

ANNUAL FINANCIAL REPORT

of

DRAW ACADEMY, INC.

DBA

DRAW ACADEMY

For the Years Ended
August 31, 2019 and 2018

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DRAW ACADEMY, INC.

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August 31, 2019 and 2018

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DRAW ACADEMY, INC.
CERTIFICATE OF BOARD

DRAW Academy, Inc.
Name of Charter Holder

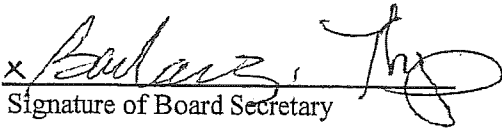
76-0680496
Federal Employer ID Number

DRAW Academy
Name of Charter School

Harris
County

101-856
Co. Dist. Number

We, the undersigned, certify that the attached financial and compliance report of the above named Charter Holder were reviewed and (check one) approved disapproved for the year ended August 31, 2019, at a meeting of the governing body of the Charter Holder on the 24th day of JANUARY, 2020


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, 2019 and 2018, and the related statements of activities, functional expenses, 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, 2019 and 2018, 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 supplementary 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 22, 2020 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 22, 2020

FINANCIAL STATEMENTS

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DRAW ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1
August 31, 2019 and 2018

	2019	2018
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 868,260	\$ 826,555
Due from Texas Education Agency	460,064	518,509
Prepaid expenses	6,492	30,053
Other receivables	24,180	24,180
Total current assets	1,358,996	1,399,297
Noncurrent assets:		
Property and equipment, net	624,498	527,470
Total noncurrent assets	624,498	527,470
Total Assets	\$ 1,983,494	\$ 1,926,767
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 139,555	\$ 152,058
Accrued salaries payable	113,625	176,105
Total current liabilities	253,180	328,163
Total Liabilities	253,180	328,163
Net assets:		
Without donor restrictions	504,330	497,411
With donor restrictions	1,225,984	1,101,193
Total Net Assets	1,730,314	1,598,604
Total Liabilities and Net Assets	\$ 1,983,494	\$ 1,926,767

See Notes to Financial Statements.

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DRAW ACADEMY, INC.
STATEMENTS OF ACTIVITIES - EXHIBIT A-2
For the Years Ended August 31, 2019 and 2018

	2019		2018	
	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 28,623	\$ -	\$ 28,623	\$ 85,735
Total local support	<u>28,623</u>	<u>-</u>	<u>28,623</u>	<u>85,735</u>
State program revenues:				
5810 Foundation school program act revenues	-	5,619,170	5,619,170	5,628,829
5820 State program revenues distributed by Texas Education Agency	-	13,815	13,815	31,770
Total state program revenue	<u>-</u>	<u>5,632,985</u>	<u>5,632,985</u>	<u>5,660,599</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	993,301	993,301	997,571
Net assets released from restrictions:				
Restrictions satisfied by payments	6,501,495	(6,501,495)	-	-
Total Revenues	<u>6,530,118</u>	<u>124,791</u>	<u>6,654,909</u>	<u>6,743,905</u>
Expenses				
Program services:				
Educational services	4,778,089	-	4,778,089	4,928,170
Support services:				
General and administrative services	1,745,110	-	1,745,110	1,721,778
Total Expenses	<u>6,523,199</u>	<u>-</u>	<u>6,523,199</u>	<u>6,649,948</u>
Change in Net Assets	6,919	124,791	131,710	93,957
Beginning net assets	497,411	1,101,193	1,598,604	1,504,647
Ending Net Assets	<u>\$ 504,330</u>	<u>\$ 1,225,984</u>	<u>\$ 1,730,314</u>	<u>\$ 1,598,604</u>

See Notes to Financial Statements.

