

*ANNUAL FINANCIAL REPORT*

of

**DRAW ACADEMY, INC.**

*DBA*

*DRAW ACADEMY*

For the Years Ended  
August 31, 2020 and 2019

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# DRAW ACADEMY, INC.

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August 31, 2020 and 2019

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

DRAW Academy, Inc.  
Name of Charter Holder

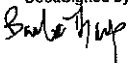
76-0680496  
Federal Employer ID Number

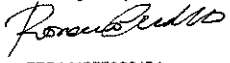
DRAW Academy  
Name of Charter School

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, 2020, at a meeting of the governing body of the Charter Holder on the 27 day of January, 2021.

DocuSigned by:  
  
4238E57E05684E8  
Signature of Board Secretary

DocuSigned by:  
  
E9DA41B7E8C24B4  
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, 2020 and 2019, 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.

AUDITING TEXAS GOVERNMENTS WITH EXCELLENCE

## **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, 2020 and 2019, 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 27, 2021 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 27, 2021



***FINANCIAL STATEMENTS***

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**DRAW ACADEMY, INC.**  
**STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1**  
August 31, 2020 and 2019

	2020	2019
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 1,637,756	\$ 868,260
Due from Texas Education Agency	546,275	460,064
Prepaid expenses	9,145	6,492
Other receivables	24,180	24,180
Total current assets	2,217,356	1,358,996
Noncurrent assets:		
Property and equipment, net	500,580	624,498
Total noncurrent assets	500,580	624,498
<b>Total Assets</b>	<b>\$ 2,717,936</b>	<b>\$ 1,983,494</b>
 <b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable	\$ 75,071	\$ 139,555
Accrued salaries payable	91,135	113,625
Due to Texas Education Agency	857,942	-
Total current liabilities	1,024,148	253,180
<b>Total Liabilities</b>	<b>1,024,148</b>	<b>253,180</b>
Net assets:		
Without donor restrictions	454,632	504,330
With donor restrictions	1,239,156	1,225,984
<b>Total Net Assets</b>	<b>1,693,788</b>	<b>1,730,314</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 2,717,936</b>	<b>\$ 1,983,494</b>

See Notes to Financial Statements.

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**DRAW ACADEMY, INC.**  
**STATEMENTS OF ACTIVITIES - EXHIBIT A-2**  
For the Years Ended August 31, 2020 and 2019

	2020		2019	
	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 89,080	\$ -	\$ 89,080	\$ 28,623
Total local support	<u>89,080</u>	<u>-</u>	<u>89,080</u>	<u>28,623</u>
State program revenues:				
5810 Foundation school program act revenues	-	6,545,595	6,545,595	5,619,170
5820 State program revenues distributed by Texas Education Agency	-	143,127	143,127	13,815
Total state program revenue	<u>-</u>	<u>6,688,722</u>	<u>6,688,722</u>	<u>5,632,985</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	1,073,545	1,073,545	993,301
Total federal program revenue	<u>-</u>	<u>1,073,545</u>	<u>1,073,545</u>	<u>993,301</u>
Net assets released from restrictions:				
Restrictions satisfied by payments	7,749,095	(7,749,095)	-	-
<b>Total Revenues</b>	<u>7,838,175</u>	<u>13,172</u>	<u>7,851,347</u>	<u>6,654,909</u>
<b>Expenses</b>				
Program services:				
Educational services	5,786,705	-	5,786,705	4,778,089
Support services:				
General and administrative services	2,101,168	-	2,101,168	1,745,110
<b>Total Expenses</b>	<u>7,887,873</u>	<u>-</u>	<u>7,887,873</u>	<u>6,523,199</u>
<b>Change in Net Assets</b>	(49,698)	13,172	(36,526)	131,710
Beginning net assets	504,330	1,225,984	1,730,314	1,598,604
<b>Ending Net Assets</b>	<u>\$ 454,632</u>	<u>\$ 1,239,156</u>	<u>\$ 1,693,788</u>	<u>\$ 1,730,314</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, 2020 and 2019

