

ANNUAL FINANCIAL REPORT

of

DRAW ACADEMY, INC.

DBA

DRAW ACADEMY

For the Years Ended
August 31, 2022 and 2021

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DRAW ACADEMY, INC.

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August 31, 2022 and 2021

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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, 2022, at a meeting of the governing body of the Charter Holder on the 27 day of FEBRUARY, 2023.

DocuSigned by:

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Signature of Board Secretary

DocuSigned by:

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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

Opinions

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, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Charter Holder, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Charter Holder's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Charter Holder's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information noted in the table of contents and 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*, are presented for purposes of additional analysis and are not required parts of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information noted in the table of contents and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic 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 27, 2023 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 solely 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.

*B*ELT *H*ARRIS *P*ECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 27, 2023

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FINANCIAL STATEMENTS

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DRAW ACADEMY, INC.
STATEMENTS OF FINANCIAL POSITION - EXHIBIT A-1
August 31, 2022 and 2021

	2022	2021
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 2,670,164	\$ 2,623,178
Due from Texas Education Agency	636,112	209,486
Prepaid expenses	113,669	80,753
Other receivables	109,314	24,180
Total current assets	3,529,259	2,937,597
Noncurrent assets:		
Property and equipment, net	526,346	549,811
Total noncurrent assets	526,346	549,811
Total Assets	\$ 4,055,605	\$ 3,487,408
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 119,053	\$ 261,519
Accrued salaries payable	237,631	142,158
Deferred revenue	52,400	-
Total current liabilities	409,084	403,677
Total Liabilities	409,084	403,677
Net assets:		
Without donor restrictions	529,348	552,954
With donor restrictions	3,117,173	2,530,777
Total Net Assets	3,646,521	3,083,731
Total Liabilities and Net Assets	\$ 4,055,605	\$ 3,487,408

See Notes to Financial Statements.

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DRAW ACADEMY, INC.
STATEMENTS OF ACTIVITIES - EXHIBIT A-2
For the Years Ended August 31, 2022 and 2021

	2022		2021	
	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 34,489	\$ -	\$ 34,489	\$ 28,665
Total local support	34,489	-	34,489	28,665
State program revenues:				
5810 Foundation school program act revenues	-	7,925,981	7,925,981	7,552,424
5820 State program revenues distributed by Texas Education Agency	-	9,296	9,296	17,040
5830 State revenues from State of Texas government agencies	-	-	-	1,920
Total state program revenue	-	7,935,277	7,935,277	7,571,384
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	1,918,950	1,918,950	1,951,176
5930 Federal revenues distributed by Texas Government Agencies	-	22,812	22,812	-
5940 Federal revenues distributed directly from the Federal Government	-	115,822	115,822	-
Total federal program revenue	-	2,057,584	2,057,584	1,951,176
Net assets released from restrictions:				
Restrictions satisfied by payments	9,406,465	(9,406,465)	-	-
Total Revenues	9,440,954	586,396	10,027,350	9,551,225
Expenses				
Program services:				
Educational services	6,823,042	-	6,823,042	5,877,927
Support services:				
General and administrative services	2,641,518	-	2,641,518	2,283,355
Total Expenses	9,464,560	-	9,464,560	8,161,282
Change in Net Assets	(23,606)	586,396	562,790	1,389,943
Beginning net assets	552,954	2,530,777	3,083,731	1,693,788
Ending Net Assets	\$ 529,348	\$ 3,117,173	\$ 3,646,521	\$ 3,083,731