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DRAW ACADEMY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES - EXHIBIT A-2a
For the Years Ended August 31, 2019 and 2018

	2019			2018
	Program Activities	Supporting Activities	Total	Total
	Educational Services	General and Administrative		
Expenses				
Salaries and wages	\$ 3,232,568	\$ 284,254	\$ 3,516,822	\$ 3,448,521
Benefits and payroll taxes	313,224	20,137	333,361	336,127
Total payroll expenses	<u>3,545,792</u>	<u>304,391</u>	<u>3,850,183</u>	<u>3,784,648</u>
Rental expenses	23,706	809,016	832,722	777,564
Contract labor	171,976	-	171,976	192,697
Maintenance and repairs	4,021	150,014	154,035	236,519
Utilities	-	137,721	137,721	176,928
Depreciation	-	105,251	105,251	113,213
Supplies	293,334	62,863	356,197	502,594
Food	534,054	-	534,054	559,383
Travel	101,353	-	101,353	99,804
Instructional materials	7,160	-	7,160	1,689
Insurance and bonding	-	73,357	73,357	77,302
Professional fees and dues	49,681	47,335	97,016	59,036
Legal fees	-	2,320	2,320	2,580
Accounting fees	-	26,430	26,430	23,695
Other	47,012	26,412	73,424	42,296
Total nonpayroll expenses	<u>1,232,297</u>	<u>1,440,719</u>	<u>2,673,016</u>	<u>2,865,300</u>
Total Expenses	<u><u>\$ 4,778,089</u></u>	<u><u>\$ 1,745,110</u></u>	<u><u>\$ 6,523,199</u></u>	<u><u>\$ 6,649,948</u></u>

See Notes to Financial Statements.

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DRAW ACADEMY, INC.
STATEMENTS OF CASH FLOWS - EXHIBIT A-3
For the Years Ended August 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Foundation school program payments	\$ 5,691,430	\$ 5,555,291
Grant payments	993,301	997,571
Miscellaneous sources	28,623	85,735
Payments to vendors for goods and services rendered	(2,595,485)	(2,618,846)
Payments to charter school personnel for services rendered	(3,873,885)	(3,806,538)
Net Cash Provided by Operating Activities	243,984	213,213
 Cash Flows from Investing Activities		
Payments for property and equipment	(202,279)	(148,425)
Net Cash (Used) by Investing Activities	(202,279)	(148,425)
Net Change in Cash and Cash Equivalents	41,705	64,788
Beginning cash and cash equivalents	826,555	761,767
Ending Cash and Cash Equivalents	\$ 868,260	\$ 826,555
 Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Change in net assets	\$ 131,710	\$ 93,957
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	105,251	113,213
(Increase) decrease in:		
Due from Texas Education Agency	58,445	(105,308)
Prepaid expenses	23,561	(9,583)
Accounts receivable	-	3,492
Increase (decrease) in:		
Accounts payable	(12,503)	76,604
Accrued salaries payable	(62,480)	40,838
Net Cash Provided by Operating Activities	\$ 243,984	\$ 213,213

See Notes to Financial Statements.

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DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended August 31, 2019 and 2018

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 2018-2019, 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. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board are reported as net assets without donor restrictions, Board-designated.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resources was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2019 and 2018

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 net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Cash and Cash Equivalents

For financial statement purposes, the Charter Holder considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general purpose financial statements. Capital assets are defined by the Charter Holder as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to 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.

Income Taxes

The Charter Holder qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

NOTE 2 – CASH AND CASH EQUIVALENTS

The Charter Holder's cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. At August 31, 2018, the Charter Holder had cash deposits of \$601,159 in excess of federally insured limits. At August 31, 2019, the Charter Holder had cash deposits of \$296,865 that were fully insured. In addition, the Charter Holder had a sweep account with cash deposits of \$602,120 that are collateralized by a large pool of securities composed of Mortgage Backed Securities and Collateralized Mortgage Obligations that have an implicit guarantee of the United States Government.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2019 and 2018

NOTE 3 – CAPITAL ASSETS

Capital assets at August 31, 2019 and 2018 were as follows:

	2019	2018
Buildings and improvements	\$ 1,004,857	\$ 1,013,357
Construction in progress	196,145	-
Vehicles	107,761	93,128
Furniture and equipment	283,197	283,196
Total Property and Equipment	1,591,960	1,389,681
Less accumulated depreciation	(967,462)	(862,211)
Property and Equipment, Net	\$ 624,498	\$ 527,470

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 2019 and 2018 fiscal years was \$105,251 and \$113,213, respectively.

NOTE 4 – LONG-TERM DEBT

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

NOTE 5 – 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

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2019 and 2018

the TRS Communications Department at 1-800-223-8778; or by downloading the report from the TRS website, www.trs.state.tx.us, under the TRS Publication Heading.

