

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**Year Ended August 31, 2014
with Comparative Totals for 2013**

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Year Ended August 31, 2014

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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, 2014, at a meeting of the governing body of the charter holder on the 27th day of January, 2015.


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 statement of financial position as of August 31, 2014 and the related statements of activities and cash flows for the year 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, 2014 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 2013 financial statements, and our report dated January 17, 2014 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, 2013, 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 26, 2015, 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 26, 2015

GENERAL PURPOSE FINANCIAL STATEMENTS

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TWO DIMENSIONS PREPARATORY ACADEMY, INC.

STATEMENTS OF FINANCIAL POSITION

	August 31,	
	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 91,640	\$ 77,992
Due from state	31,544	59,340
Total current assets	<u>123,184</u>	<u>137,332</u>
Property and equipment, net	<u>381,929</u>	<u>414,277</u>
Total Assets	<u><u>\$ 505,113</u></u>	<u><u>\$ 551,609</u></u>
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 68,373	\$ 87,425
Accrued salaries payable	70,305	100,186
Due to state	38,445	38,445
Accrued liabilities	79,579	77,081
Total current liabilities	<u>256,702</u>	<u>303,137</u>
Net Assets:		
Unrestricted	(192,586)	(334,395)
Temporarily restricted	440,997	582,867
Total Net Assets	<u>248,411</u>	<u>248,472</u>
Total Liabilities and Net Assets	<u><u>\$ 505,113</u></u>	<u><u>\$ 551,609</u></u>

The accompanying notes are an integral part of these financial statements.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

STATEMENTS OF ACTIVITIES

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>August 31,</u>	
			<u>2014</u>	<u>2013</u>
Revenues				
Local Support:				
Food service sales	\$	\$ 13,931	\$ 13,931	\$ 8,443
Other revenues from local sources	141,809	51,342	193,151	42,465
Total Local Support	<u>141,809</u>	<u>65,273</u>	<u>207,082</u>	<u>50,908</u>
State Program Revenues:				
Per Capita and Foundation School Program Act Revenues		3,329,988	3,329,988	3,275,318
State Program Revenues Distributed by Texas Education Agency (TEA)		100,594	100,594	18,037
Total State Program Revenues		<u>3,430,582</u>	<u>3,430,582</u>	<u>3,293,355</u>
Federal Program Revenues:				
Federal revenues distributed by the TEA		586,483	586,483	657,745
Net Assets Released from Restrictions:				
Restrictions satisfied by payments	4,224,208	(4,224,208)		
Total Revenues	<u>4,366,017</u>	<u>(141,870)</u>	<u>4,224,147</u>	<u>4,002,008</u>

The accompanying notes are an integral part of these financial statements.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

STATEMENTS OF ACTIVITIES (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>August 31, 2014</u>	<u>2013</u>
Expenses				
Instruction	\$ 2,293,007	\$	\$ 2,293,007	\$ 2,045,560
Curriculum Development and Instructional Staff Development	28,519		28,519	22,978
Instructional Leadership				56,334
School Leadership	322,967		322,967	317,077
Guidance, Counseling & Evaluation Services	19,277		19,277	26,468
Health Services	2,412		2,412	4,187
Food Services	435,714		435,714	435,985
General Administration	512,769		512,769	550,781
Facilities Maintenance and Operations	530,977		530,977	580,786
Security and Monitoring Services	4,172		4,172	8,329
Data Processing Services	74,394		74,394	92,309
Total Expenses	<u>4,224,208</u>		<u>4,224,208</u>	<u>4,140,794</u>
Change in Net Assets	141,809	(141,870)	(61)	(138,786)
Net Assets, beginning of year	<u>(334,395)</u>	<u>582,867</u>	<u>248,472</u>	<u>387,258</u>
Net Assets, end of year	<u>\$ (192,586)</u>	<u>\$ 440,997</u>	<u>\$ 248,411</u>	<u>\$ 248,472</u>

The accompanying notes are an integral part of these financial statements.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

