

*ANNUAL FINANCIAL REPORT*

of

**DRAW ACADEMY, INC.**

*DBA*

*DRAW ACADEMY*

For the Years Ended  
August 31, 2021 and 2020

(This page intentionally left blank.)

# DRAW ACADEMY, INC.

## TABLE OF CONTENTS

August 31, 2021 and 2020

	<u>Page</u>	<u>Exhibit</u>
<b>Certificate of Board</b>	1	
<b>Independent Auditors' Report</b>	3	
<b><u>Financial Statements</u></b>		
Statements of Financial Position	7	A-1
Statements of Activities	9	A-2
Statements of Functional Expenses	11	A-2a
Statements of Cash Flows	13	A-3
Notes to Financial Statements	15	
<b><u>Supplementary Information</u></b>		
Supplemental Statements of Activities	24	B-1
Schedules of Expenses	27	C-1
Schedule of Capital Assets	29	D-1
Schedule of Related Party Transactions	30	E-1
Schedule of Related Party Compensation and Benefits	32	F-1
Budgetary Comparison Schedule (Budgetary Basis) – General Fund	35	G-1
<b><u>Compliance, Internal Control, and Federal Awards</u></b>		
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	39	
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	41	
Schedule of Findings and Questioned Costs	45	H-1
Corrective Action Plan	48	
Summary Schedule of Prior Year Audit Findings	49	I-1
Schedule of Expenditures of Federal Awards	51	J-1
Notes to Schedule of Expenditures of Federal Awards	53	

(This page intentionally left blank.)

**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

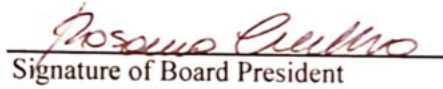
Harris  
County

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, 2021, at a meeting of the governing body of the Charter Holder on the 26 day of FEBRUARY 2022.

  
Signature of Board Secretary

Barbara Z. Tharp

  
Signature of Board President

Rosana Cuello

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.

(This page intentionally left blank.)



## ***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, 2021 and 2020, 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, 2021 and 2020, 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 2 *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 February 25, 2022 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  
February 25, 2022



## ***FINANCIAL STATEMENTS***

(This page intentionally left blank.)

**DRAW ACADEMY, INC.**  
**STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1**  
August 31, 2021 and 2020

	2021	2020
<b><u>Assets</u></b>		
Current assets:		
Cash and cash equivalents	\$ 2,623,178	\$ 1,637,756
Due from Texas Education Agency	209,486	546,275
Prepaid expenses	80,753	9,145
Other receivables	24,180	24,180
Total current assets	2,937,597	2,217,356
Noncurrent assets:		
Property and equipment, net	549,811	500,580
Total noncurrent assets	549,811	500,580
<b>Total Assets</b>	<b>\$ 3,487,408</b>	<b>\$ 2,717,936</b>
 <b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable	\$ 261,519	\$ 75,071
Accrued salaries payable	142,158	91,135
Due to Texas Education Agency	-	857,942
Total current liabilities	403,677	1,024,148
<b>Total Liabilities</b>	<b>403,677</b>	<b>1,024,148</b>
Net assets:		
Without donor restrictions	552,954	454,632
With donor restrictions	2,530,777	1,239,156
<b>Total Net Assets</b>	<b>3,083,731</b>	<b>1,693,788</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 3,487,408</b>	<b>\$ 2,717,936</b>

See Notes to Financial Statements.

(This page intentionally left blank.)

