

**TWO DIMENSIONS PREPARATORY
ACADEMY, INC.
(A NON PROFIT ORGANIZATION)**

**FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION**

**Year Ended August 31, 2013
with Comparative Totals for 2012**

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

Year Ended August 31, 2013

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Two Dimensions Preparatory Academy
(Federal Employer Identification Number: 76-0557273)
Certificate of Board

Two Dimensions Preparatory Academy, Inc.
Name of Charter Holder

76-0557273
Federal Employer ID Number

Two Dimensions Preparatory Academy, Inc.
Name of Charter School

Harris
County

101-840
County District Number

We, the undersigned, certify that the attached Financial and Compliance Report of Two Dimensions Preparatory Academy was reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 2013, at a meeting of the governing body of the charter holder on the _____ day of _____, 2014.

Signature of Board Secretary

Signature of Board President

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Two Dimensions Preparatory Academy, Inc.
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Two Dimensions Preparatory Academy, Inc. (the "Academy"), which comprise the statements of financial position as of August 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's 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 entity'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 entity'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.

To the Board of Directors
Two Dimensions Preparatory Academy, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Academy as of August 31, 2013 and 2012, 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.

Report on Summarized Comparative Information

We have previously audited the Academy's 2012 financial statements, and our report dated January 18, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, as listed in the Table of Contents and required by the Texas Education Agency, and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2014, on our consideration of the Academy'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 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 Academy's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
January 17, 2014

GENERAL PURPOSE FINANCIAL STATEMENTS

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TWO DIMENSIONS PREPARATORY ACADEMY, INC.

STATEMENT OF FINANCIAL POSITION

	August 31,	
	<u>2013</u>	<u>2012</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 77,992	\$ 352,186
Due from state	59,340	18,140
Total current assets	<u>137,332</u>	<u>370,326</u>
Property and Equipment, net	<u>414,277</u>	<u>372,312</u>
Total Assets	<u><u>\$ 551,609</u></u>	<u><u>\$ 742,638</u></u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 87,425	\$ 112,623
Accrued salaries payable	100,186	101,164
Due to State	38,445	69,932
Accrued liabilities	77,081	71,661
Total Current Liabilities	<u>303,137</u>	<u>355,380</u>
Net Assets:		
Unrestricted	(334,395)	(348,545)
Temporarily restricted	582,867	735,803
Total Net Assets	<u>248,472</u>	<u>387,258</u>
Total Liabilities and Net Assets	<u><u>\$ 551,609</u></u>	<u><u>\$ 742,638</u></u>

The accompanying notes are an integral part of these financial statements

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

STATEMENT OF ACTIVITIES

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>August 31,</u>	
			<u>2013</u>	<u>2012</u>
Revenues				
Local Support:				
Food service sales	\$	\$ 8,443	\$ 8,443	\$ 7,697
Other revenues from local sources	14,150	28,315	42,465	39,487
Total Local Support	<u>14,150</u>	<u>36,758</u>	<u>50,908</u>	<u>47,184</u>
State Program Revenues:				
Per Capita and Foundation School Program Act Revenues		3,275,318	3,275,318	3,436,721
State Program Revenues Distributed by Texas Education Agency (TEA)		18,037	18,037	2,066
Total State Program Revenues		<u>3,293,355</u>	<u>3,293,355</u>	<u>3,438,787</u>
Federal Program Revenues:				
Federal revenues distributed by the TEA		657,745	657,745	646,988
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	4,140,794	(4,140,794)		
Total Revenues	<u>4,154,944</u>	<u>(152,936)</u>	<u>4,002,008</u>	<u>4,132,959</u>

The accompanying notes are an integral part of these financial statements

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

STATEMENT OF ACTIVITIES (continued)