Funding Policy and Funded Status

Contribution requirements are not actuarially determined but are established and amended by the Texas State Legislature. The State funding policy is as follows: (1) the State constitution requires the legislature to establish a member contribution rate of not less than six percent of the member's annual compensation and a State contribution rate of not less than six percent and not more than ten percent of the aggregate annual compensation of all members of 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, 2018, TRS' total plan assets were \$154,568,901,833, accumulated benefit obligation (or total pension liability) was \$209,611,328,793, and TRS was 73.74 percent funded.

Contributions

State law provides for a member contribution rate of 7.7 percent for fiscal year 2019, 2018, and 2017 and a State contribution rate of 6.8 percent for fiscal years 2019, 2018, and 2017. In addition, State law provides for a member contribution rate of 7.7 percent for fiscal year 2019, while increasing the State contribution rate to 7.5 percent for fiscal year 2020.

The Charter Holder's employees' contributions to TRS for the years ending August 31, 2019, 2018, and 2017 were \$276,875, \$263,695, and \$233,034, 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, 2019, 2018, and 2017 were \$27,334, \$23,910, and \$23,908, 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, 2019, 2018, and 2017 were \$9,482, \$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, 2019, 2018, and 2017 were \$53,937, \$50,802, and \$45,396, respectively.

NOTE 6 – 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

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2019 and 2018

includes financial statements and Required Supplementary Information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us; by writing to the Communications Department of TRS at 1000 Red River Street, Austin, Texas 78701; or by calling 1-800-223-8778.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas contribution rates were 1.25 percent for fiscal year ending August 31, 2019 and 2018, and 1.0 percent for fiscal year 2017, while active public school employee contribution rates were 0.65 percent of school payroll. The Charter Holder contributed a percentage of payroll set at 0.75 percent for fiscal year ending August 31, 2019 and 2018, and 0.55 percent for fiscal year 2017. 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, 2019, 2018, and 2017, the State’s contributions to TRS-Care were \$5,025, \$4,482, and \$3,527, respectively; the active member contributions were \$23,373, \$22,259, and \$19,672, respectively; and the Charter Holder’s contributions were \$26,968, \$25,686, and \$16,645, respectively; which equaled the required contributions each year.

NOTE 7 – HEALTH CARE COVERAGE

During the years ended August 31, 2019 and 2018, 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 8 – DUE FROM STATE

At August 31, 2019 and 2018, the Charter Holder’s total due from the Texas Education Agency consisted of the following:

	2019	2018
Foundation School Program	\$ 416,033	\$ 477,941
Child Nutrition Cluster	44,031	40,568
Total	\$ 460,064	\$ 518,509

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

As of August 31, 2019 and 2018, the Charter Holder’s net assets with donor restrictions consisted of the following:

	2019	2018
Foundation School Program	\$ 1,225,984	\$ 1,101,193

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2019 and 2018

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

	2019	2018
State funds	\$ 5,508,194	\$ 5,757,555
Federal funds	993,301	997,571
Total	\$ 6,501,495	\$ 6,755,126

NOTE 10 – LIQUIDITY AND AVAILABILITY

The following represents the Charter Holder’s financial assets available for general expenditure within one year of August 31, 2019 and 2018.

	Fiscal Year	
	2019	2018
Financial assets, at year end		
Cash and cash equivalents	\$ 868,260	\$ 826,555
Due from other governments	460,064	518,509
Prepaid expenses	6,492	30,053
Financial Assets Available to Meet General Expenditures Within One Year	\$ 1,334,816	\$ 1,375,117

NOTE 11 – 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.

The last three years of informational tax returns, 2018, 2017, and 2016, filed with the IRS remain subject to examination.

NOTE 12 – 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”), 3911 Stoney Brook Drive, Houston, Texas (“3911 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. The lease provides for an increase in rent. For the 2019 fiscal year, the monthly rent was \$24,866 through December 2018 and increased to \$25,403 in January 2019. The lease was renewed on February 1, 2019 and extended through September 30, 2029.

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 2019 fiscal year, the Charter Holder paid a base monthly rent of \$14,809 through December 2018 and it increased to \$15,023 beginning January 2019.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2019 and 2018

The lease for space 3911 Stoney Brook became effective March 1, 2019, and extend through February 28, 2029. The lease provides for an increase in rent. For the 2019 fiscal year, the Charter Holder paid a base montly rent of \$6,200.