**DRAW ACADEMY, INC.**  
**STATEMENTS OF ACTIVITIES - EXHIBIT A-2**  
For the Years Ended August 31, 2021 and 2020

	2021		2020	
	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 28,665	\$ -	\$ 28,665	\$ 89,080
Total local support	<u>28,665</u>	<u>-</u>	<u>28,665</u>	<u>89,080</u>
State program revenues:				
5810 Foundation school program act revenues	-	7,552,424	7,552,424	6,545,595
5820 State program revenues distributed by Texas Education Agency	-	17,040	17,040	143,127
5830 State revenues from State of Texas government agencies	-	1,920	1,920	-
Total state program revenue	<u>-</u>	<u>7,571,384</u>	<u>7,571,384</u>	<u>6,688,722</u>
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	1,951,176	1,951,176	1,073,545
Total federal program revenue	<u>-</u>	<u>1,951,176</u>	<u>1,951,176</u>	<u>1,073,545</u>
Net assets released from restrictions:				
Restrictions satisfied by payments	8,230,939	(8,230,939)	-	-
<b>Total Revenues</b>	<u>8,259,604</u>	<u>1,291,621</u>	<u>9,551,225</u>	<u>7,851,347</u>
<b>Expenses</b>				
Program services:				
Educational services	5,877,927	-	5,877,927	5,786,705
Support services:				
General and administrative services	2,283,355	-	2,283,355	2,101,168
<b>Total Expenses</b>	<u>8,161,282</u>	<u>-</u>	<u>8,161,282</u>	<u>7,887,873</u>
<b>Change in Net Assets</b>	98,322	1,291,621	1,389,943	(36,526)
Beginning net assets	454,632	1,239,156	1,693,788	1,730,314
<b>Ending Net Assets</b>	<u>\$ 552,954</u>	<u>\$ 2,530,777</u>	<u>\$ 3,083,731</u>	<u>\$ 1,693,788</u>

See Notes to Financial Statements.

(This page intentionally left blank.)

**DRAW ACADEMY, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES - EXHIBIT A-2a**  
For the Years Ended August 31, 2021 and 2020

	2021			2020
	Program Activities	Supporting Activities	Total	Total
	Educational Services	General and Administrative		
<b>Expenses</b>				
Salaries and wages	\$ 3,695,913	\$ 316,746	\$ 4,012,659	\$ 3,966,311
Benefits and payroll taxes	672,518	78,064	750,582	420,284
Total payroll expenses	4,368,431	394,810	4,763,241	4,386,595
Rental expenses	22,787	890,542	913,329	898,061
Contract labor	208,276	-	208,276	191,452
Maintenance and repairs	7,934	189,303	197,237	269,056
Utilities	-	299,704	299,704	208,476
Depreciation	-	146,474	146,474	123,918
Supplies	757,283	228,828	986,111	848,658
Food	381,404	-	381,404	522,238
Travel	2,934	745	3,679	44,391
Instructional materials	13,879	-	13,879	161,963
Insurance and bonding	-	86,371	86,371	92,665
Professional fees and dues	59,995	-	59,995	56,354
Legal fees	-	-	-	7,580
Accounting fees	-	29,305	29,305	30,009
Other	55,004	17,273	72,277	46,457
Total nonpayroll expenses	1,509,496	1,888,545	3,398,041	3,501,278
<b>Total Expenses</b>	<b>\$ 5,877,927</b>	<b>\$ 2,283,355</b>	<b>\$ 8,161,282</b>	<b>\$ 7,887,873</b>

See Notes to Financial Statements.

(This page intentionally left blank.)



**DRAW ACADEMY, INC.**  
**STATEMENTS OF CASH FLOWS - EXHIBIT A-3**  
For the Years Ended August 31, 2021 and 2020

	2021	2020
<b>Cash Flows from Operating Activities</b>		
Foundation school program payments	\$ 7,050,231	\$ 7,460,453
Grant payments	1,951,176	1,073,545
Miscellaneous sources	28,665	89,080
Payments to vendors for goods and services rendered	(3,085,704)	(3,442,724)
Payments to charter school personnel for services rendered	(4,763,241)	(4,410,858)
<b>Net Cash Provided by Operating Activities</b>	1,181,127	769,496
 <b>Cash Flows from Investing Activities</b>		
Payments for property and equipment	(195,705)	-
<b>Net Cash (Used) by Investing Activities</b>	(195,705)	-
<b>Net Change in Cash and Cash Equivalents</b>	985,422	769,496
Beginning cash and cash equivalents	1,637,756	868,260
<b>Ending Cash and Cash Equivalents</b>	\$ 2,623,178	\$ 1,637,756
 <b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:</b>		
Change in net assets	\$ 1,389,943	\$ (36,526)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	146,474	123,918
(Increase) decrease in:		
Due from Texas Education Agency	336,789	(86,211)
Prepaid expenses	(71,608)	(2,653)
Increase (decrease) in:		
Accounts payable	186,448	(64,484)
Accrued salaries payable	51,023	(22,490)
Due to Texas Education Agency	(857,942)	857,942
<b>Net Cash Provided by Operating Activities</b>	\$ 1,181,127	\$ 769,496

See Notes to Financial Statements.