	2020			2019
	Program Activities	Supporting Activities	Total	Total
	Educational Services	General and Administrative		
<b>Expenses</b>				
Salaries and wages	\$ 3,646,038	\$ 320,273	\$ 3,966,311	\$ 3,516,822
Benefits and payroll taxes	404,199	16,085	420,284	333,361
Total payroll expenses	<u>4,050,237</u>	<u>336,358</u>	<u>4,386,595</u>	<u>3,850,183</u>
Rental expenses	26,734	871,327	898,061	832,722
Contract labor	176,437	15,015	191,452	171,976
Maintenance and repairs	2,920	266,136	269,056	154,035
Utilities	-	208,476	208,476	137,721
Depreciation	-	123,918	123,918	105,251
Supplies	717,521	131,137	848,658	356,197
Food	522,238	-	522,238	534,054
Travel	44,391	-	44,391	101,353
Instructional materials	161,963	-	161,963	7,160
Insurance and bonding	-	92,665	92,665	73,357
Professional fees and dues	51,822	4,532	56,354	97,016
Legal fees	-	7,580	7,580	2,320
Accounting fees	-	30,009	30,009	26,430
Other	32,442	14,015	46,457	73,424
Total nonpayroll expenses	<u>1,736,468</u>	<u>1,764,810</u>	<u>3,501,278</u>	<u>2,673,016</u>
<b>Total Expenses</b>	<u>\$ 5,786,705</u>	<u>\$ 2,101,168</u>	<u>\$ 7,887,873</u>	<u>\$ 6,523,199</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, 2020 and 2019

	2020	2019
<b>Cash Flows from Operating Activities</b>		
Foundation school program payments	\$ 7,460,453	\$ 5,691,430
Grant payments	1,073,545	993,301
Miscellaneous sources	89,080	28,623
Payments to vendors for goods and services rendered	(3,442,724)	(2,595,485)
Payments to charter school personnel for services rendered	(4,410,858)	(3,873,885)
<b>Net Cash Provided by Operating Activities</b>	769,496	243,984
<b>Cash Flows from Investing Activities</b>		
Payments for property and equipment	-	(202,279)
<b>Net Cash (Used) by Investing Activities</b>	-	(202,279)
<b>Net Change in Cash and Cash Equivalents</b>	769,496	41,705
Beginning cash and cash equivalents	868,260	826,555
<b>Ending Cash and Cash Equivalents</b>	\$ 1,637,756	\$ 868,260
<b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:</b>		
Change in net assets	\$ (36,526)	\$ 131,710
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	123,918	105,251
(Increase) decrease in:		
Due from Texas Education Agency	(86,211)	58,445
Prepaid expenses	(2,653)	23,561
Increase (decrease) in:		
Accounts payable	(64,484)	(12,503)
Accrued salaries payable	(22,490)	(62,480)
Due to Texas Education Agency	857,942	-
<b>Net Cash Provided by Operating Activities</b>	\$ 769,496	\$ 243,984

See Notes to Financial Statements.

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**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended August 31, 2020 and 2019

**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 (the “State”) 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 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 2019-2020, 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, 2020 and 2019**

**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, 2019, the Charter Holder had cash deposits of \$296,865 that were fully insured and a sweep account with cash deposits of \$602,120 that are collateralized by a large pool of securities. At August 31, 2020, the Charter Holder had cash deposits of \$173,610 that were fully insured. In addition, the Charter Holder had a sweep account with cash deposits of \$1,477,124 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, 2020 and 2019

**NOTE 3 – CAPITAL ASSETS**

Capital assets at August 31, 2020 and 2019 were as follows:

	2020	2019
Buildings and improvements	\$ 1,201,002	\$ 1,004,857
Construction in progress	-	196,145
Vehicles	107,761	107,761
Furniture and equipment	283,197	283,197
<b>Total Property and Equipment</b>	1,591,960	1,591,960
Less accumulated depreciation	(1,091,380)	(967,462)
<b>Property and Equipment, Net</b>	\$ 500,580	\$ 624,498

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 2020 and 2019 fiscal years was \$123,918 and \$105,251, 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. 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, 2020 and 2019**

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, 2019, TRS' total plan assets were \$157,978,199,075, accumulated benefit obligation (or total pension liability) was \$209,961,325,288, and TRS was 75.24 percent funded.