STATEMENTS OF CASH FLOWS

	August 31,	
	2014	2013
Cash flows from operating activities:		
Foundation school program payments	\$ 3,342,289	\$ 3,243,831
Grant payments	595,411	616,545
Other state and local revenue payments	314,243	68,945
Payments to vendors for goods and services rendered	(1,442,358)	(1,528,555)
Payments to charter school personnel for services rendered	(2,746,327)	(2,574,618)
Net cash provided (used) by operating activities	63,258	(173,852)
Cash flows from investing activities:		
Purchase of capital assets	(49,610)	(100,342)
Net cash used by investing activities	(49,610)	(100,342)
Net change in cash and cash equivalents	13,648	(274,194)
Beginning cash and cash equivalents	77,992	352,186
Ending cash and cash equivalents	\$ 91,640	\$ 77,992
Reconciliation of change in net assets to net cash		
provided (used) by operating activities:		
Decrease in net assets	\$ (61)	\$ (138,786)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	48,308	58,377
Loss on disposal of capital asset	33,650	
(Increase) decrease in:		
Due from state	27,796	(41,200)
Increase (decrease) in operating liabilities:		
Accounts payable	(19,052)	(25,198)
Accrued salaries payable	(29,881)	(978)
Accrued liabilities	2,498	5,420
Due to state		(31,487)
Net cash provided (used) by operating activities	\$ 63,258	\$ (173,852)

The accompanying notes are an integral part of these financial statements.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies

The general-purpose financial statements of Two Dimensions Preparatory Academy (the "Academy") 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 Academy is a not-for-profit Academy 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 Academy 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 Academy. The Board of Directors has the authority to make decisions, appoint the administrator of the Academy, and significantly influence operations. The Board of Directors has primary accountability for the fiscal affairs of the Academy.

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

Corporate Operations

The Academy 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 Academy, which operates under an open enrollment charter granted by the State of Texas Board of Education. The Academy 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 Academy does not have the authority to impose ad valorem taxes on its district or to charge tuition.

The Academy's charter was renewed in April 2014 with a contract ending date of July 31, 2016.

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 Accounting Standards Codification Topic 958-205 (ASC Topic No. 958) *Not-For-Profit Entities-Presentation of Financial Statements*, 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. As of August 31, 2014, 2014, unrestricted net deficit totaled \$192,586.

Temporarily restricted - net assets subject to donor-imposed stipulations that may or will be met either by actions of 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. As of August 31, 2014, temporarily restricted net assets totaled \$440,997.

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 Academy's activities due to donor-imposed restrictions. As of August 31, 2014, the Academy had no permanently restricted net assets.

When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

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 Academy's financial statements was the depreciation of capital assets and functional allocation of expenses.

Contributions

The Academy 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 Academy 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.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

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 Academy 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 Academy had no donated capital assets at August 31, 2014.

Prepaid Expenses

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

Income Taxes

The Academy is a nonprofit organization 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 Academy did not conduct any unrelated business activities in the current fiscal year. Therefore, the Academy has made no provision for federal income taxes in the accompanying financial statements. The Academy has also been classified as a publicly supported Academy, which is not a private foundation under Section 509(a) of the Code. Accordingly, contributions to the Academy are tax deductible within the limitations prescribed by the Code.

The Academy 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 Academy 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.

Note 2 - Capital Assets

Capital assets at August 31, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 50,000	\$ 50,000
Buildings and Improvements	210,923	200,923
Vehicles	125,675	185,092
Furniture and Equipment	313,366	273,756
Total Property and Equipment	<u>699,964</u>	<u>709,771</u>
Less Accumulated Depreciation	<u>(318,035)</u>	<u>(295,494)</u>
Property and Equipment, Net	<u>\$ 381,929</u>	<u>\$ 414,277</u>

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 - Capital Assets (continued)

Depreciation expense for the fiscal years ended August 31, 2014 and August 31, 2013 was \$48,308 and \$58,377, respectively.

Capital assets acquired with public funds received by the Academy 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 Academy 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 Academy will not be able to recover its deposits. The Academy 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, 2014.

Approximately 79% of the Academy's total revenue for fiscal year 2014 was provided by the State funding for the Per Capita Apportionment and State Foundation Program.

Note 4 - Pension Plan Obligations

Plan Description

The Academy 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 Academy, 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 2014 and 2013 of their annual covered salary and the State of Texas contributes an amount equal to 6.80% for fiscal year 2014 and 6.40% for fiscal year 2013 of the Academy's covered payroll. The Academy's employees' contributions to the System for the fiscal years ended August 31, 2014 and 2013 were \$174,004 and \$158,835, respectively, equal to the required contributions for each year. The Academy contributes 6.80% for fiscal year 2014, 6.40% for fiscal year 2013 of the covered payroll of employees compensated with Federal funds. Contributions made by the Academy for the fiscal years 2014 and 2013, were \$44,107 and \$33,558, respectively.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 5 - Health Care Coverage

During the year ended August 31, 2014, employees of the Academy were covered by a Health Insurance Plan (the Plan). For employees who have been employed by the Academy for seven years or more, the Academy contributed \$325 per month per employee to the Plan.