(This page intentionally left blank.)

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended August 31, 2021 and 2020

**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 2020-2021, 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, 2021 and 2020**

**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, 2020, the Charter Holder had cash deposits of \$173,610 that were fully insured and a sweep account with cash deposits of \$1,477,124 that were collateralized by a large pool of securities. At August 31, 2021, the Charter Holder had cash deposits of \$185,915 that were fully insured. In addition, the Charter Holder had a sweep account with cash deposits of \$2,457,626 that were 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, 2021 and 2020

**NOTE 3 – CAPITAL ASSETS**

Capital assets at August 31, 2021 and 2020 were as follows:

	<b>2021</b>	<b>2020</b>
Buildings and improvements	\$ 1,329,876	\$ 1,201,002
Vehicles	169,261	107,761
Furniture and equipment	288,528	283,197
<b>Total Property and Equipment</b>	1,787,665	1,591,960
Less accumulated depreciation	(1,237,854)	(1,091,380)
<b>Property and Equipment, Net</b>	\$ 549,811	\$ 500,580

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 2021 and 2020 fiscal years was \$146,474 and \$123,918, 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 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.

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Years Ended August 31, 2021 and 2020**

**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, 2020, TRS' total plan assets were \$165,416,245,243, accumulated benefit obligation (or total pension liability) was \$218,974,205,084, and TRS was 75.54 percent funded.

**Contributions**

State law provides for a member contribution rate of 7.7 percent for fiscal years 2021, 2020, and 2019 and a State contribution rate of 7.5 percent for fiscal years 2021 and 2020, and 6.8 percent for fiscal year 2019. In addition, State law provides for a member contribution rate of 8.0 percent for fiscal year 2022, while maintaining the State contribution rate of 7.75 percent for fiscal year 2022.

The Charter Holder's employees' contributions to TRS for the years ending August 31, 2021, 2020, and 2019 were \$306,432, \$307,930, and \$276,875, 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, 2021, 2020, and 2019 were \$107,064, \$79,436, and \$27,334, 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, 2021, 2020, and 2019 were \$2,826, \$9,532 and \$9,482, respectively.

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, 2021, 2020, and 2019 were \$63,588, \$58,462, and \$53,937, 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 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.

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Years Ended August 31, 2021 and 2020**

**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, 2021, 2020 and 2019, 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, 2021, 2020, and 2019. 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, 2021, 2020, and 2019, the State's contributions to TRS-Care were \$6,062, \$5,148 and \$5,025, respectively; the active member contributions were \$29,847, \$25,992, and \$23,373, respectively; and the Charter Holder's contributions were \$25,867, \$26,968, and \$25,686, respectively; which equaled the required contributions each year.

**NOTE 7 – HEALTH CARE COVERAGE**

During the years ended August 31, 2021 and 2020, employees of the Charter Holder were covered by an insurance plan offered by TRS Active Employee Insurance Plan (the "Plan"). The Charter Holder contributed \$300 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, 2021 and 2020, the Charter Holder's total due from the Texas Education Agency consisted of the following:

	<b>2021</b>	<b>2020</b>
Foundation School Program	\$ 48,584	\$ 461,103
Child Nutrition Cluster	29,518	25,721
Elementary and Secondary School Emergency Relief Fund	131,384	59,451
<b>Total</b>	<b>\$ 209,486</b>	<b>\$ 546,275</b>

**NOTE 9 – DUE TO STATE**

At August 31, 2021 and 2020, the Charter Holder's total due to the Texas Education Agency consisted of the following:

