash (Used) by Investing Activities</b>	<b>(148,425)</b>	<b>(7,250)</b>
<b>Net Change in Cash and Cash Equivalents</b>	64,788	299,083
Beginning cash and cash equivalents	761,767	462,684
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 826,555</b>	<b>\$ 761,767</b>
<b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:</b>		
Change in net assets	\$ 93,957	\$ 191,323
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	113,213	99,686
(Increase) decrease in:		
Due from Texas Education Agency	(105,308)	12,997
Prepaid expenses	(9,583)	(20,470)
Accounts receivable	3,492	12,132
Increase (decrease) in:		
Accounts payable	76,604	924
Accrued salaries payable	40,838	9,741
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 213,213</b>	<b>\$ 306,333</b>

See Notes to Financial Statements.

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**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended August 31, 2018 and 2017

**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 (FASB) 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 2017-2018, 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, 2018 and 2017

**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, 2018, the Charter Holder had cash deposits of \$601,159 in excess of federally insured limits. 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, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 1,013,357	\$ 897,066
Vehicles	93,128	75,414
Furniture and equipment	283,196	268,776
<b>Total Property and Equipment</b>	<u>1,389,681</u>	<u>1,241,256</u>
Less accumulated depreciation	(862,211)	(748,998)
<b>Property and Equipment, Net</b>	<u>\$ 527,470</u>	<u>\$ 492,258</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, 2018 and 2017

Depreciation expense for the 2018 and 2017 fiscal years was \$113,213 and \$99,686, 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 *Employers' Accounting for Pensions*, 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 TRS, the unfunded obligation or net pension liability of that entity will be passed along to the remaining other entities who contribute to TRS; and 4) there is not a withdrawal penalty for leaving TRS.

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 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 TRS; (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, 2017, TRS' total plan assets were \$147,361,922,120, accumulated benefit obligation (or total pension liability) was \$179,336,534,819, and the plan was 82.17 percent funded.



**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2018 and 2017

**Contributions**

State law provides for a member contribution rate of 7.7 percent for fiscal year 2018, 7.7 percent for fiscal year 2017, and 7.2 percent for fiscal year 2016, and a State contribution rate of 6.8 percent for fiscal years 2018, 2017, and 2016. In addition, State law provides for a member contribution rate of 7.7 percent for fiscal year 2019, 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, 2018, 2017, and 2016 were \$263,695, \$233,034, and \$208,578, 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, 2018, 2017, and 2016 were \$23,910, \$23,908, and \$17,375, 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, 2018 and 2017 were \$10,655 and \$9,219, respectively.

Effective in 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, 2018, 2017, and 2016 were \$50,802, \$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](http://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 1.25 percent for fiscal year ending August 31, 2018, and 1.0 percent for fiscal years 2017 and 2016, and 0.65 percent of school payroll. Payroll with the Charter Holder contributing a percentage of payroll set at 0.75 percent for fiscal year ending August 31, 2018 and 0.55 percent for fiscal years 2017 and 2016. 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, 2018, 2017, and 2016, the State's contributions to TRS-Care were \$4,482, \$3,527, and \$2,617, respectively; the active member contributions were \$22,259,

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2018 and 2017

\$19,672, and \$18,830, respectively; and the Charter Holder's contributions were \$25,686, \$16,645, and \$15,933, respectively; which equaled the required contributions each year.

**NOTE 6 – HEALTH CARE COVERAGE**

During the years ended August 31, 2018 and 2017, 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, 2018 and 2017, the Charter Holder's total due from the Texas Education Agency consisted of the following:

	2018	2017
Foundation School Program	\$ 477,941	\$ 394,914
Child Nutrition Cluster	40,568	18,287
<b>Total</b>	<b>\$ 518,509</b>	<b>\$ 413,201</b>

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

As of August 31, 2018 and 2017, the Charter Holder's temporarily restricted net assets consisted of the following:

	2018	2017
Foundation School Program	\$ 1,101,193	\$ 1,196,231
National School Lunch and Breakfast Program	-	1,918
<b>Total</b>	<b>\$ 1,101,193</b>	<b>\$ 1,198,149</b>

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

	2018	2017
State funds	\$ 5,757,555	\$ 5,011,277
Federal funds	997,571	808,541
<b>Total</b>	<b>\$ 6,755,126</b>	<b>\$ 5,819,818</b>

**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 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.

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2018 and 2017

The last three years of informational tax returns, 2017, 2016, and 2015, filed with the IRS remain subject to examination.