**Contributions**

State law provides for a member contribution rate of 7.7 percent for fiscal years 2020, 2019, and 2018 and a State contribution rate of 7.5 percent for fiscal year 2020, and 6.8 percent for fiscal years 2019 and 2018.

The Charter Holder's employees' contributions to TRS for the years ending August 31, 2020, 2019, and 2018 were \$307,930, \$276,875, and \$263,695, 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 year ending August 31, 2020, 2019, and 2018 were \$79,436, \$27,334, and \$23,910, 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, 2020, 2019, and 2018 were \$9,532, \$9,482 and \$10,655, 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 amounts contributed for Non-OASDI for the fiscal years ending August 31, 2020, 2019, and 2018 were \$58,462, \$53,937, and \$50,802, 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 includes financial statements and Required Supplementary Information for TRS-Care. That report may be

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2020 and 2019

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 contribution rates were 1.25 percent for fiscal years ending August 31, 2020, 2019 and 2018, and 0.65 percent of school payroll. The Charter Holder contributed a percentage of payroll set at 0.75 percent for fiscal years ending August 31, 2020, 2019, and 2018. 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, 2020, 2019, and 2018, the State's contributions to TRS-Care were \$5,148, \$5,025 and \$4,482, respectively; the active member contributions were \$25,992, \$23,373, and \$22,259, respectively; and the Charter Holder's contributions were \$29,995, \$26,968, and \$25,686, respectively; which equaled the required contributions each year.

**NOTE 7 – HEALTH CARE COVERAGE**

During the years ended August 31, 2020 and 2019, 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, 2020 and 2019, the Charter Holder's total due from the Texas Education Agency consisted of the following:

	<u>2020</u>	<u>2019</u>
Foundation School Program	\$ 461,103	\$ 416,033
Child Nutrition Cluster	25,721	44,031
Elementary and Secondary School Emergency Relief Fund	59,451	-
<b>Total</b>	<u>\$ 546,275</u>	<u>\$ 460,064</u>

**NOTE 9 – DUE TO STATE**

At August 31, 2020 and 2019, the Charter Holder's total due to the Texas Education Agency consisted of the following:

	<u>2020</u>	<u>2019</u>
Foundation School Program	<u>\$ 857,942</u>	<u>\$ -</u>

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2020 and 2019

**NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS**

As of August 31, 2020 and 2019, the Charter Holder’s net assets with donor restrictions consisted of the following:

	<u>2020</u>	<u>2019</u>
Foundation School Program	\$ 1,215,307	\$ 1,225,984
National School Breakfast and Lunch Program	23,849	-
<b>Total</b>	<u>\$ 1,239,156</u>	<u>\$ 1,225,984</u>

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

	<u>2020</u>	<u>2019</u>
State funds	\$ 6,675,550	\$ 5,508,194
Federal funds	1,073,545	993,301
<b>Total</b>	<u>\$ 7,749,095</u>	<u>\$ 6,501,495</u>

**NOTE 11 – LIQUIDITY AND AVAILABILITY**

The following represents the Charter Holder’s financial assets available for general expenditure within one year of August 31, 2020 and 2019.