	<b>2021</b>	<b>2020</b>
Foundation School Program	\$ -	\$ 857,942

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Years Ended August 31, 2021 and 2020

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

As of August 31, 2021 and 2020, the Charter Holder’s net assets with donor restrictions consisted of the following:

	<u>2021</u>	<u>2020</u>
Foundation School Program	\$ 2,411,981	\$ 1,215,307
National School Breakfast and Lunch Program	118,796	23,849
<b>Total</b>	<u>\$ 2,530,777</u>	<u>\$ 1,239,156</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>2021</u>	<u>2020</u>
State funds	\$ 6,279,763	\$ 6,675,550
Federal funds	1,951,176	1,073,545
<b>Total</b>	<u>\$ 8,230,939</u>	<u>\$ 7,749,095</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, 2021 and 2020.

	<u>Fiscal Year</u>	
	<u>2021</u>	<u>2020</u>
Financial assets, at year end		
Cash and cash equivalents	\$ 2,623,178	\$ 1,637,756
Other receivables	24,180	24,180
Due from other governments	209,486	546,275
<b>Financial Assets Available to Meet General Expenditures Within One Year</b>	<u>\$ 2,856,844</u>	<u>\$ 2,208,211</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.

The last three years of informational tax returns, 2020, 2019, and 2018, filed with the IRS remain subject to examination.



**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Years Ended August 31, 2021 and 2020**

**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 2021 fiscal year, the monthly rent was \$25,956 through December 2020 and increased to \$26,626 in January 2021.

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 2021 fiscal year, the Charter Holder paid a base monthly rent of \$15,272 through December 2020 and increased to \$15,440 beginning January 2021. The lease was renewed on May 1, 2021 and extends through April 30, 2031. The new lease increased to \$17,786 beginning May 1, 2021.

The lease for space at 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 \$6,389 through December 2020 and it increased to \$6,493 beginning January 2021.

The Charter Holder also entered into a lease agreement with SOLEDO LLC (see Note 16 – Related Party Transactions) 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 2021 fiscal year, the monthly rent was \$25,512 through December 2020 and increased to \$25,609 beginning January 2021.

Total rental expense for the fiscal years 2021 and 2020 was \$890,543 and \$867,871, respectively.

Future annual rental payments as of August 31, 2021 are:

<u>Year Ended August 31</u>	<u>Amount</u>
2022	\$ 918,155
2023	918,155
2024	918,155
2025	918,155
2026	918,155
2027-2031	<u>2,995,420</u>
<b>Total</b>	<u>\$ 7,586,195</u>

**NOTE 14 – ACCRUED SALARIES**

During August 2021 and 2020, the Charter Holder’s teachers worked seven and six days for which they were not paid until after September 1, 2021 and 2020, respectively. Based on the daily rate of pay and the number of days worked, \$142,158 and \$91,135 were accrued in 2021 and 2020, respectively.

**DRAW ACADEMY, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Years Ended August 31, 2021 and 2020**

**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, 2021 and 2020, the Charter Holder was paid \$7,552,424 and \$6,545,595, 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, 2021 and 2020, the Charter Holder had one day of instruction related to the 2021-22 school year and one day of instruction for 2020-2021 school year. Based on the estimated State Foundation Program revenue for the 2021-2022 school year and 2020-2021 school year as provided by the TEA, the Charter Holder earned \$39,408 and \$44,706, respectively, for these days of instruction. This revenue has been accrued at August 31, 2021 and 2020, and will be received after September 1, 2021 and 2020, respectively.

**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 \$890,543 during the fiscal year 2021 (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 February 25, 2022.