**NOTE 10 – OPERATING LEASES**

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

The lease for space at 3920 Stoney Brook became effective September 24, 2004 and extends through September 30, 2019. For the 2018 fiscal year, the monthly rent was \$24,530 through April 2018 and increased to \$24,866 in May 2018.

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 2018 fiscal year, the Charter Holder paid a base monthly rent of \$14,402 through April 2018 and it increased to \$14,809 beginning May 2018.

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 2018 fiscal year, the monthly rent was \$22,593 through April 2018 and increased to \$23,044 beginning May 2018.

Total rental expense for the fiscal years 2018 and 2017 was \$747,845 and \$733,363, respectively.

Future annual rental payments as of August 31, 2018 are:

<u>For the Year Ended August 31</u>	<u>Amount</u>
2019	660,446
2020	202,573
2021	118,472
<b>Total</b>	<b>\$ 981,491</b>

**NOTE 11 – ACCRUED SALARIES**

During August 2018 and 2017, the Charter Holder’s teachers worked twelve and ten days for which they were not paid until after September 1, 2018 and 2017, respectively. Based on the daily rate of pay and the number of days worked, \$176,105 and \$135,267 was accrued in 2018 and 2017, 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, 2018 and 2017, the Charter

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Years Ended August 31, 2018 and 2017**

Holder was paid \$5,628,829 and \$5,321,764, 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, 2018 and 2017, the Charter Holder had 15 days of instruction related to the 2017-2018 school year and 13 days of instruction for 2016-2017 school year. Based on the estimated State Foundation Program revenue for the 2018-2019 school year and 2017-2018 school year as provided by the TEA, the Charter Holder earned \$477,941 and \$394,914, respectively, for these days of instruction. This revenue has been accrued at August 31, 2018 and 2017, and will be received after September 1, 2018 and 2017, respectively.

**NOTE 13 – RELATED PARTY TRANSACTIONS**

DRAW 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 \$747,845 during the 2017-2018 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 January 25, 2019.

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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, 2018 and 2017

	Totals	
	2018	2017
<b>Expenses</b>		
6100 Payroll costs	\$ 3,806,538	\$ 3,419,501
6200 Professional and contracted services	1,471,507	1,406,422
6300 Supplies and materials	1,038,750	879,943
6400 Other operating costs	333,153	296,509
<b>Total Expenses</b>	<b>\$ 6,649,948</b>	<b>\$ 6,002,375</b>



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**DRAW ACADEMY, INC.**  
**SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1**  
 August 31, 2018

	Ownership Interest		
	Local	State	Federal
1520 Buildings and improvements	\$ 37,500	\$ 975,857	\$ -
1531 Vehicles	-	93,128	-
1539 Furniture and equipment	-	180,948	-
1549 Furniture and equipment	-	102,248	-
<b>Total Property and Equipment</b>	<u>\$ 37,500</u>	<u>\$ 1,352,181</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, 2018