For employees who have been employed by the Academy for less than seven years, the Academy contributed \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Note 6 - Due from State

Amounts due from the Texas Education Agency at August 31, 2014 and 2013, consisted of the following:

	<u>2014</u>	<u>2013</u>
State Foundation Program	\$ 22,226	\$ 34,527
Title I, Part A		6,873
Instructional Materials Allotment		6,567
National School Lunch Program	9,318	11,373
	<u>\$ 31,544</u>	<u>\$ 59,340</u>

Note 7 - Related Party Transactions

The Academy has entered into a sublease agreement with Greater Grace Sabbath Fellowship, Inc., a church Academy pastored by a member of the family of the superintendent. The sublease agreements are for two of the Academy's campus facilities in Houston and Corsicana, Texas. The total lease payments by the Academy to Greater Grace Sabbath Fellowship, Inc. in fiscal year 2014 were \$300,000. Future lease commitments to Greater Grace Sabbath Fellowship, Inc. for fiscal year 2015 are \$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 Academy 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, 2014, are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 505,634
2016	30,406
2017	17,422
2018	1,600
Total	<u>\$ 555,062</u>

Rent expenses for the fiscal years ended August 31, 2014 and August 31, 2013 were approximately \$528,746 and \$520,716, respectively.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 9 - Commitments and Contingencies

The Academy 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, 2014, the Charter Holder earned \$3,329,988 of Per Capita and State foundation program funds, of which all was earned (before any possible TEA enrollment and attendance audit). In fiscal year 2013, the Charter Holder earned \$3,275,318.

Note 11 - Due to Texas Education Agency

Amounts due to the Texas Education Agency at August 31, 2014 and 2013, consisted of the following:

	<u>2014</u>	<u>2013</u>
State Fiscal Stabilization Fund	\$ 32,509	\$ 32,509
Title II, Part D (ARRA)	118	118
Student Success Initiative	1,750	1,750
Dist. Awards Teacher Excellence (D.A.T.E)	4,068	4,068
	<u>\$ 38,445</u>	<u>\$ 38,445</u>

Note 12 - Special Education Cooperative

The Academy 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 Academy, at times, receives revenue distributions from the Cooperative. The Academy received \$33,139 from the Cooperative during the fiscal year ended August 31, 2014.

Note 13 - Temporarily Restricted Net Assets

At August 31, 2014, temporarily restricted net assets, primarily attributable to the General Fund (Fund 420) and the Child Nutrition Program (Funds 240 and 242), totaled \$440,997.

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 14 - Accrued Salaries

During August 2014, the Academy's teachers worked ten days for which they were not paid until after August 31, 2014. Based on the daily rate of pay and the number of days worked, the Academy accrued \$70,305 in teachers' salaries to be paid after August 31, 2014. In fiscal year 2013, the Academy recorded \$100,186 in accrued salaries based on an accrual of ten working days paid in fiscal year 2014.

Note 15 - Charter Holder Operations

The Academy 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 Academy has not generated sufficient unrestricted funds to meet its working capital needs. At August 31, 2014, the Academy had an unrestricted net deficit of \$192,586. This factor presents the Academy with operational challenges for the foreseeable future. Management believes that this deficit will not adversely affect the ability of the Academy to remain a going concern as long as the Academy 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 Academy to continue uninterrupted operations and program activities in the foreseeable future is dependent upon the success of these efforts.

Note 17 - Management's Review of Subsequent Events

In preparing the accompanying financial statements, management has reviewed all known events that have occurred after August 31, 2014, and through January 26, 2015, 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.

SCHEDULES OF EXPENSES

Year Ended August 31, 2014

		August 31,	
Expenses		2014	2013
6100	Payroll Costs	\$ 2,716,446	\$ 2,579,060
6200	Professional and Contract Services	957,420	898,945
6300	Supplies and Materials	380,224	435,177
6400	Other Operating Costs	170,118	227,612
	Total Expenses	<u>\$ 4,224,208</u>	<u>\$ 4,140,794</u>

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

SCHEDULE OF CAPITAL ASSETS

Year Ended August 31, 2014

		Ownership Interest		
		Local	State	Federal
1510	Land and improvements	\$	\$ 50,000	\$
1520	Buildings and improvements		210,923	
1531	Vehicles		125,675	
1539	Furniture and equipment		295,169	18,197
	Total Property & equipment	\$	\$ 681,767	\$ 18,197