TWO DIMENSIONS PREPARATORY ACADEMY

Page 2 of 2

Statement of Activities

For the Years Ended August 31 2013 and 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>August 31, 2013</u>	<u>2012</u>
Expenses				
Instruction	\$ 2,045,560	\$	\$ 2,045,560	\$ 2,049,489
Curriculum Development and Instructional Staff Development	22,978		22,978	36,445
Instructional Leadership	56,334		56,334	171
School Leadership	317,077		317,077	269,117
Guidance, Counseling & Evaluation Services	26,468		26,468	25,085
Health Services	4,187		4,187	3,353
Food Services	435,985		435,985	469,134
General Administration	550,781		550,781	589,896
Facilities Maintenance and Operations	580,786		580,786	548,748
Security and Monitoring Services	8,329		8,329	3,567
Data Processing Services	92,309		92,309	79,482
Total Expenses	<u>4,140,794</u>		<u>4,140,794</u>	<u>4,074,487</u>
 Change in Net Assets	 14,150	 (152,936)	 (138,786)	 58,472
 Net Assets, beginning of year	 <u>(348,545)</u>	 <u>735,803</u>	 <u>387,258</u>	 <u>328,786</u>
 Net Assets, end of year	 <u><u>\$ (334,395)</u></u>	 <u><u>\$ 582,867</u></u>	 <u><u>\$ 248,472</u></u>	 <u><u>\$ 387,258</u></u>

The accompanying notes are an integral part of these financial statements

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

STATEMENT OF CASH FLOWS

	August 31,	
	2013	2012
Cash flows from operating activities:		
Foundation school program payments	\$ 3,243,831	\$ 3,415,085
Grant payments	616,545	716,428
Other state and local revenue payments	68,945	49,250
Payments to vendors for goods and services rendered	(1,528,555)	(1,509,300)
Payments to charter school personnel for services rendered	(2,574,618)	(2,507,711)
Net cash provided (used) in operating activities	(173,852)	163,752
Cash flows from investing activities:		
Purchase of fixed assets	(100,342)	(185,308)
Net cash provided (used) in investing activities	(100,342)	(185,308)
Net change in cash and cash equivalents	(274,194)	(21,556)
Beginning cash and cash equivalents	352,186	373,742
Ending cash and cash equivalents	\$ 77,992	\$ 352,186
Reconciliation of change in net assets to net cash		
provided (used) by operating activities:		
Increase (decrease) in net assets	\$ (138,786)	\$ 58,472
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	58,377	44,612
(Increase) decrease in:		
Due from state	(41,200)	69,440
Prepaid expenses		2,333
Increase (decrease) in operating liabilities:		
Accounts payable	(25,198)	41,317
Accrued salaries payable	(978)	11,367
Accrued liabilities	5,420	(42,153)
Due to state	(31,487)	(21,636)
Net cash provided (used) by operating activities	\$ (173,852)	\$ 163,752

The accompanying notes are an integral part of these financial statements

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended August 31, 2013

Note 1 - Summary of Significant Accounting Policies

The general-purpose financial statements of Two Dimensions Preparatory Academy (the "Organization") were prepared in conformity with accounting principles generally accepted in the United States. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The corporation is a not-for-profit organization incorporated in the State of Texas in 1998 and is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Organization is governed by a Board of Directors comprised of four members. The members of the Board of Directors are appointed in accordance with provisions contained in the bylaws of the Organization. The Board of Directors has the authority to make decisions, appoint the administrator of the Organization, and significantly influence operations. The Board of Directors has primary accountability for the fiscal affairs of the Organization.

Since the Organization receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

The Organization was organized to provide educational services to students in Pre-K3 through the Sixth Grade. The Board of Directors governs the programs, services, activities, and functions of the Organization, which operates under an open enrollment charter granted by the State of Texas Board of Education. The Organization is part of the public school system of the State of Texas and is therefore entitled to distributions from the State's available school fund. The Organization does not have the authority to impose ad valorem taxes on its district or to charge tuition.

The corporation's charter was issued for a period of five (5) years and expired July 2003. An automatic extension of the charter was granted until such time as the State of Texas Board of Education reviews their charter renewal.