***SUPPLEMENTARY INFORMATION***

**DRAW ACADEMY, INC.**  
**SUPPLEMENTAL STATEMENTS OF ACTIVITIES - EXHIBIT B-1**  
For the Years Ended August 31, 2021 and 2020

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions
<b>Revenues</b>				
Local support:				
5740 Other revenues from local sources	\$ 28,665	\$ -	\$ 28,665	\$ 89,080
Total local support	28,665	-	28,665	89,080
State program revenues:				
5810 Foundation school program act revenues	-	7,552,424	7,552,424	-
5820 State program revenues distributed by Texas Education Agency	-	17,040	17,040	-
5830 State revenues from State of Texas government agencies	-	1,920	1,920	-
Total state program revenue	-	7,571,384	7,571,384	-
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	1,951,176	1,951,176	-
Total federal program revenue	-	1,951,176	1,951,176	-
Net assets released from restrictions	8,230,939	(8,230,939)	-	7,749,095
<b>Total Revenues</b>	<b>8,259,604</b>	<b>1,291,621</b>	<b>9,551,225</b>	<b>7,838,175</b>
<b>Expenses</b>				
11 Instruction	5,000,503	-	5,000,503	4,824,029
12 Instructional resources and 12 media services	-	-	-	543
13 Curriculum development and 13 instructional staff development	46,872	-	46,872	11,246
21 Instructional leadership	60,649	-	60,649	57,437
23 School leadership	337,491	-	337,491	302,061
31 Guidance, counseling, and evaluation 31 services	5,232	-	5,232	4,070
33 Health services	1,920	-	1,920	6,298
35 Food services	407,399	-	407,399	522,238
41 General administration	100,408	-	100,408	123,156
51 Plant maintenance and operations	2,148,599	-	2,148,599	1,978,015
52 Security and monitoring services	3,507	-	3,507	15,739
53 Data processing services	48,702	-	48,702	43,041
<b>Total Expenses</b>	<b>8,161,282</b>	<b>-</b>	<b>8,161,282</b>	<b>7,887,873</b>
<b>Change in Net Assets</b>	<b>98,322</b>	<b>1,291,621</b>	<b>1,389,943</b>	<b>(49,698)</b>
Beginning net assets	454,632	1,239,156	1,693,788	504,330
<b>Ending Net Assets</b>	<b>\$ 552,954</b>	<b>\$ 2,530,777</b>	<b>\$ 3,083,731</b>	<b>\$ 454,632</b>

See Notes to Financial Statements.

<b>2020</b>	
<b>With Donor Restrictions</b>	<b>Totals</b>
\$ -	\$ 89,080
<u>-</u>	<u>89,080</u>
6,545,595	6,545,595
143,127	143,127
-	-
<u>6,688,722</u>	<u>6,688,722</u>
1,073,545	1,073,545
<u>1,073,545</u>	<u>1,073,545</u>
(7,749,095)	-
<u>13,172</u>	<u>7,851,347</u>
-	4,824,029
-	543
-	11,246
-	57,437
-	302,061
-	4,070
-	6,298
-	522,238
-	123,156
-	1,978,015
-	15,739
-	43,041
<u>-</u>	<u>7,887,873</u>
13,172	(36,526)
1,225,984	1,730,314
<u>\$ 1,239,156</u>	<u>\$ 1,693,788</u>

(This page intentionally left blank.)

**DRAW ACADEMY, INC.**  
**SCHEDULES OF EXPENSES - EXHIBIT C-1**  
For the Years Ended August 31, 2021 and 2020

	<b>Totals</b>	
	<b>2021</b>	<b>2020</b>
<b>Expenses</b>		
6100 Payroll costs	\$ 4,763,241	\$ 4,410,858
6200 Professional and contracted services	1,730,540	1,664,054
6300 Supplies and materials	1,378,391	1,505,069
6400 Other operating costs	289,110	307,892
<b>Total Expenses</b>	<b>\$ 8,161,282</b>	<b>\$ 7,887,873</b>

(This page intentionally left blank.)



**DRAW ACADEMY, INC.**  
**SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1**  
 August 31, 2021

	Ownership Interest		
	Local	State	Federal
1520 Buildings and improvements	\$ 37,500	\$ 1,292,376	\$ -
1531 Vehicles	-	169,261	-
1539 Furniture and equipment	-	186,280	-
1549 Furniture and equipment	-	102,248	-
<b>Total Property and Equipment</b>	<u>\$ 37,500</u>	<u>\$ 1,750,165</u>	<u>\$ -</u>

Note: The Schedule of Real Property Ownership Interest is not applicable to this Charter Holder as no real property is owned.