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
5740 Other revenues from local sources	\$ -	\$ 30,000	\$ 30,023	\$ 23
Total local support	-	30,000	30,023	23
State program revenues				
5810 Foundation school program act revenues	5,310,903	5,577,575	5,628,829	51,254
Total state program revenue	5,310,903	5,577,575	5,628,829	51,254
<b>Total Revenues</b>	<b>5,310,903</b>	<b>5,607,575</b>	<b>5,658,852</b>	<b>51,277</b>
<b>Expenses</b>				
11 Instruction	3,303,903	3,295,140	3,306,167	(11,027)
12 Instructional resources and media	1,000	1,000	-	1,000
13 Curriculum development and instructional staff development	29,000	20,500	13,928	6,572
21 Instructional leadership	92,000	101,200	101,122	78
23 School leadership	265,000	281,500	261,163	20,337
31 Guidance, counseling, and evaluation services	3,000	3,000	2,085	915
33 Health services	40,000	10,000	4,292	5,708
34 Student transportation	28,000	28,000	10,038	17,962
41 General administration	110,000	110,000	100,455	9,545
51 Plant maintenance and operations	1,420,000	1,560,936	1,492,653	68,283
52 Security and monitoring services	10,000	11,000	10,772	228
53 Data processing services	55,000	52,000	46,653	5,347
71 Debt service	5,000	5,000	-	5,000
<b>Total Expenses</b>	<b>5,361,903</b>	<b>5,479,276</b>	<b>5,349,328</b>	<b>129,948</b>
<b>Change in Net Assets</b>	<b>\$ (51,000)</b>	<b>\$ 128,299</b>	<b>309,524</b>	<b>\$ 181,225</b>
<b>Reconciliation to Ending Net Assets - all funds</b>				
Change in net assets due to activity in other funds			(102,354)	
Depreciation expense			(113,213)	
		<b>Change in Net Assets (all funds)</b>	<u>93,957</u>	
Beginning net assets			1,504,647	
		<b>Ending Net Assets</b>	<u>\$ 1,598,604</u>	

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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, 2019

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, 2018 and 2017, 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, 2019.

**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, 2019

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, 2018. 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 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, 2018.

### 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, 2018

### 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:

CFDA Number	Program Title
10.553 & 10.555	Child Nutrition Cluster
84.010	Title I

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, 2018

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 K-1**  
For the Year Ended August 31, 2018

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>			
Title I, Part A - Improving Basic Programs	84.010	18610101101856	\$ 247,413
Title I, 1003 School Improvement	84.010	18610123101856	75,000
Title II, Part A - Supporting Effective Instruction	84.367	18694501101856	25,401
Title III, Part A - English Language Acquisition	84.365	18671001101856	50,588
Special Education Cluster			
IDEA-B Formula	84.027	186600011018566000	102,355
IDEA-B Preschool	84.173	186610011018566000	2,669
Title IV, Part A, Subpart 1	84.424	18680101101856	10,000
	<b>Total U.S. Department of Education</b>		<u>513,426</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Texas Education Agency:</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	71401801	63,106
National School Lunch Program	10.555	71301801	382,177
USDA Commodity	10.565	120901A	38,862
	<b>Total U.S. Department of Agriculture</b>		<u>484,145</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 997,571</u></u>



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# **DRAW ACADEMY, INC.**

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

**For the Year Ended August 31, 2018**

### **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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## Management Letter

January 25, 2019

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, 2018, 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:***

#### **2018-001. 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. Section 2257.021 states that “a deposit of public funds shall be secured by eligible security”, and Section 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 the Charter Holder’s Bank of Texas accounts, deposits were undercollateralized by \$601,159.

##### **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 Federal Deposit Insurance Corporation (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.

#### **NEW PRONOUNCEMENT:**

#### **NEW FASB GUIDANCE ON PRESENTATION OF FINANCIAL STATEMENTS FOR NOT-FOR-PROFITS**

##### **Background**

The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) designed to improve existing standards for financial statement presentation for not-for-profit entities. ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* is effective for the Charter Holder for the fiscal year ending June 30, 2019.

The new guidance has significant changes with regards to net asset classification, information about liquidity and availability of resources, information about expenses and investment return, and presentation of operating cash flows. A high-level summary of the key changes are as follows:

##### ***Net Assets***

Current guidance provides for three classes of net assets: permanently restricted, temporarily restricted, and unrestricted. The new guidance now requires the use of two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

*Liquidity and Availability of Resources*

There are new disclosure requirements for qualitative information on how a not-for-profit manages its available liquid resources. Additionally, there is a required disclosure for quantitative disclosures that communicates the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet date.

*Expenses and Investment Return*

A presentation of expenses by nature, as well as function, is now required and is no longer considered supplementary information.