	<u>Fiscal Year</u>	
	<u>2020</u>	<u>2019</u>
Financial assets, at year end		
Cash and cash equivalents	\$ 1,637,756	\$ 868,260
Due from other governments	546,275	460,064
<b>Financial Assets Available to Meet General Expenditures Within One Year</b>	<u>\$ 2,184,031</u>	<u>\$ 1,328,324</u>

**NOTE 12 – 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.

In March 2020, COVID-19 was recognized as a pandemic with local stay-at-home orders going into effect. The Charter suspended in-classroom learning for the remainder of the 2019-2020 school year. While the initial event occurred prior to year end, the Charter was, subsequent to year end, continuing to modify its operations to prevent the spread to protect students, staff, and the community as a whole, while balancing the educational needs of students. On August 31, 2020, the Charter started its 2020-2021 school year with 100% of the students receiving online instruction, assuring 100% of students, grades K to eight were provided laptops, iPads, and all necessary textbooks. Also, the Charter assured 100% of students had access to online connectivity either through arranging accounts with providers or delivering



**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Years Ended August 31, 2020 and 2019**

hotspots to students' homes. Subsequently, DRAW has conducted surveys offering parents to opt between online and on-campus instruction according to the following detail:

<u>Survey Date</u>	<u>Academic Period</u>	<u>Number of Students on Campus</u>	<u>Number of Students Online</u>
8/24/2020	8/31/2020 - 9/25/2020	-	710
9/25/2020	9/28/2020 - 10/23/2020	10	700
10/12/2020	10/26/2020 - 11/20/2020	36	671
11/16/2020	11/30/2020 - 1/22/2021	58	642
1/18/2021	1/25/2021 - 3/5/2021	61	639
3/1/2021	3/8/2021 - 4/23/2021	T.B.D.	T.B.D.
4/19/2021	4/26/2021 - 6/10/2021	T.B.D.	T.B.D.

\* totals reflect a variance in student enrollment

The Charter has made numerous changes to its operations, including provisions for students and staff to wear masks, more frequent cleanings, and numerous other changes. While such changes cause a significant hardship and have increased expenses, such increases are nominal in comparison to the overall budget. The Charter is continuing to monitor exposure levels with students, staff, and the community as a whole and will continue to offer on-campus instruction limited to parents' requests. In Harris County, the overall threat level has been consistently high to safely consider full on-campus instruction. As indicated in their web page since the beginning of the pandemic, the COVID-19 Risk Level Indicator still remained in Level 1 – Severe Threat (Stay Home, Work Safe) which signifies a severe and uncontrolled level of COVID-19 in Harris County, meaning outbreaks are present and worsening and that testing and contact tracing capacity is strained or exceeded. At this level, residents take action to minimize contacts with others wherever possible and avoid leaving home except for the most essential needs like going to the grocery store for food and medicine. The Charter will continue to survey parents and offer on-campus as requested on an individual basis. The Charter is ready to modify its plans if necessary and will continue to seek out additional funding to cover the increased costs in responding to the pandemic.

The last three years of informational tax returns, 2019, 2018, and 2017, filed with the IRS remain subject to examination.

**NOTE 13 – OPERATING LEASES**

The Charter Holder entered into lease agreements with ALEPH Investments (see Note 16 – 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, 2029. The lease provides for an increase in rent. For the 2020 fiscal year, the monthly rent was \$25,403 through December 2019 and increased to \$25,956 in January 2020.

The lease for space at Westglen became effective May 1, 2011 and extends through April 30, 2021. The lease provides for increases in rent. For the 2020 fiscal year, the Charter Holder paid a base monthly rent of \$15,023 through December 2019 and it increased to \$15,272 beginning January 2020.

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Years Ended August 31, 2020 and 2019**

The lease for space 3911 Stoney Brook became effective March 1, 2019 and extends through February 28, 2029. The lease provides for an increase in rent. For the 2020 fiscal year, the Charter Holder paid a base monthly rent of \$6,200 through December 2019 and it increased to \$6,389 beginning January 2020.

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 30 2029. For the 2020 fiscal year, the monthly rent was \$24,890 through December 2019 and increased to \$25,512 beginning January 2020.

Total rental expense for the fiscal years 2020 and 2019 was \$867,871 and \$806,015, respectively.