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 extended through April 31, 2019. For the 2019 fiscal year, the monthly rent was \$23,043 through December 2018 and increased to \$23,514 beginning January 2019. On February 1, 2019 the lease was renewed and extended to April 31, 2029. When the lease was renewed, the monthly rent increased to \$24,890 beginning May 2019.

Total rental expense for the fiscal years 2019 and 2018 was \$806,015 and \$747,845, respectively.

Future annual rental payments as of August 31, 2019 are:

<u>Year Ended August 31</u>	<u>Amount</u>
2020	\$ 858,188
2021	798,097
2022	677,914
2023	677,914
2024	677,914
2025-2029	3,252,809
Total	\$ 6,942,836

NOTE 13 – ACCRUED SALARIES

During August 2019 and 2018, the Charter Holder’s teachers worked seven and twelve days for which they were not paid until after September 1, 2019 and 2018, respectively. Based on the daily rate of pay and the number of days worked, \$113,625 and \$176,105 was accrued in 2019 and 2018, respectively.

NOTE 14 – 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, 2019 and 2018, the Charter Holder was paid \$5,619,170 and \$5,628,829, 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, 2019 and 2018, the Charter Holder had 10 days of instruction related to the 2018-2019 school year and 15 days of instruction for 2017-2018 school year. Based on the estimated State Foundation Program revenue for the 2019-2020 school year and 2018-2019 school year as provided by the TEA, the Charter Holder earned \$416,033 and \$477,941, respectively, for these days of instruction. This revenue has been accrued at August 31, 2019 and 2018, and will be received after September 1, 2019 and 2018, respectively.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2019 and 2018

NOTE 15 – 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 \$806,015 during the 2018-2019 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 16 – CHARTER HOLDER OPERATIONS

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

NOTE 17 – SUBSEQUENT EVENTS

The Charter Holder has evaluated subsequent events through January 22, 2020.

SUPPLEMENTARY INFORMATION

DRAW ACADEMY, INC.

SUPPLEMENTAL STATEMENTS OF ACTIVITIES - EXHIBIT B-1

For the Years Ended August 31, 2019 and 2018

	2019			2018
	Unrestricted	Temporarily Restricted	Totals	Unrestricted
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 28,623	\$ -	\$ 28,623	\$ 85,735
Total local support	28,623	-	28,623	85,735
State program revenues:				
5810 Foundation school program act revenues	-	5,619,170	5,619,170	-
5820 State program revenues distributed by Texas Education Agency	-	13,815	13,815	-
Total state program revenue	-	5,632,985	5,632,985	-
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	993,301	993,301	-
Net assets released from restrictions	6,501,495	(6,501,495)	-	6,755,126
Total Revenues	6,530,118	124,791	6,654,909	6,840,861
Expenses				
11 Instruction	3,785,121	-	3,785,121	3,897,626
12 Instructional resources and media services	809	-	809	-
13 Curriculum development and instructional staff development	26,855	-	26,855	13,928
21 Instructional leadership	92,278	-	92,278	101,122
23 School leadership	292,872	-	292,872	282,218
31 Guidance, counseling, and evaluation services	2,247	-	2,247	2,085
33 Health services	3,252	-	3,252	4,344
34 Student (pupil) transportation	-	-	-	10,038
35 Food services	534,059	-	534,059	559,383
41 General administration	121,797	-	121,797	103,208
51 Plant maintenance and operations	1,623,314	-	1,623,314	1,618,571
52 Security and monitoring services	4,150	-	4,150	10,772
53 Data processing services	36,445	-	36,445	46,653
Total Expenses	6,523,199	-	6,523,199	6,649,948
Change in Net Assets	6,919	124,791	131,710	190,913
Beginning net assets	497,411	1,101,193	1,598,604	306,498
Ending Net Assets	\$ 504,330	\$ 1,225,984	\$ 1,730,314	\$ 497,411

See Notes to Financial Statements.