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, 2022 and 2021

	2022			2021
	Program Activities	Supporting Activities	Total	Total
	Educational Services	General and Administrative		
Expenses				
Salaries and wages	\$ 4,722,736	\$ 428,120	\$ 5,150,856	\$ 4,012,659
Benefits and payroll taxes	458,751	26,400	485,151	750,582
Total payroll expenses	<u>5,181,487</u>	<u>454,520</u>	<u>5,636,007</u>	<u>4,763,241</u>
Rental expenses	26,866	960,787	987,653	913,329
Contract labor	277,217	12,000	289,217	208,276
Maintenance and repairs	3,300	335,801	339,101	197,237
Utilities	-	300,067	300,067	299,704
Depreciation	-	122,946	122,946	146,474
Supplies	564,325	219,037	783,362	986,111
Food	516,782	-	516,782	381,404
Travel	96,739	-	96,739	3,679
Instructional materials	950	-	950	13,879
Insurance and bonding	-	118,795	118,795	86,371
Professional fees and dues	41,570	27,284	68,854	59,995
Legal fees	-	6,360	6,360	-
Accounting fees	-	46,030	46,030	29,305
Other	113,806	37,891	151,697	72,277
Total nonpayroll expenses	<u>1,641,555</u>	<u>2,186,998</u>	<u>3,828,553</u>	<u>3,398,041</u>
Total Expenses	<u><u>\$ 6,823,042</u></u>	<u><u>\$ 2,641,518</u></u>	<u><u>\$ 9,464,560</u></u>	<u><u>\$ 8,161,282</u></u>

See Notes to Financial Statements.

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DRAW ACADEMY, INC.
STATEMENTS OF CASH FLOWS - EXHIBIT A-3
For the Years Ended August 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Foundation school program payments	\$ 7,561,051	\$ 7,050,231
Grant payments	2,057,584	1,951,176
Miscellaneous sources	34,489	28,665
Payments to vendors for goods and services rendered	(3,870,650)	(3,085,704)
Payments to charter school personnel for services rendered	(5,636,007)	(4,763,241)
Net Cash Provided by Operating Activities	146,467	1,181,127
Cash Flows from Investing Activities		
Payments for property and equipment	(99,481)	(195,705)
Net Cash (Used) by Investing Activities	(99,481)	(195,705)
Net Change in Cash and Cash Equivalents	46,986	985,422
Beginning cash and cash equivalents	2,623,178	1,637,756
Ending Cash and Cash Equivalents	\$ 2,670,164	\$ 2,623,178
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Change in net assets	\$ 562,790	\$ 1,389,943
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	122,946	146,474
(Increase) decrease in:		
Due from Texas Education Agency	(426,626)	336,789
Prepaid expenses	(32,916)	(71,608)
Accounts receivable	(85,134)	-
Increase (decrease) in:		
Accounts payable	(142,466)	186,448
Accrued salaries payable	95,473	51,023
Deferred revenue	52,400	-
Due to Texas Education Agency	-	(857,942)
Net Cash Provided by Operating Activities	\$ 146,467	\$ 1,181,127

See Notes to Financial Statements.

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DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
For the Years Ended August 31, 2022 and 2021

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 2021-2022, 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, 2022 and 2021

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, 2021, the Charter Holder had cash deposits of \$185,915 that were fully insured and a sweep account with cash deposits of \$2,457,626 that were collateralized by a large pool of securities. At August 31, 2022, the Charter Holder had cash deposits of \$155,098 that were fully insured. In addition, the Charter Holder had a sweep account with cash deposits of \$2,598,508 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, 2022 and 2021

NOTE 3 – CAPITAL ASSETS

Capital assets at August 31, 2022 and 2021 were as follows:

	2022	2021
Buildings and improvements	\$ 1,374,822	\$ 1,329,876
Vehicles	217,296	169,261
Furniture and equipment	295,028	288,528
Total Property and Equipment	1,887,146	1,787,665
Less accumulated depreciation	(1,360,800)	(1,237,854)
Property and Equipment, Net	\$ 526,346	\$ 549,811

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 2022 and 2021 fiscal years was \$122,946 and \$146,474, 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, a multi-employer 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 multi-employer 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 TRS 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, under the TRS Publication Heading.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2022 and 2021

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 6 percent of the member's annual compensation and a State contribution rate of not less than 6 percent and not more than 10 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, 2021, TRS' total plan assets were \$201,807,002,496, accumulated benefit obligation (or total pension liability) was \$227,273,463,630, and TRS was 88.79 percent funded.

Contributions

State law provides for a member contribution rate of 8.00 percent for fiscal year 2022, and 7.70 percent for fiscal years 2021 and 2020 and a State contribution rate of 7.75 percent for fiscal year 2022 and 7.50 percent for fiscal years 2021 and 2020. In addition, State law provides for a member contribution rate and State contribution rate of 8.00 percent for fiscal year 2023.