Future annual rental payments as of August 31, 2020 are:

<u>Year Ended August 31</u>	<u>Amount</u>
2021	\$ 816,465
2022	694,289
2023	694,289
2024	694,289
2025	694,289
2026-2029	2,636,769
<b>Total</b>	<b>\$ 6,230,390</b>

**NOTE 14 – ACCRUED SALARIES**

During August 2020 and 2019, the Charter Holder’s teachers worked six and seven days for which they were not paid until after September 1, 2020 and 2019, respectively. Based on the daily rate of pay and the number of days worked, \$91,135 and \$113,625 was accrued in 2020 and 2019, respectively.

**NOTE 15 – STATE FOUNDATION PROGRAM REVENUE**

Charter schools in the State 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, 2020 and 2019, the Charter Holder was paid \$6,545,595 and \$5,619,170, 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, 2020 and 2019, the Charter Holder had one day of instruction related to the 2019-20 school year and 10 days of instruction for 2018-2019 school year. Based on the estimated State Foundation Program revenue for the 2020-2021 school year and 2019-2020 school year as provided by the TEA, the Charter Holder earned \$44,706 and \$416,033, respectively, for these days of instruction. This revenue has been accrued at August 31, 2020 and 2019, and will be received after September 1, 2020 and 2019, respectively.

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2020 and 2019

**NOTE 16 – 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 \$867,871 during the 2019-2020 school year (see Note 13 – 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 17 – CHARTER HOLDER OPERATIONS**

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

**NOTE 18 – SUBSEQUENT EVENTS**

The Charter Holder has evaluated subsequent events through January 27, 2021.

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***SUPPLEMENTARY INFORMATION***

**DRAW ACADEMY, INC.**  
**SUPPLEMENTAL STATEMENTS OF ACTIVITIES - EXHIBIT B-1**  
For the Years Ended August 31, 2020 and 2019

	2020			2019
	Unrestricted	Temporarily Restricted	Totals	Unrestricted
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 89,080	\$ -	\$ 89,080	\$ 28,623
Total local support	89,080	-	89,080	28,623
State program revenues:				
5810 Foundation school program act revenues	-	6,545,595	6,545,595	-
5820 State program revenues distributed by Texas Education Agency	-	143,127	143,127	-
Total state program revenue	-	6,688,722	6,688,722	-
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	1,073,545	1,073,545	-
Total federal program revenue	-	1,073,545	1,073,545	-
Net assets released from restrictions	7,749,095	(7,749,095)	-	6,501,495
<b>Total Revenues</b>	<b>7,838,175</b>	<b>13,172</b>	<b>7,851,347</b>	<b>6,530,118</b>
<b>Expenses</b>				
11 Instruction	4,824,029	-	4,824,029	3,785,121
12 Instructional resources and 12 media services	543	-	543	809
13 Curriculum development and 13 instructional staff development	11,246	-	11,246	26,855
21 Instructional leadership	57,437	-	57,437	92,278
23 School leadership	302,061	-	302,061	292,872
31 Guidance, counseling, and evaluation 31 services	4,070	-	4,070	2,247
33 Health services	6,298	-	6,298	3,252
35 Food services	522,238	-	522,238	534,059
41 General administration	123,156	-	123,156	121,797
51 Plant maintenance and operations	1,978,015	-	1,978,015	1,623,314
52 Security and monitoring services	15,739	-	15,739	4,150
53 Data processing services	43,041	-	43,041	36,445
<b>Total Expenses</b>	<b>7,887,873</b>	<b>-</b>	<b>7,887,873</b>	<b>6,523,199</b>
<b>Change in Net Assets</b>	<b>(49,698)</b>	<b>13,172</b>	<b>(36,526)</b>	<b>6,919</b>
Beginning net assets	504,330	1,225,984	1,730,314	497,411
<b>Ending Net Assets</b>	<b>\$ 454,632</b>	<b>\$ 1,239,156</b>	<b>\$ 1,693,788</b>	<b>\$ 504,330</b>

See Notes to Financial Statements.