The new guidance requires net presentation of investment expenses against investment return on the Statement of Activities and eliminates the requirement to disclose investment expenses that have been netted.

*Presentation of Operating Cash Flows*

The not-for-profit entity may choose either the direct or indirect method to report operating cash flows. If the direct method is used, the presentation of the indirect reconciliation is no longer required.

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



## Required Auditor Disclosure Letter

January 25, 2019

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, 2018, and have issued our report thereon dated January 25, 2019. 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 February 2, 2018, 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 February 2, 2018.

### 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, 2019.

## *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.



*7. 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 8/31/18**  
 Period Ending: **8/31/2018**  
 Trial Balance: **2.2.01 - TB**  
 Workpaper: **2.5.06 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
<b>Adjusting Journal Entries JE # 1</b>		<b>C.07</b>		
To adjust commodities to actual.				
2403563440099999000	USDA Commodities		37,564.33	
2400059230000000000	USDA Commodities			37,564.33
<b>Total</b>			<b>37,564.33</b>	<b>37,564.33</b>
<b>Adjusting Journal Entries JE # 2</b>				
PBC - To reverse prior year Foundation revenue accruals.				
4200058110000000000	AVAILABLE SCHOOL FUND		9,612.00	
4200058120000000000	FOUNDATION SCHOOL PROGRAM		385,302.00	
4200012410000000000	DUE FROM STATE			394,914.00
<b>Total</b>			<b>394,914.00</b>	<b>394,914.00</b>
<b>Adjusting Journal Entries JE # 3</b>		<b>C.04</b>		
PBC - To record current year Foundation Revenue accruals.				
4200012410000000000	DUE FROM STATE		477,941.00	
4200058110000000000	AVAILABLE SCHOOL FUND			21,828.00
4200058120000000000	FOUNDATION SCHOOL PROGRAM			456,113.00
<b>Total</b>			<b>477,941.00</b>	<b>477,941.00</b>
<b>Adjusting Journal Entries JE # 4</b>				
PBC - Accrue CNP revenues and expense				
2400012410000000000	DUE FROM STATE		40,567.96	
2403563440099999000	USDA Commodities		1,297.96	
2400059210000000000	SCHOOL BREAKFAST PROGRAM			7,932.98
2400059220000000000	SCHOOL LUNCH PROGRAM			32,634.98
2400059230000000000	USDA Commodities			1,297.96
<b>Total</b>			<b>41,865.92</b>	<b>41,865.92</b>
<b>Adjusting Journal Entries JE # 5</b>				
PBC - Reclassify prior year payable				
2400021100100000000	ACCOUNTS PAYABLE		799.40	
2403563410010199000	FOOD			799.40
<b>Total</b>			<b>799.40</b>	<b>799.40</b>
<b>Adjusting Journal Entries JE # 6</b>				
PBC - Transfer to Child Nutrition Program.				
2400011101100000000	CASH - BANK OF TEXAS OP		70,378.08	
4200089890000000000	TRANSFER OUT		70,378.08	
2400079900000000000	TRANSFER IN			70,378.08
4200011101100000000	CASH			70,378.08
<b>Total</b>			<b>140,756.16</b>	<b>140,756.16</b>
<b>Adjusting Journal Entries JE # 7</b>		<b>E.01</b>		
PBC - To record AP.				
2403563410010199000	FOOD		40,828.82	
4201163990010111000	GENERAL SUPPLIES		1,423.14	
4201164120010124000	STUDENT TRAVEL		507.32	
4205162590099999000	UTILITIES		6,245.77	
4205163190099999000	MAINTENANCE MATERIALS		2,429.81	
2400021100100000000	ACCOUNTS PAYABLE			40,828.82
4200021100100000000	ACCOUNTS PAYABLE-PRIOR YEAR			10,606.04
<b>Total</b>			<b>51,434.86</b>	<b>51,434.86</b>
<b>Adjusting Journal Entries JE # 8</b>		<b>E.02</b>		
To adjust AP.				
4200015200100000000	BUILDINGS & IMPROVEMENTS-WIP		8,500.00	