Basis of Accounting and Presentation

The accompanying general purpose financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

In accordance with SFAS No. 117, net assets, revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Accordingly, net assets of the Academy and changes therein are classified and reported as follows:

Unrestricted - net assets that are not subject to donor-imposed restrictions.

Temporarily restricted - net assets subject to donor-imposed stipulations that may or will be met either by actions of the corporation, the charter school and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Accounting and Presentation (continued)

Permanently restricted - net assets required to be maintained in perpetuity with only the income to be used for the Organization's activities due to donor-imposed restrictions

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The most sensitive estimate affecting the Organization's financial statements was the depreciation of capital assets and functional allocation of expenses.

Contributions

The Organization accounts for contributions in accordance with FASB ASC Topic 958-605, *Accounting for Contributions Received and Contributions Made*. In accordance with FASB ASC Topic 958-605, contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

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

Revenue Recognition

State Foundation School Program revenues are recognized based on the reported student attendance. State and Federal grant revenues are recognized when services are rendered. Contributions and other revenues are recognized when received or unconditionally promised by a third party. Rental income is based on the passage of time.

Capital Assets

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and other personal property, are reported in the general-purpose and specific-purpose financial statements. Capital assets are defined by the Organization 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 thirty-nine years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expenses as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost. The Organization had no donated capital assets at August 31, 2013.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Income Taxes

The Organization is a nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (“the Code”) and comparable State of Texas law. The Organization did not conduct any unrelated business activities in the current fiscal year. Therefore, the Organization has made no provision for federal income taxes in the accompanying financial statements. The Organization has also been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code. Accordingly, contributions to the Organization are tax deductible within the limitations prescribed by the Code.

The Organization applies the provisions of FASB ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB ASC Topic 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

New Accounting Pronouncements

In May 2011, The FASB issued ASU 2011-04 – Fair Value Measurements (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which changes the wording used to describe many of the requirements in accounting principles generally accepted in the United States of America for measuring fair value and for disclosing information about the application of existing fair value measurements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments are effective beginning with the fiscal year 2012 annual financial statements.

Note 2 - Capital Assets

Capital assets at August 31, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 50,000	\$
Buildings and Improvements	200,923	160,502
Vehicles	185,092	185,092
Furniture and Equipment	<u>273,756</u>	<u>263,835</u>
Total Property and Equipment	709,771	609,429
Less Accumulated Depreciation	<u>(295,494)</u>	<u>(237,117)</u>
Property and Equipment, Net	<u>\$ 414,277</u>	<u>\$ 372,312</u>

Depreciation and amortization expense for the fiscal years ended August 31, 2013 and August 31, 2012 was \$58,377 and \$44,612, respectively.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Capital Assets (continued)

Capital assets acquired with public funds received by the Organization for the operation of Two Dimensions Preparatory Academy constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified on the Schedule of Capital Assets.

Note 3 - Concentration of Credit and Business Risk

The Organization maintains demand deposits with a U.S. local banking institution. Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Organization will not be able to recover its deposits. The Organization maintains deposits at federally insured banks and strives to minimize its exposure to custodial credit risk. All deposits at the banking institution were fully insured by the Federal Deposit Insurance Corporation (FDIC) as of August 31, 2013.

Approximately 82% of the Organization's total revenue for fiscal year 2013 was provided by the State funding for the Per Capita Apportionment and State Foundation Program.

Note 4 - Pension Plan Obligations

Plan Description

The Organization contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception -- all risks and costs are not shared by the charter school, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 877-0123.

Funding Policy

Under provisions in State law, plan members are required to contribute 6.40% for fiscal years 2013 and 2012 of their annual covered salary and the State of Texas contributes an amount equal to 6.40% for fiscal year 2013 and 6.00% for fiscal year 2012 of the charter school's covered payroll. The charter school's employees' contributions to the System for the fiscal years ended August 31, 2013 and 2012 were \$158,835 and \$159,855, respectively, equal to the required contributions for each year. The Organization contributes 6.40% for fiscal year 2013, 6.00% for fiscal year 2012 and 6.644% for fiscal year 2011 of the covered payroll of employees compensated with Federal funds. Contributions made by the Academy for the fiscal years 2013, 2012, and 2011 were \$33,558, \$32,747, and \$35,104, respectively.