2019

<u>Temporarily Restricted</u>	<u>Totals</u>
\$ -	\$ 28,623
-	28,623
<hr/>	
5,619,170	5,619,170
13,815	13,815
<u>5,632,985</u>	<u>5,632,985</u>
<hr/>	
993,301	993,301
<u>993,301</u>	<u>993,301</u>
(6,501,495)	-
<u>124,791</u>	<u>6,654,909</u>
-	3,785,121
-	809
-	26,855
-	92,278
-	292,872
-	2,247
-	3,252
-	534,059
-	121,797
-	1,623,314
-	4,150
-	36,445
-	<u>6,523,199</u>
124,791	131,710
1,101,193	1,598,604
<u>\$ 1,225,984</u>	<u>\$ 1,730,314</u>

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**DRAW ACADEMY, INC.**  
**SCHEDULES OF EXPENSES - EXHIBIT C-1**  
For the Years Ended August 31, 2020 and 2019

Expenses	Totals	
	2020	2019
6100 Payroll costs	\$ 4,410,858	\$ 3,873,885
6200 Professional and contracted services	1,664,054	1,422,627
6300 Supplies and materials	1,505,069	873,039
6400 Other operating costs	307,892	353,648
<b>Total Expenses</b>	\$ 7,887,873	\$ 6,523,199

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**DRAW ACADEMY, INC.**  
**SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1**  
 August 31, 2020

	Ownership Interest		
	Local	State	Federal
1520 Buildings and improvements	\$ 37,500	\$ 1,163,502	\$ -
1531 Vehicles	-	107,761	-
1539 Furniture and equipment	-	180,949	-
1549 Furniture and equipment	-	102,248	-
<b>Total Property and Equipment</b>	<u>\$ 37,500</u>	<u>\$ 1,554,460</u>	<u>\$ -</u>

**DRAW ACADEMY, INC**  
**SCHEDULE OF RELATED PARTY TRANSACTIONS - EXHIBIT E-1**  
**August 31, 2020**

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>
Aleph Investments, L.P.	Fernando Donatti (Superintendent)	Owner	Financial	10 year lease term ending 9/30/29 for property at 3920 Stoney Brook Dr. Rent began at \$25,403 with option for landlord to increase the base rent for each lease year after the first lease year based on the increase in the Consumer Price Index.	State
Aleph Investments, L.P.	Fernando Donatti (Superintendent)	Owner	Financial	10 year lease term ending 2/28/29 for property at 3911 Stoney Brook Dr. Rent began at \$6,200 with option for landlord to increase the base rent for each lease year after the first lease year based on the increase in the Consumer Price Index.	State
Soledo L.L.C.	Fernando Donatti (Superintendent)	Owner of 74%	Financial	10 year lease term ending 4/31/29 for property at 3903 Stoney Brook Dr. Rent began at \$24,890 with option for landlord to increase the base rent for each lease year after the first lease year based on the increase in the Consumer Price Index.	State
Aleph Investments, L.P.	Fernando Donatti (Superintendent)	Owner	Financial	10 year lease term ending 4/31/21 for property at 7914 Westglen Dr. Rent began at \$12,917 with option for landlord to increase the base rent for each lease year after the first lease year based on the increase in the Consumer Price Index.	State

<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Monthly	\$ 308,152	N/A

Monthly	\$ 75,536	N/A
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Monthly	\$ 302,413	N/A
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Monthly	\$ 181,770	N/A
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# DRAW ACADEMY, INC.

## BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS) - EXHIBIT F-1 GENERAL FUND

For the Year Ended August 31, 2020

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
5740 Other revenues from local sources	\$ -	\$ -	\$ 86,363	\$ 86,363
Total local support	-	-	86,363	86,363
State program revenues				
5810 Foundation school program act revenues	6,250,000	6,875,000	6,545,595	(329,405)
Total state program revenue	6,250,000	6,875,000	6,545,595	(329,405)
<b>Total Revenues</b>	<b>6,250,000</b>	<b>6,875,000</b>	<b>6,631,958</b>	<b>(243,042)</b>
<b>Expenses</b>				
11 Instruction	3,730,490	3,917,015	4,151,583	(234,568)
12 Instructional resources and media				
12 services	1,000	1,000	543	457
13 Curriculum development and				
13 instructional staff development	13,250	13,250	11,140	2,110
21 Instructional leadership	52,100	46,890	6,698	40,192
23 School leadership	322,200	289,980	286,866	3,114
31 Guidance, counseling, and evaluation				
31 services	7,050	6,345	4,070	2,275
33 Health services	13,000	11,700	6,298	5,402
41 General administration	136,500	122,850	122,338	512
51 Plant maintenance and operations	1,809,750	1,931,750	1,831,986	99,764
52 Security and monitoring services	12,000	12,000	15,739	(3,739) *
53 Data processing services	54,100	54,100	43,041	11,059
<b>Total Expenses</b>	<b>6,151,440</b>	<b>6,406,880</b>	<b>6,480,302</b>	<b>(73,422)</b>
<b>Change in Net Assets</b>	<b>\$ 98,560</b>	<b>\$ 468,120</b>	<b>151,656</b>	<b>\$ (316,464)</b>
<b>Reconciliation to Ending Net Assets - all funds</b>				
Change in net assets due to activity in other funds			(21,099)	
Transfer (out)			(43,165)	
Depreciation expense			(123,918)	
		<b>Change in Net Assets (all funds)</b>	(36,526)	
Beginning net assets			1,730,314	
		<b>Ending Net Assets</b>	<b>\$ 1,693,788</b>	

\*Expenses exceeded appropriations in excess of ten percent.

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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 27, 2021

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, 2020 and 2019, 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 27, 2021.

**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) as a basis for designing 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.

AUDITING TEXAS GOVERNMENTS WITH EXCELLENCE

### **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 financial statements. 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 27, 2021

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, 2020. 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.

AUDITING TEXAS GOVERNMENTS WITH EXCELLENCE

### **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, 2020.

### **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, 2020

**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
84.010	Title I

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, 2020**

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

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# DRAW ACADEMY, INC.

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

For the Year Ended August 31, 2020

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	20610101101856	\$ 300,526
Title II, Part A - Supporting Effective Instruction	84.367	20694501101856	29,731
Title III, Part A - English Language Acquisition	84.365	20671001101856	54,828
Special Education Cluster			
IDEA-B Formula*	84.027	206600011018566000	95,251
IDEA-B Preschool*	84.173	206610011018566000	1,217
Title IV, Part A, Subpart 1	84.424	20680101101856	21,743
Instructional Continuity	84.377	17610740101856	10,500
COVID 19, Elementary and Secondary School Emergency Relief	84.425 D	20521001101856	59,450
	<b>Total U.S. Department of Education</b>		<u>573,246</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Texas Education Agency:</i>			
Child Nutrition Cluster			
School Breakfast Program*	10.553	806780706	102,259
National School Lunch Program*	10.555	806780706	361,153
USDA Commodities	10.565	806780706	36,887
	<b>Total U.S. Department of Agriculture</b>		<u>500,299</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 1,073,545</u></u>

\* Indicates cluster programs under OMB Compliance Supplement

The accompanying notes are an integral part of this schedule.

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**DRAW ACADEMY, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended August 31, 2020

**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 principles 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.

**NOTE 4 – DONATED PERSONAL PROTECTIVE EQUIPMENT (UNAUDITED)**

During the emergency period of COVID-19, federal agencies and recipients of federal assistance funds donated personal protective equipment (PPE) to non-federal entities. In connection with that donation, the recipient must disclose the estimated value of the donated PPE, but such amounts are not included in the SEFA. The Charter Holder estimates the value of donated PPE to be \$2,000 during the reporting year.

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