The Charter Holder's employees' contributions to TRS for the years ending August 31, 2022, 2021, and 2020 were \$385,000, \$306,432, and \$307,930, 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, 2022, 2021, and 2020 were \$114,985, \$107,064, and \$79,436, respectively, equal to the required contributions for each year. These contributions did not represent more than 5.0 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, 2022, 2021, and 2020 were \$12,102, \$2,826 and \$9,532, 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, 2022, 2021, and 2020 were \$81,812, \$63,588, and \$58,462, 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; by writing to the Communications

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2022 and 2021

Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701; or by calling 1-800-223-8778.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State contribution rates were 1.25 percent for fiscal years ending August 31, 2022, 2021 and 2020, 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, 2022, 2021, and 2020. 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, 2022, 2021, and 2020, the State’s contributions to TRS-Care were \$6,095, \$6,062 and \$5,148, respectively; the active member contributions were \$36,094, \$29,847, and \$29,993, respectively; and the Charter Holder’s contributions were \$31,281, \$25,867, and \$25,994, respectively; which equaled the required contributions each year.

NOTE 7 – HEALTH CARE COVERAGE

During the years ended August 31, 2022 and 2021, 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, 2022 and 2021, the Charter Holder’s total due from the Texas Education Agency consisted of the following:

	<u>2022</u>	<u>2021</u>
Foundation School Program	\$ 461,592	\$ 48,584
Child Nutrition Cluster	34,961	29,518
Title IV, Part A, Subpart 1	1,577	-
IDEA-B Formula Cluster	6,290	-
ESEA Title I, Improving Basic Program Year	22,082	-
ESEA Title II, Teacher and Principal Program Year	2,625	-
Title III - English Language Program Year	3,333	-
Emergency Relief Fund	103,652	131,384
Total	<u>\$ 636,112</u>	<u>\$ 209,486</u>

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2022 and 2021

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

As of August 31, 2022 and 2021, the Charter Holder’s net assets with donor restrictions consisted of the following:

	<u>2022</u>	<u>2021</u>
Foundation School Program	\$ 2,910,553	\$ 2,411,981
National School Breakfast and Lunch Program	206,620	118,796
Total	<u>\$ 3,117,173</u>	<u>\$ 2,530,777</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>2022</u>	<u>2021</u>
State funds	\$ 7,348,881	\$ 6,279,763
Federal funds	2,057,584	1,951,176
Total	<u>\$ 9,406,465</u>	<u>\$ 8,230,939</u>

NOTE 10 – LIQUIDITY AND AVAILABILITY

The following represents the Charter Holder’s financial assets available for general expenditure within one year of August 31, 2022 and 2021.

	<u>Fiscal Year</u>	
	<u>2022</u>	<u>2021</u>
Financial assets, at year end		
Cash and cash equivalents	\$ 2,670,164	\$ 2,623,178
Other receivables	109,314	24,180
Due from other governments	636,112	209,486
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 3,415,590</u>	<u>\$ 2,856,844</u>

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Charter Holder receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the TEA and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the Charter Holder have complex compliance requirements and, should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the TEA or the grantor agency.

The last three years of informational tax returns, 2021, 2020, and 2019, filed with the IRS remain subject to examination.

NOTE 12 – OPERATING LEASES

The Charter Holder entered into lease agreements with Aleph Investments (see Note 15 – 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”).

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2022 and 2021

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 2022 fiscal year, the monthly rent was \$26,626 through December 2021 and increased to \$28,442 in January 2022.

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 2022 fiscal year, the Charter Holder paid a base monthly rent of \$6,493 through December 2021 and it increased to \$7,036 beginning January 2022.

The lease for space at Westglen became effective May 1, 2011 and extended through April 30, 2021. The lease was renewed on May 1, 2021 and now extends through April 30, 2031. The lease provides for increases in rent. For the 2022 fiscal year, the Charter Holder paid a base monthly rent of \$17,786 through December 2021 and it increased to \$18,914 beginning January 2022.

The Charter Holder also entered into a lease agreement with Soledo LLC (see Note 15 – 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 2022 fiscal year, the monthly rent was \$25,609 through December 2021 and increased to \$27,450 beginning January 2022.

Total rental expense for the fiscal years 2022 and 2021 was \$960,788 and \$890,543, respectively.