# DRAW ACADEMY, INC

## SCHEDULE OF RELATED PARTY TRANSACTIONS - EXHIBIT E-1

August 31, 2021

<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	25 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	15 year lease term ending 4/30/29 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 4/30/31 for property at 7914 Westglen Dr. Rent began at \$17,786 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	\$ 316,829	N/A

Monthly	\$ 77,498	N/A
---------	-----------	-----

Monthly	\$ 306,917	N/A
---------	------------	-----

Monthly	\$ 189,299	N/A
---------	------------	-----

# DRAW ACADEMY, INC

## *SCHEDULE OF RELATED PARTY COMPENSATION AND BENEFITS - EXHIBIT F-1*

August 31, 2021

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>
Michelle Castillo	Fernando Donatti (Superintendent)	Spouse	Compensation	Monthly
Michelle Castillo	Fernando Donatti (Superintendent)	Spouse	Benefit	Monthly
Michelle Castillo	Fernando Donatti (Superintendent)	Spouse	Compensation	Monthly
Michelle Castillo	Fernando Donatti (Superintendent)	Spouse	Benefit	Monthly
Mario Soto	Fernando Donatti (Superintendent)	Step-daughter	Compensation	Monthly
Mario Soto	Fernando Donatti (Superintendent)	Step-daughter	Benefit	Monthly
Tomas Castillo	Fernando Donatti (Superintendent)	Father-in-law	Compensation	Monthly
Tomas Castillo	Fernando Donatti (Superintendent)	Father-in-law	Benefit	Monthly
Romina Sanchez	Roxanne Cuello (Board President)	Daughter	Compensation	Monthly
Romina Sanchez	Roxanne Cuello (Board President)	Daughter	Benefit	Monthly
Romina Sanchez	Roxanne Cuello (Board President)	Daughter	Compensation	Monthly
Romina Sanchez	Roxanne Cuello (Board President)	Daughter	Benefit	Monthly

<b>Description</b>	<b>Source of Funds Used</b>	<b>Total Paid During FY</b>
Employee/program & campus administrator	State	\$ 43,254
Health insurance contribution	State	\$ 2,760
Employee/program & campus administrator	Federal	\$ 13,884
Health insurance contribution	Federal	\$ 924
Employee/teacher	State	\$ 62,436
Employee/teacher	State	\$ 84
Employee/maintenance	State	\$ 40,980
Employee/maintenance	State	\$ 84
Employee/teacher aide	State	\$ 14,806
Employee/teacher aide	State	\$ 36
Employee/program & campus administrator	Federal	\$ 19,080
Employee/program & campus administrator	Federal	\$ 48

(This page intentionally left blank.)

**DRAW ACADEMY, INC.**  
**BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS) - EXHIBIT G-1**  
**GENERAL FUND**  
**For the Year Ended August 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
5740 Other revenues from local sources	\$ -	\$ -	\$ 25,502	\$ 25,502
Total local support	-	-	25,502	25,502
State program revenues				
5810 Foundation school program act revenues	7,016,150	7,412,150	7,552,424	140,274
Total state program revenue	7,016,150	7,412,150	7,552,424	140,274
<b>Total Revenues</b>	<u>7,016,150</u>	<u>7,412,150</u>	<u>7,577,926</u>	<u>165,776</u>
<b>Expenses</b>				
11 Instruction	3,908,190	3,908,190	3,679,217	228,973
12 Instructional resources and media				
12     services	1,200	1,200	-	1,200
13 Curriculum development and				
13     instructional staff development	13,850	26,850	26,872	(22)
21 Instructional leadership	54,250	48,825	4,610	44,215
23 School leadership	359,930	359,930	337,471	22,459
31 Guidance, counseling, and evaluation				
31     services	4,200	5,200	5,232	(32)
33 Health services	15,000	13,500	1,920	11,580
41 General administration	123,500	123,500	100,408	23,092
51 Plant maintenance and operations	1,938,640	2,132,504	1,931,659	200,845
52 Security and monitoring services	12,000	10,800	3,507	7,293
53 Data processing services	54,100	59,510	48,702	10,808
<b>Total Expenses</b>	<u>6,484,860</u>	<u>6,690,009</u>	<u>6,139,598</u>	<u>550,411</u>
<b>Change in Net Assets</b>	<u>\$ 531,290</u>	<u>\$ 722,141</u>	1,438,328	<u>\$ 716,187</u>
<b>Reconciliation to Ending Net Assets - all funds</b>				
Change in net assets due to activity in other funds			98,089	
Depreciation expense			(146,474)	
		<b>Change in Net Assets (all funds)</b>	<u>1,389,943</u>	
Beginning net assets			1,693,788	
		<b>Ending Net Assets</b>	<u>\$ 3,083,731</u>	