2018

<u>Temporarily Restricted</u>	<u>Totals</u>
\$ -	\$ 85,735
<u>-</u>	<u>85,735</u>
5,628,829	5,628,829
31,770	31,770
<u>5,660,599</u>	<u>5,660,599</u>
997,571	997,571
<u>(6,755,126)</u>	<u>-</u>
<u>(96,956)</u>	<u>6,743,905</u>
-	3,897,626
-	-
-	13,928
-	101,122
-	282,218
-	2,085
-	4,344
-	10,038
-	559,383
-	103,208
-	1,618,571
-	10,772
-	46,653
<u>-</u>	<u>6,649,948</u>
(96,956)	93,957
1,198,149	1,504,647
<u>\$ 1,101,193</u>	<u>\$ 1,598,604</u>

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DRAW ACADEMY, INC.
SCHEDULES OF EXPENSES - EXHIBIT C-1
For the Years Ended August 31, 2019 and 2018

	Totals	
	2019	2018
Expenses		
6100 Payroll costs	\$ 3,873,885	\$ 3,806,538
6200 Professional and contracted services	1,422,627	1,471,507
6300 Supplies and materials	873,039	1,038,750
6400 Other operating costs	353,648	333,153
Total Expenses	\$ 6,523,199	\$ 6,649,948

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DRAW ACADEMY, INC.
SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1
 August 31, 2019

	Ownership Interest		
	Local	State	Federal
1520 Buildings and improvements	\$ 37,500	\$ 967,357	\$ -
1520 Construction in progress	-	196,145	-
1531 Vehicles	-	107,761	-
1539 Furniture and equipment	-	180,949	-
1549 Furniture and equipment	-	102,248	-
Total Property and Equipment	<u>\$ 37,500</u>	<u>\$ 1,554,460</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, 2019

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
5740 Other revenues from local sources	\$ -	\$ -	\$ 28,608	\$ 28,608
Total local support	-	-	28,608	28,608
State program revenues				
5810 Foundation school program act revenues	5,571,245	5,621,245	5,619,171	(2,074)
Total state program revenue	5,571,245	5,621,245	5,619,171	(2,074)
Total Revenues	5,571,245	5,621,245	5,647,779	26,534
Expenses				
11 Instruction	3,461,890	3,461,890	3,306,827	155,063
12 Instructional resources and media	1,000	1,000	809	191
13 Curriculum development and				
13 instructional staff development	34,250	30,825	11,380	19,445
21 Instructional leadership	27,800	30,580	26,885	3,695
23 School leadership	305,220	305,220	272,369	32,851
31 Guidance, counseling, and evaluation				
31 services	12,350	11,115	2,247	8,868
33 Health services	42,100	37,890	3,252	34,638
41 General administration	98,750	108,625	114,379	(5,754)
51 Plant maintenance and operations	1,641,050	1,641,050	1,480,454	160,596
52 Security and monitoring services	12,000	10,800	3,899	6,901
53 Data processing services	65,900	59,310	36,445	22,865
Total Expenses	5,702,310	5,698,305	5,258,946	439,359
Change in Net Assets	\$ (131,065)	\$ (77,060)	388,833	\$ 465,893
Reconciliation to Ending Net Assets - all funds				
Change in net assets due to activity in other funds			(120,168)	
Transfer (out)			(31,704)	
Depreciation expense			(105,251)	
			<u>131,710</u>	
Change in Net Assets (all funds)			131,710	
Beginning net assets			1,598,604	
			<u>1,730,314</u>	
		Ending Net Assets	\$ 1,730,314	

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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 22, 2020

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, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2020.

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 22, 2020

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, 2019. 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, 2019.

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, 2019

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

Dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
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, 2019

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

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DRAW ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1
For the Year Ended August 31, 2019

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Texas Education Agency:</i>			
Title I, Part A - Improving Basic Programs	84.010	19610101101856	\$ 294,292
Title II, Part A - Supporting Effective Instruction	84.367	19694501101856	29,364
Title III, Part A - English Language Acquisition Special Education Cluster	84.365	19671001101856	55,389
IDEA-B Formula	84.027	196600011018566000	96,253
IDEA-B Preschool	84.173	196610011018566000	935
Title IV, Part A, Subpart 1	84.424	19680101101856	17,500
	Total U.S. Department of Education		<u>493,733</u>
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Texas Education Agency:</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	806780706	70,546
National School Lunch Program	10.555	806780706	398,498
USDA Commodity	10.565	806780706	30,524
	Total U.S. Department of Agriculture		<u>499,568</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 993,301</u>

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DRAW ACADEMY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the Charter Holder. 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* (the “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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principals contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA, if any, represent adjustments or credit made in the normal course of business to amounts reported as expenditures in prior years.

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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