Future annual rental payments as of August 31, 2022 are:

Fiscal Year Ended August 31	Amount
2023	\$ 1,025,786
2024	1,047,627
2025	1,047,627
2026	1,047,627
2027	1,047,627
2028-2031	2,365,398
Total	\$ 7,581,692

NOTE 13– ACCRUED SALARIES

During August 2022 and 2021, the Charter Holder’s teachers worked eleven and seven days for which they were not paid until after September 1, 2022 and 2021, respectively. Based on the daily rate of pay and the number of days worked, \$237,631 and \$142,158 were accrued in 2022 and 2021, respectively.

NOTE 14 – 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, 2022 and 2021, the Charter Holder was paid \$7,925,981 and \$7,552,424, respectively, of State Foundation Program funds of which all was earned (before any possible TEA enrollment and attendance audit).

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2022 and 2021

During the years ended August 31, 2022 and 2021, the Charter Holder had eleven days of instruction related to the 2022-23 school year and one day of instruction for 2021-2022 school year. Based on the estimated State Foundation Program revenue for the 2022-2023 school year and 2021-2022 school year as provided by the TEA, the Charter Holder earned \$445,191 and \$39,408, respectively, for these days of instruction. This revenue has been accrued at August 31, 2022 and 2021, and will be received after September 1, 2022 and 2021, respectively.

NOTE 15 – RELATED PARTY TRANSACTIONS

DRAW Academy leases its facilities from Aleph Investments and Soledo LLC, limited partnerships controlled by Fernando Donatti, Superintendent (the “Superintendent”). Rental payments under these leases were \$960,788 during the fiscal year 2022 (see Note 12 – Operating Leases). The Superintendent has never voted in any matter related to these properties. In instances where there were discussions or decisions related to these properties, the Superintendent filed an “Affidavit and Abstention from Voting” form with the Board secretary in accordance with Local Government Code, Chapter 171, Subtitle C.

NOTE 16 – CHARTER HOLDER OPERATIONS

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

NOTE 17 – BUDGET AMENDMENTS

For the fiscal year ended August 31, 2022, the original budget was amended in excess of 10% for the reasons as follows:

<u>Data Code/ Function</u>		
Revenues:		
5740	Other revenues from local sources	More local grant revenue was made available.
5940	Federal Revenues Distributed Directly from the Federal Government	More federal grant revenue was made available.
Expenses:		
12	Instructional resources and media services	Decrease in materials purchased.
13	Curriculum development and instructional staff development	Decrease in staff development and tuition.
21	Instructional leadership	Decrease in health insurance.
23	School leadership	Increase in support staff salaries.
31	Guidance, counseling, and evaluation services	Increase in professional services.
33	Health services	Increase in contract services.
41	General administration	Increase in consultation fees.
51	Plant maintenance and operations	Increase in rent and contracted services.

DRAW ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Years Ended August 31, 2022 and 2021

NOTE 18 – BUDGET AMENDMENTS

For the fiscal year ended August 31, 2022, expenditures exceeded appropriations in excess of 10% for the General administration function in the general fund. Fees/other costs increased from prior year and were higher than anticipated, which resulted in expenditures exceeding appropriation in excess of 10% for the following:

<u>General Fund:</u>			
41	General administration	\$	17,532

NOTE 19 – SUBSEQUENT EVENTS

The Charter Holder has evaluated subsequent events through February 27, 2023.

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SUPPLEMENTARY INFORMATION

DRAW ACADEMY, INC.
SUPPLEMENTAL STATEMENTS OF ACTIVITIES - EXHIBIT B-1
For the Years Ended August 31, 2022 and 2021