Client: **DRAW Academy, Inc.**  
 Engagement: **4.1 - D.R.A.W. Academy 8/31/18**  
 Period Ending: **8/31/2018**  
 Trial Balance: **2.2.01 - TB**  
 Workpaper: **2.5.06 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
4201163990010111000	GENERAL SUPPLIES		10,673.45	
4202363990099999000	GENERAL SUPPLIES		5,594.50	
4200021100100000000	ACCOUNTS PAYABLE-PRIOR YEAR			5,594.50
4200021100100000000	ACCOUNTS PAYABLE-PRIOR YEAR			8,500.00
4200021100100000000	ACCOUNTS PAYABLE-PRIOR YEAR			10,673.45
<b>Total</b>			<b>24,767.95</b>	<b>24,767.95</b>
<b>Adjusting Journal Entries JE # 9</b>				
PBC - Reclassify prepaid WC insurance premium to current expense.				
4201161430099999000	WORKERS COMP		14,739.00	
4202161430099999000	WORKERS COMP		453.09	
4202361430099999000	WORKERS COMP		1,077.76	
4204161430070199000	WORKERS COMP		290.99	
4205161430099999000	WORKERS COMP		2,165.53	
4200014100000000000	DEFERRED EXPENSES			18,726.37
<b>Total</b>			<b>18,726.37</b>	<b>18,726.37</b>
<b>Adjusting Journal Entries JE # 10</b>				
PBC - Reclassify ESC 4 prepaid to current expense.				
4202362390099999000	ESC SERVICES		2,813.00	
4200014100100000000	DEFERRED EXPENSES			2,813.00
<b>Total</b>			<b>2,813.00</b>	<b>2,813.00</b>
<b>Adjusting Journal Entries JE # 11</b>				
PBC - Reclassify security equipment purchase to capital asset.				
4200015390000000000	FURN/EQUIP>5000		14,419.59	
4205162490099999000	CONTRACTED MAINTENANCE SER			14,419.59
<b>Total</b>			<b>14,419.59</b>	<b>14,419.59</b>
<b>Adjusting Journal Entries JE # 12</b>				
PBC - Reverse prior year accrued salaries.				
4200021610000000000	ACCRUED WAGES PAYABLE		135,267.00	
4201161190010111000	PROFESSIONAL STAFF SALARIES			23,979.00
4201161190010123000	PROFESSIONAL STAFF SALARIES			3,598.00
4201161190010125000	PROFESSIONAL STAFF SALARIES			9,318.00
4201161190010211000	PROFESSIONAL STAFF SALARIES			11,968.00
4201161190010311000	PROFESSIONAL STAFF SALARIES			22,190.00
4201161190010325000	PROFESSIONAL STAFF SALARIES			6,272.00
4201161290010111000	SUPPORT STAFF SALARIES			6,763.00
4201161290010123000	SUPPORT STAFF SALARIES			1,839.00
4201161290010124000	SUPPORT STAFF SALARIES			26,611.00
4201161290010224000	SUPPORT STAFF SALARIES			10,917.00
4201161290010324000	SUPPORT STAFF SALARIES			11,812.00
<b>Total</b>			<b>135,267.00</b>	<b>135,267.00</b>
<b>Adjusting Journal Entries JE # 13</b>				
PBC - Accrue August salaries.				
4201161190010111000	PROFESSIONAL STAFF SALARIES		105,263.00	
4201161190010123000	PROFESSIONAL STAFF SALARIES		4,453.00	
4201161190010125000	PROFESSIONAL STAFF SALARIES		7,802.00	
4201161290010111000	SUPPORT STAFF SALARIES		2,466.00	
4201161290010111000	SUPPORT STAFF SALARIES		7,728.00	
4201161290010124000	SUPPORT STAFF SALARIES		48,393.00	
4200021610000000000	ACCRUED WAGES PAYABLE			176,105.00
<b>Total</b>			<b>176,105.00</b>	<b>176,105.00</b>
<b>Adjusting Journal Entries JE # 14</b>				
PBC - Record depreciation expense.				
4205164490099999000	DEPRECIATION EXPENSE	H.01	112,363.00	