Note 5 - Health Care Coverage

During the year ended August 31, 2013, employees of the charter school were covered by a Health Insurance Plan (the Plan). The Organization contributed \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 6 - Due from State

Amounts due from the Texas Education Agency at August 31, 2013 and 2012, consisted of the following:

	<u>2013</u>	<u>2012</u>
State Foundation Program Year	\$ 34,527	\$
Title I, Part A	6,873	11,158
Instructional Materials Allotment	6,567	
National School Lunch Program	11,373	6,982
	<u>\$ 59,340</u>	<u>\$ 18,140</u>

Note 7 - Related Party Transactions

The Organization has entered into a sublease agreement with Greater Grace Sabbath Fellowship, Inc., a church organization pastored by a member of the family of the superintendent. The sublease agreements are for two of the Organization's campus facilities in Houston and Corsicana, Texas. The total lease payments by the Organization to Greater Grace Sabbath Fellowship, Inc. in fiscal year 2013 were \$300,000.

On April 1, 2013, the Academy purchased land from Greater Grace Sabbath Fellowship for \$50,000. The lot is approximately 42,600 square feet. The deed to the land was transferred to the Academy through Harris County.

Note 8 - Operating Leases

The Organization leases its office space and some of its office equipment. The future minimum rental payments required under non-cancellable lease agreements as of August 31, 2013, are as follows:

<u>Year</u>	<u>Amount</u>
2013-2014	\$ 498,492
2014-2015	29,092
2015-2016	18,411
2016-2017	2,984
2017-2018	2,184
2019 and thereafter	2,184
Total	<u>\$ 553,347</u>

Rent expenses for the fiscal years ended August 31, 2013 and August 31, 2012 were approximately \$520,716 and \$534,052, respectively.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 9 - Commitments and Contingencies

The Organization receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily in student attendance data submitted to the Texas Education Agency 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 school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

Note 10 - State Aid

Charter schools in the State of Texas participate in the State foundation program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six-week reporting period, and at the close of the year, actual attendance is calculated by the TEA and 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 period ended August 31, 2013, the Charter Holder earned \$3,275,318 of Per Capita and State foundation program funds, of which all was earned (before any possible TEA enrollment and attendance audit). In fiscal year 2012, the Charter Holder earned \$3,436,721.

Note 11 - Due to Texas Education Agency

Amounts due to the Texas Education Agency at August 31, 2013, consisted of the following:

	<u>2013</u>
State Fiscal Stabilization Fund	\$ 32,509
Title II, Part D (ARRA)	118
Student Success Initiative	1,750
Dist. Awards Teacher Excellence (D.A.T.E)	4,068
	<u>\$ 38,445</u>

Note 12 - Special Education Cooperative

The Organization participates as a member of the Houston Charter School Special Education Cooperative ("the Cooperative") which is a shared services arrangement for special education services. The Cooperative has a fiscal agent who reports all revenues and expenditures for this Cooperative. The Organization, at times, receives revenue distributions from the Cooperative. The Organization received \$36,648 from the Cooperative during the fiscal year ended August 31, 2013.

Note 13 - Temporarily Restricted Net Assets

At August 31, 2013, temporarily restricted net assets, primarily attributable to the General Fund (Fund 420) and the Child Nutrition Program (Funds 240 and 242), totaled \$582,867.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 14 - Accrued Salaries

During August 2013, the Organization's teachers worked ten days for which they were not paid until after August 31, 2013. Based on the daily rate of pay and the number of days worked, the Organization accrued \$100,186 in teachers' salaries to be paid after August 31, 2013. In fiscal year 2012, the Organization recorded \$101,164 in accrued salaries.

Note 15 - Charter Holder Operations

The charter holder only operated a single charter school and did not conduct any other charter or non-charter activities.