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 34,489	\$ -	\$ 34,489	\$ 28,665
Total local support	34,489	-	34,489	28,665
State program revenues:				
5810 Foundation school program act revenues	-	7,925,981	7,925,981	-
5820 State program revenues distributed by Texas Education Agency	-	9,296	9,296	-
5830 State revenues from State of Texas government agencies	-	-	-	-
Total state program revenue	-	7,935,277	7,935,277	-
Federal program revenues:				
5920 Federal revenues distributed by Texas Education Agency	-	1,918,950	1,918,950	-
5930 Federal revenues distributed by Texas Government Agencies	-	22,812	22,812	-
5940 Federal revenues distributed directly from the Federal Government	-	115,822	115,822	-
Total federal program revenue	-	2,057,584	2,057,584	-
Net assets released from restrictions	9,406,465	(9,406,465)	-	8,230,939
Total Revenues	9,440,954	586,396	10,027,350	8,259,604
Expenses				
11 Instruction	5,689,568	-	5,689,568	5,000,503
12 Instructional resources and 12 media services	109	-	109	-
13 Curriculum development and 13 instructional staff development	28,003	-	28,003	46,872
21 Instructional leadership	55,414	-	55,414	60,649
23 School leadership	388,858	-	388,858	337,491
31 Guidance, counseling, and evaluation 31 services	7,135	-	7,135	5,232
33 Health services	3,968	-	3,968	1,920
35 Food services	579,953	-	579,953	407,399
41 General administration	187,676	-	187,676	100,408
51 Plant maintenance and operations	2,453,843	-	2,453,843	2,148,599
52 Security and monitoring services	9,608	-	9,608	3,507
53 Data processing services	60,425	-	60,425	48,702
Total Expenses	9,464,560	-	9,464,560	8,161,282
Change in Net Assets	(23,606)	586,396	562,790	98,322
Beginning net assets	552,954	2,530,777	3,083,731	454,632
Ending Net Assets	\$ 529,348	\$ 3,117,173	\$ 3,646,521	\$ 552,954

See Notes to Financial Statements.

2021

<u>With Donor Restrictions</u>	<u>Totals</u>
\$ -	\$ 28,665
<u>-</u>	<u>28,665</u>
7,552,424	7,552,424
17,040	17,040
1,920	1,920
<u>7,571,384</u>	<u>7,571,384</u>
1,951,176	1,951,176
-	-
<u>-</u>	<u>-</u>
<u>1,951,176</u>	<u>1,951,176</u>
(8,230,939)	-
<u>1,291,621</u>	<u>9,551,225</u>
-	5,000,503
-	-
-	46,872
-	60,649
-	337,491
-	5,232
-	1,920
-	407,399
-	100,408
-	2,148,599
-	3,507
-	48,702
<u>-</u>	<u>8,161,282</u>
1,291,621	1,389,943
1,239,156	1,693,788
<u>\$ 2,530,777</u>	<u>\$ 3,083,731</u>

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DRAW ACADEMY, INC.
SCHEDULES OF EXPENSES - EXHIBIT C-1
For the Years Ended August 31, 2022 and 2021

	Totals	
	2022	2021
Expenses		
6100 Payroll costs	\$ 5,636,007	\$ 4,763,241
6200 Professional and contracted services	2,105,286	1,730,540
6300 Supplies and materials	1,293,541	1,378,391
6400 Other operating costs	429,726	289,110
Total Expenses	\$ 9,464,560	\$ 8,161,282

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DRAW ACADEMY, INC.
SCHEDULE OF CAPITAL ASSETS - EXHIBIT D-1
August 31, 2022

	Ownership Interest		
	Local	State	Federal
1520 Buildings and improvements	\$ -	\$ 1,374,822	\$ -
1531 Vehicles	-	217,296	-
1539 Furniture and equipment	-	192,780	-
1549 Furniture and equipment	-	102,248	-
Total Property and Equipment	\$ -	\$ 1,887,146	\$ -

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, 2022

<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	\$ 334,042	N/A

Monthly	\$ 82,255	N/A
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Monthly	\$ 322,035	N/A
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Monthly	\$ 222,456	N/A
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DRAW ACADEMY, INC

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

August 31, 2022

<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
Diego Gabriel Soto	Fernando Donatti (Superintendent)	Step-son	Compensation	Monthly
Diego Gabriel Soto	Fernando Donatti (Superintendent)	Step-son	Benefit	Monthly
Diego Gabriel Soto	Fernando Donatti (Superintendent)	Step-son	Compensation	Monthly
Diego Gabriel Soto	Fernando Donatti (Superintendent)	Step-son	Benefit	Monthly

<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Employee/program & campus administrator	State	\$ 47,778
Health insurance contribution	State	\$ 2,089
Employee/program & campus administrator	Federal	\$ 14,926
Health insurance contribution	Federal	\$ 695
Employee/teacher	State	\$ 78,817
Employee/teacher	State	\$ 84
Employee/maintenance	State	\$ 55,836
Employee/maintenance	State	\$ 84
Employee/teacher aide	State	\$ 2,000
Employee/teacher aide	State	\$ 84
Employee/program & campus administrator	Federal	\$ 40,417
Employee/program & campus administrator	Federal	\$ 80
Employee/teacher aide	State	\$ 30,532
Employee/program & campus administrator	State	\$ 69
Employee/program & campus administrator	Federal	\$ 6,520
Employee/program & campus administrator	Federal	\$ 15

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DRAW ACADEMY, INC.

BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS) - EXHIBIT G-1

GENERAL FUND

For the Year Ended August 31, 2022

	Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
5740 Other revenues from local sources	\$ 4,000	\$ 38,000	\$ 33,789	\$ (4,211)
Total local support	<u>4,000</u>	<u>38,000</u>	<u>33,789</u>	<u>(4,211)</u>
State program revenues				
5810 Foundation school program act revenues	7,093,345	7,793,345	7,925,981	132,636
Total state program revenue	<u>7,093,345</u>	<u>7,793,345</u>	<u>7,925,981</u>	<u>132,636</u>
Federal program revenues				
5940 Federal revenues distributed directly from the Federal Government	-	115,900	115,822	(78)
	<u>-</u>	<u>115,900</u>	<u>115,822</u>	<u>(78)</u>
Total Revenues	<u>7,097,345</u>	<u>7,947,245</u>	<u>8,075,592</u>	<u>128,347</u>
Expenses				
11 Instruction	4,370,500	4,715,000	4,524,979	190,021
12 Instructional resources and media services				
services	2,000	500	109	391
13 Curriculum development and instructional staff development	132,000	4,000	3,026	974
21 Instructional leadership	28,715	22,545	-	22,545
23 School leadership	364,245	420,500	378,886	41,614
31 Guidance, counseling, and evaluation services	4,200	7,500	7,135	365
33 Health services	24,000	8,500	3,968	4,532
41 General administration	124,700	167,100	184,632	(17,532) *
51 Plant maintenance and operations	1,910,500	2,465,000	2,304,771	160,229
52 Security and monitoring services	24,800	24,800	9,608	15,192
53 Data processing services	55,000	60,500	60,425	75
Total Expenses	<u>7,040,660</u>	<u>7,895,945</u>	<u>7,477,539</u>	<u>418,406</u>
Change in Net Assets	<u>\$ 56,685</u>	<u>\$ 51,300</u>	598,053	<u>\$ 546,753</u>
Reconciliation to Ending Net Assets - all funds				
Change in net assets due to activity in other funds			87,683	
Depreciation expense			<u>(122,946)</u>	
		Change in Net Assets (all funds)	562,790	
Beginning net assets			<u>3,083,731</u>	
		Ending Net Assets	<u>\$ 3,646,521</u>	

*Expenses exceeded appropriations in excess of ten percent.

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DRAW ACADEMY
USE OF FUNDS REPORT
SELECT STATE ALLOTMENT PROGRAMS - EXHIBIT J-4
For the Year Ended August 31, 2022

**Data
Codes**

Section A: Compensatory Education Programs

AP1	Did the Charter Holder expend any state compensatory education program state allotment funds during the Charter Holder’s fiscal year?		Yes
AP2	Does the Charter Holder have written policies and procedures for its state compensatory education program?		Yes
AP3	List the total state allotment funds received for state compensatory education programs during the Charter Holder’s fiscal year.	\$	1,132,357
AP4	List the actual direct program expenditures for state compensatory education programs during the Charter Holder’s fiscal year. (PICs 24, 26, 28, 29, 30, 34).	\$	996,144 *

Section B: Bilingual Education Programs

AP5	Did the Charter Holder expend any bilingual education program state allotment funds during the Charter Holder’s fiscal year?		Yes
AP6	Does the Charter Holder have written policies and procedures for its bilingual education program?		Yes
AP7	List the total state allotment funds received for bilingual education programs during the Charter Holder's fiscal year.	\$	482,822
AP8	List the actual direct program expenditures for bilingual education programs during the Charter Holder’s fiscal year. (PICs 25, 35).	\$	344,125 *

*Excludes ESSER expenses.

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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**

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, 2022 and 2021, 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 27, 2023.

Report on 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Holder's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter Holder's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Charter Holder's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our 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.