(This page intentionally left blank.)



***COMPLIANCE,  
INTERNAL CONTROLS,  
AND  
FEDERAL AWARDS***

(This page intentionally left blank.)



**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**

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, 2021 and 2020, 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 February 25, 2022.

**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.

## **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  
February 25, 2022



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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, 2021. 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, 2021.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021.001 and 2021.002. Our opinion on each major federal program is not modified with respect to these matters.

The Charter Holder's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Charter Holder's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021.001 and 2021.002, that we consider to be significant deficiencies.

The Charter Holder's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of finding and questioned costs. The Charter Holder's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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  
February 25, 2022

(This page intentionally left blank.)



# DRAW ACADEMY, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT H-1 (Page 1 of 3)

For the Year Ended August 31, 2021

### 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? Yes

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 200.516(a)? Yes

Identification of major programs:

<u>AL Number</u>	<u>Program Title</u>
84.425	Elementary and Secondary School Emergency Relief (ESSER)

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.*

# **DRAW ACADEMY, INC.**

## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT G-1 (Page 2 of 3)*** **For the Year Ended August 31, 2021**

### **III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

#### ***Significant Deficiencies:***

##### **2021.001 – Questionable Costs**

**Federal Program:** ESSER III

**Federal Agency:** Department of Education

**Pass-Through Entity:** Texas Education Agency

**AL:** 84.425U

**Compliance requirements:** Allowable Costs/Cost Principles

**Type of Finding:** Significant deficiency in internal control over compliance and noncompliance.

Criteria: § 200.403(a). Costs must be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles. (b) Costs must conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.

§ 200.445(a). Costs of goods or services for personal use of the non-Federal entity's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.

Condition/Context: A sample of 51 transactions were tested out of a population of 302. It was noted during the testing of disbursements that the Charter Holder purchased \$10,000 in gift cards for teachers. The questionable cost of \$10,000 is not material to the grant. This appears to be an isolated instance.

Effect: It does not appear the Charter Holder is in compliance with the allowable cost requirements. Gift cards are typically not allowable costs as they are viewed as cash equivalents and their use cannot be controlled. Even if the card is intended to be used for allowable uses under the grant program, the recipients may not use it accordingly. It appears these purchases may not meet the necessary and reasonable standards required by federal regulations.

Cause: The gift cards from Lakeshore Learning were provided to teachers to pay for materials to decorate and arrange their teaching areas at home so students would see a classroom-like area when interacting with their teachers in their online classes.

Recommendation: The Charter Holder should ensure they are following Federal guidelines for allowable costs.

Views of Resonible Officials: See corrective action plan.

##### **2021.002 – Cash Management**

**Federal Program:** ESSER I

**Federal Agency:** Department of Education

**Pass-Through Entity:** Texas Education Agency

**AL:** 84.425D

**Compliance requirements:** Cash Management

**Type of Finding:** Significant deficiency in internal control over compliance and noncompliance.

Criteria: § 200.305(b). For non-Federal entities other than states, payment methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means.