Client: **DRAW Academy, Inc.**  
 Engagement: **4.1 - D.R.A.W. Academy 8/31/18**  
 Period Ending: **8/31/2018**  
 Trial Balance: **2.2.01 - TB**  
 Workpaper: **2.5.06 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
420001570000000000	ACCUMULATED DEPRECIATION			112,363.00
<b>Total</b>			<b>112,363.00</b>	<b>112,363.00</b>
<b>Adjusting Journal Entries JE # 15</b>		H.01		
To adjust depreciation.				
4205164490099999000	DEPRECIATION EXPENSE		850.00	
42000157000000000000	ACCUMULATED DEPRECIATION			850.00
<b>Total</b>			<b>850.00</b>	<b>850.00</b>
<b>Adjusting Journal Entries JE # 16</b>				
PBC - To reclass payroll expenses				
4201161190010111000	PROFESSIONAL STAFF SALARIES		21,935.65	
4201161190010325000	PROFESSIONAL STAFF SALARIES		57,661.62	
4201161290010125000	Salaries or Wages for Support		73,420.66	
4201161290010325000	SUPPORT STAFF SALARIES		23,833.16	
4201161410010111000	FICA/MEDICARE		318.12	
4201161410010125000	FICA/MEDICARE		1,044.50	
4201161410010325000	FICA/MEDICARE		346.19	
4201161410010325000	FICA/MEDICARE		837.68	
4201161420010111000	GROUP HEALTH & LIFE INS		887.81	
4201161420010125000	GROUP HEALTH & LIFE INS		2,700.00	
4201161450010125000	UNEMPLOYMENT COMP		172.80	
4201161450010325000	UNEMPLOYMENT COMP		86.40	
4201161450010325000	UNEMPLOYMENT COMP		86.40	
4201161460010111000	TEACHER RETIREMENT SYSTEM		493.55	
4201161460010125000	TEACHER RETIREMENT SYSTEM		1,652.02	
4201161460010325000	TEACHER RETIREMENT SYSTEM		536.17	
4201161460010325000	TEACHER RETIREMENT SYSTEM		1,297.26	
4201161190010125000	PROFESSIONAL STAFF SALARIES			21,935.65
4201161190010311000	PROFESSIONAL STAFF SALARIES			57,661.62
4201161290010124000	SUPPORT STAFF SALARIES			73,420.66
4201161290010324000	SUPPORT STAFF SALARIES			23,833.16
4201161410010124000	FICA/MEDICARE			1,044.50
4201161410010125000	FICA/MEDICARE			318.12
4201161410010311000	FICA/MEDICARE			837.68
4201161410010324000	FICA/MEDICARE			346.19
4201161420010124000	GROUP HEALTH & LIFE INS			2,700.00
4201161420010125000	GROUP HEALTH & LIFE INS			887.81
4201161450010124000	UNEMPLOYMENT COMP			172.80
4201161450010311000	UNEMPLOYMENT COMP			86.40
4201161450010324000	UNEMPLOYMENT COMP			86.40
4201161460010124000	TEACHER RETIREMENT SYSTEM			1,652.02
4201161460010125000	TEACHER RETIREMENT SYSTEM			493.55
4201161460010311000	TEACHER RETIREMENT SYSTEM			1,297.26
4201161460010324000	TEACHER RETIREMENT SYSTEM			536.17
<b>Total</b>			<b>187,309.99</b>	<b>187,309.99</b>
<b>Adjusting Journal Entries JE # 17</b>				
PBC - To reclass Region's bank deposits.				
19900111000000000000	CASH-REGIONS		43,134.56	
42000574900000000000	MISC LOCAL REVENUE		43,134.56	
19900574900000000000	MISC LOCAL REVENUE			43,134.56
42000111000000000000	CASH-REGIONS			43,134.56
<b>Total</b>			<b>86,269.12</b>	<b>86,269.12</b>