Report on 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 27, 2023



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

Opinion on Each Major Federal Program

We have audited DRAW Academy's (the "Charter") compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Charter and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Charter's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Charter Holder's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Charter Holder's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Charter's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Charter Holder's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Charter Holder's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Charter's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance 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
February 27, 2023

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DRAW ACADEMY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - EXHIBIT H-1

For the Year Ended August 31, 2022

I. SUMMARY OF AUDIT RESULTS

Financial Statements

What were the results of the auditors' determination of whether the financial statements were prepared in accordance with generally accepted accounting principles? Unmodified

Is a 'going concern' emphasis-of-matter paragraph included in the auditors' report? No

Is a significant deficiency in internal control disclosed? No

Is a material weakness in internal control disclosed? No

Is a material noncompliance disclosed? No

Federal Programs

Does the auditors' report include a statement that the financial statements include departments, agencies, or other organizational units expending federal awards which are not included in this audit? No

What is the dollar threshold used to distinguish between Type A and Type B programs? \$ 750,000

Did the auditee qualify as low-risk auditee? Yes

Major program Information and Audit Findings

Identification of major programs:

<u>AL Number</u>	<u>Program Title</u>
84.425D, 84.425U	Elementary and Secondary School Emergency Relief Fund
10.553, 10.555	Child Nutrition

Type of audit report issued on compliance for major programs Unmodified

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
For the Year Ended August 31, 2022

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>Finding 2021.001 - Questionable Costs Type of finding - Significant deficiency in internal control over compliance and noncompliance. AL No. 84.425U Elementary and Secondary School Emergency Relief (ESSER) Estimated Questioned Costs: \$10,000</p> <p>Recommendation: The Charter Holder should ensure they are following federal guidelines for allowable costs.</p>	<p>Resolved</p>	
<p>Finding 2021.002 - Cash Management Type of finding - Significant deficiency in internal control over compliance and noncompliance. AL No. 84.425D Elementary and Secondary School Emergency Relief (ESSER)</p> <p>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.</p>	<p>Resolved</p>	

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DRAW ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1
For the Year Ended August 31, 2022

Federal Grantor/Pass-Through Grantor/ Program Title	Federal AL Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Texas Education Agency:</i>			
Title I, Part A - Improving Basic Programs	84.010A	22610101101856	\$ 366,192
Title I, Part A - Improving Basic Programs	84.010A	23610101101856	22,082
Title II, Part A - Supporting Effective Instruction	84.367A	22694501101856	39,226
Title II, Part A - Supporting Effective Instruction	84.367A	23694501101856	2,625
Title III, Part A - English Language Acquisition	84.365A	22671001101856	68,021
Title III, Part A - English Language Acquisition	84.365A	23671001101856	3,333
Special Education Cluster			
IDEA-B Formula*	84.027A	226600011018566000	114,045
IDEA-B Formula*	84.027A	236600011018566000	6,290
IDEA-B Formula- ARP	84.027X	225350011018565000	34,963
IDEA-B Preschool*	84.173A	226610011018566000	1,400
IDEA-B Preschool- ARP	84.173X	225360011018565000	4,468
Title IV, Part A, Subpart 1	84.424A	22680101101856	27,045
Title IV, Part A, Subpart 1	84.424A	23680101101856	1,577
COVID 19, Elementary and Secondary School Emergency Relief II	84.425D	21521001101856	525,226
COVID 19, Elementary and Secondary School Emergency Relief III	84.425U	21528001101856	66,788
	Total U.S. Department of Education		<u>1,283,281</u>
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Texas Education Agency:</i>			
Child Nutrition Cluster			
School Breakfast Program*	10.553	806780706	136,647
National School Lunch Program*	10.555	806780706	440,980
<i>Passed Through Texas Department of Agriculture:</i>			
Supply Chain Assistance*	10.555	6TX300400	22,198
USDA Commodities	10.565	806780706	58,041
COVID-19 State Pandemic Electronic Benefit Transfer	10.649	101856	614
	Total U.S. Department of Agriculture		<u>658,480</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,941,761</u></u>

* Indicates cluster programs under OMB Compliance Supplement

The accompanying notes are an integral part of this schedule.

Federal revenue per SEFA	\$ 1,941,761
USAC-ERATE	115,823
	<u><u>\$ 2,057,584</u></u>

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DRAW ACADEMY, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2022

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.

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