Condition/Context: It was noted during the testing of cash management for a reimbursement requested on April 28, 2021 that the costs were not incurred or obligated prior to the request. The vendor invoice was not received until May 20, 2021. The Charter Holder received funds related to the reimbursement request on April 29, 2021 and paid

# **DRAW ACADEMY, INC.**

## ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT G-1 (Page 3 of 3)***

**For the Year Ended August 31, 2021**

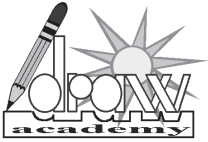
the vendor on May 20, 2021 resulting in 22 days elapsing between the receipt of the funds and payment to the vendor. This appears to be an isolated instance.

Effect: It does not appear the Charter Holder is in compliance with the cash management requirements.

Cause: The Charter Holder secured a position to place an order with Apple for technology equipment and requested reimbursement prior to an actual invoice/obligation from the vendor. Due to delays, the Charter Holder needed to find another vendor with which to place an order.

Recommendation: For reimbursement method requests, the Charter Holder should not request reimbursement until costs are incurred. For advance reimbursement method requests, the Charter Holder should minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement to the vendor.

Views of Responsible Officials: See corrective action plan.



## Corrective Action Plan

### Finding 2021-001

**Contact Person:** Fernando Donatti - CEO/Superintendent

**Corrective Action Plan:** DRAW Academy will no longer use gift cards as a method for purchasing school supplies. Since these cards can be used as cash therefore for purposes not intended, DRAW Academy will utilize other methods to pay the vendor directly or reimburse the employee for an allowable cost purchase if a receipt is presented. The Charter Holder will ensure compliance with Federal guidelines for allowable costs.

**Anticipated completion date:** March 25<sup>th</sup>, 2022

### Finding 2021-002

**Contact Person:** Fernando Donatti - CEO/Superintendent

**Corrective Action Plan:** No reimbursements will be requested until the vendor has produced an invoice and payment has been disbursed thus preventing any time lapse from funds transferred from the United States Treasury and the disbursement to the vendor.

**Anticipated completion date:** March 25<sup>th</sup>, 2022

**Fernando Donatti**  
CEO/ Superintendent

# **DRAW ACADEMY, INC.**

## ***SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - EXHIBIT I-1***

**For the Year Ended August 31, 2021**

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

(This page intentionally left blank.)

**DRAW ACADEMY, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1**  
For the Year Ended August 31, 2021

Federal Grantor/Pass-Through Grantor/ Program Title	Federal AL 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	84.010A	21610101101856	\$ 360,075
Title II, Part A - Supporting Effective Instruction	84.367A	21694501101856	37,446
Title III, Part A - English Language Acquisition	84.365A	21671001101856	57,830
Special Education Cluster			
IDEA-B Formula*	84.027A	216600011018566000	104,521
IDEA-B Preschool*	84.173A	216610011018566000	1,191
Title IV, Part A, Subpart 1	84.424A	21680101101856	22,966
COVID 19, Elementary and Secondary School Emergency Relief	84.425D	20521001101856	190,979
COVID 19, Elementary and Secondary School Emergency Relief II	84.425D	21521001101856	19,832
COVID 19, Elementary and Secondary School Emergency Relief III	84.425U	21528001101856	660,701
	<b>Total U.S. Department of Education</b>		<u>1,455,541</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Texas Education Agency:</i>			
Child Nutrition Cluster			
School Breakfast Program*	10.553	806780706	166,580
National School Lunch Program*	10.555	806780706	272,687
<i>Passed Through Texas Department of Agriculture:</i>			
COVID-9 - USDA Emergency Operational Cost Reimbursement*	10.555	806780706	11,968
USDA Commodities	10.565	806780706	44,400
	<b>Total U.S. Department of Agriculture</b>		<u>495,635</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 1,951,176</u></u>

\* Indicates cluster programs under OMB Compliance Supplement

The accompanying notes are an integral part of this schedule.

(This page intentionally left blank.)



# **DRAW ACADEMY, INC.**

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

**For the Year Ended August 31, 2021**

### **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 did not receive any donated PPE during the reporting year.

(This page intentionally left blank.)