Note 16 - Deficiencies of Unrestricted Net Assets

The Organization has not generated sufficient unrestricted funds to meet its working capital needs. At August 31, 2013, the Organization had an unrestricted net deficit of \$(334,395). This factor presents the Organization with operational challenges for the foreseeable future. Management believes that this deficit will not adversely affect the ability of the Organization to remain a going concern as long as the Organization continues to operate in accordance with the guidelines prescribed by the Texas Education Agency.

Management has implemented plans to generate additional unrestricted resources and to reduce operating costs. The ability of the Organization to continue uninterrupted operations and program activities in the foreseeable future is dependent upon the success of these efforts.

Note 17 - Subsequent Events

In preparing the accompanying financial statements, management has reviewed all known events that have occurred after August 31, 2013, and through January 17, 2014, the date on which the financial statements were available to be issued, for inclusion in the financial statements and footnotes. This review resulted in no adjustment to the financial statements and footnotes.

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SUPPLEMENTARY INFORMATION

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TWO DIMENSIONS PREPARATORY ACADEMY, INC.

SCHEDULE OF EXPENSES

Year Ended August 31, 2013

		August 31,	
		<u>2013</u>	<u>2012</u>
	Expenses		
6100	Payroll Costs	\$ 2,579,060	\$ 2,476,925
6200	Professional and Contract Services	898,945	947,971
6300	Supplies and Materials	435,177	428,081
6400	Other Operating Costs	227,612	221,510
	Total Expenses	<u>\$ 4,140,794</u>	<u>\$ 4,074,487</u>

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

SCHEDULE OF CAPITAL ASSETS

Year Ended August 31, 2013

		Ownership Interest		
		Local	State	Federal
1510	Land and improvements	\$	\$ 50,000	\$
1520	Buildings and improvements		200,923	
1531	Vehicles		185,092	
1539	Furniture and equipment		255,559	18,197
	Total Property & equipment	\$	\$ 691,574	\$ 18,197

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

BUDGETARY COMPARISON SCHEDULE

For the Year Ended August 31, 2013

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
Revenues				
Local Support:				
5740	\$ 3,500	\$ 15,000	\$ 50,908	\$ 35,908
State Program Revenues:				
5810	2,824,444	3,274,444	3,275,318	874
5820				
			18,037	18,037
	2,824,444	3,274,444	3,293,355	18,911
Federal Program Revenues:				
5929				
	415,000	655,010	657,745	2,735
	<u>3,242,944</u>	<u>3,944,454</u>	<u>4,002,008</u>	<u>57,554</u>
Expenses				
11	1,693,926	1,877,926	2,045,560	(167,634)
13				
			22,978	(700)
21	127,540	56,540	56,334	206
23	254,490	306,490	317,077	(10,587)
31	48,500	26,500	26,468	32
33	3,000	4,000	4,187	(187)
35	440,037	404,219	435,985	(31,766)
41	357,287	507,287	550,781	(43,494)
51	409,916	634,916	580,786	54,130
52	2,500	9,500	8,329	1,171
53	11,100	101,100	92,309	8,791
61	1,500	1,500		1,500
	<u>3,465,074</u>	<u>3,952,256</u>	<u>4,140,794</u>	<u>(188,538)</u>
	(222,130)	(7,802)	(138,786)	(130,984)
	387,258	387,258	387,258	
	<u>\$ 165,128</u>	<u>\$ 379,456</u>	<u>\$ 248,472</u>	<u>\$ (130,984)</u>

Budget Variances

In accordance with Module 11, Section 1.7.2.8 2 of the Financial Accountability System Resource Guide, If the original and final budgeted amounts vary by more than 10 percent of the original budgeted amounts, the charter holder must include a written statement discussing the cause of the variance(s). The Academy provides the following explanations for each of the variances noted:

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

BUDGETARY COMPARISON SCHEDULE

For the Year Ended August 31, 2013

Budget Variances (continued)

Function 11	Unusually high need and demand for summer school caused an increase in instructional costs
Function 23	There was a high turnover of secretaries
Function 33	There was an increase in the cost of hearing/eye exam services
Function 41	High demand of summer school caused a summer planning increase for the upcoming academic year to meet the needs of the students
Function 51	An increase in the number of students attending summer school caused an increase in the utilities and repaid/maintenance needs of the school
Function 52	Added additional security services due to an increased need for such services
Function 53	Salaries should have been reclassified to Function 23 for student accounting services

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
Two Dimensions Preparatory Academy, Inc.
Houston, Texas

We have audited, in accordance with the 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 Two Dimensions Preparatory Academy, Inc. (the "Academy"), which comprise the statement of financial position as of August 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 entity'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.

To the Board of Directors
Two Dimensions Preparatory Academy, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
January 17, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

To the Board of Directors
Two Dimensions Preparatory Academy, Inc.
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited Two Dimensions Preparatory Academy's (the "Academy") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended August 31, 2013. The Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Academy'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Academy'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 Academy's compliance.

Opinion on Each Major Federal Program

In our opinion, the Academy 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, 2013.

To the Board of Directors
Two Dimensions Preparatory Academy, Inc.

Report on Internal Control Over Compliance

Management of the Academy 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 Academy'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 OMB Circular A-133, 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 Academy's internal control over financial compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
January 17, 2014

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2013

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	None
Significant deficiencies identified that are not considered to be material weaknesses?	None reported.
Non-compliance material to financial statements noted?	None

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	None
Significant deficiencies identified that are not considered to be material weaknesses?	None noted
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	None

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
U.S. Department of Agriculture	
Child Nutrition Cluster:	
National School Lunch Program	10.555
National School Breakfast Program	10.553
Summer Feeding Program	10.559
Dollar threshold considered between Type A and Type B Federal Programs	\$300,000
Auditee qualified as low-risk auditee	Yes

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

II. Financial Statement Findings

The audit disclosed no findings or questioned costs required to be reported.

III. Federal Awards Findings and Questioned Costs

The audit disclosed no findings or questioned costs required to be reported.

IV. Summary Schedule of Prior Audit Findings

No prior year findings.

V. Corrective Action Plan

N/A

TWO DIMENSIONS PREPARATORY ACADEMY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed Through Texas Education Agency:			
<i>Title II Part A - Teacher and Principal</i>	84.367A	13694501101840	\$ 17,345
<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010A	13610101101840	206,748
Total Passed Through Texas Education Agency			<u>224,093</u>
Passed Through Houston Charter School Special Education Cooperative:			
<i>IDEA B - Formula</i>	84.027A	N/A	<u>36,648</u>
Total U.S. Department of Education			<u>260,741</u>
U.S. Department of Agriculture			
Passed Through Texas Education Agency:			
<i>National School Lunch Program*</i>	10.555	71301301	209,967
<i>School Breakfast Program*</i>	10.553	71401301	147,968
Total Passed Through Texas Education Agency			<u>357,935</u>
Passed through Texas Department of Agriculture			
<i>Fresh Fruit and Vegetables</i>	10.582	N/A	28,118
<i>Summer Feeding Program*</i>	10.559	N/A	10,951
Total Passed through Texas Department of Agriculture			<u>39,069</u>
Total U.S. Department of Agriculture			<u>397,004</u>
Total Expenditures of Federal Awards			<u><u>\$ 657,745</u></u>

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2013

Note 1 - Basis of Presentation

The schedule of expenditures of federal awards (“SEFA”) presents federal grant activity of the Organization for the fiscal year ended August 31, 2013, and is reported on the accrual basis of accounting. The information in the SEFA is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the Organization’s financial statements.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (per the Texas Education Agency guidance issued in June 2013), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Relationship to Financial Report Submitted to Grantor Agencies

Amounts reflected in the financial reports filed with grantor agencies for the program may not agree with the amounts in the SEFA because of accruals made to present the SEFA on the accrual basis (which would be included in the next report filed with the agencies), as well as matching requirements not included in the SEFA and differences in programs’ year-ends.