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

BUDGETARY COMPARISION SCHEDULE

Year Ended August 31, 2014

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance from Final Budget</u>	
Revenues					
Local Support:					
5700	Revenues from Local Sources	\$ 167,000	\$ 167,000	\$ 207,082	\$ 40,082
State Program Revenues:					
5810	Foundation School Program Act Revenues	3,436,093	3,436,093	3,329,988	(106,105)
5820	State Program Revenues Distributed by the Texas Education Agency			100,594	100,594
	Total State Program Revenues	<u>3,436,093</u>	<u>3,436,093</u>	<u>3,430,582</u>	<u>(5,511)</u>
Federal Program Revenues:					
5929	Federal Revenues Distributed by the Texas Education Agency	640,822	640,822	586,483	(54,339)
	Total Revenues	<u>4,243,915</u>	<u>4,243,915</u>	<u>4,224,147</u>	<u>(19,768)</u>
Expenses					
11	Instruction	2,295,730	2,295,730	2,293,007	2,723
13	Curriculum Development and Instructional Staff Development	71,773	31,773	28,519	3,254
23	School Leadership	283,488	323,488	322,967	521
31	Guidance, Counseling and Evaluation Services	17,086	19,086	19,277	(191)
33	Health Services	4,187	2,187	2,412	(225)
35	Food Service	458,252	458,252	435,714	22,538
41	General Administration	591,304	521,304	512,769	8,535
51	Facilities Maintenance and Operations	529,038	529,038	530,977	(1,939)
52	Security and Monitoring Services	6,705	6,705	4,172	2,533
53	Data Processing Services	6,303	76,303	74,394	1,909
61	Community Services	5,500	5,500		5,500
	Total Expenses	<u>4,269,366</u>	<u>4,269,366</u>	<u>4,224,208</u>	<u>45,158</u>
	Change in net assets	(25,451)	(25,451)	(61)	25,390
	Beginning net assets	248,472	248,472	248,472	
	Ending net assets	<u>\$ 223,021</u>	<u>\$ 223,021</u>	<u>\$ 248,411</u>	<u>\$ 25,390</u>

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

BUDGETARY COMPARISION SCHEDULE

Year Ended August 31, 2014

Budget Variances

In accordance with Module 10, Section 1.7.2.8 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 variances. The Academy provides the following explanations for each of the variances noted:

Function 13	Decrease in spending due to decreased cost associated with sending staff to professional development.
Function 23	Increase in enrollment facilitated adding an Assistant Principal position.
Function 31	More students needed additional evaluation services not originally anticipated in the budget.
Function 33	Decrease in spending due to decrease in student vision/hearing testing
Function 41	Decrease in spending due to Administrators paying for their own travel costs
Function 53	Purchase of new computers required additional related purchases and 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, 2014, 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 26, 2015.

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 26, 2015

**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, 2014. 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, 2014.

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.



Houston, Texas
January 26, 2015

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended August 31, 2014

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:	
School Breakfast Program	10.553
National School Lunch Program	10.555
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.

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

Year Ended August 31, 2014

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>ESEA Title I Part A - Improving Basic Programs</i>	84.010A	14610100000000	\$ 133,488
<i>Title II Part A - Teacher and Principal</i>	84.367A	14694500000000	19,259
Total Passed Through Texas Education Agency			<u>152,747</u>
Passed Through Houston Charter School Special Education Cooperative:			
<i>IDEA B - Formula</i>	84.027A	N/A	<u>33,139</u>
Total U.S. Department of Education			<u>185,886</u>
U.S. Department of Agriculture			
Passed Through Texas Education Agency:			
<i>National School Lunch Program*</i>	10.555	71301401	211,138
<i>School Breakfast Program*</i>	10.553	71401401	149,051
Total Passed Through Texas Education Agency			<u>360,189</u>
Passed through Texas Department of Agriculture			
<i>Summer Feeding Program*</i>	10.559	N/A	15,183
<i>Fresh Fruit and Vegetables</i>	10.582	N/A	25,225
Total Passed through Texas Department of Agriculture			<u>40,408</u>
Total U.S. Department of Agriculture			<u>400,597</u>
Total Expenditures of Federal Awards			<u>\$ 586,483</u>

* Child Nutrition Cluster

TWO DIMENSIONS PREPARATORY ACADEMY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended August 31, 2014

Note 1 - Basis of Presentation

The schedule of expenditures of federal awards (“SEFA”) presents federal grant activity of the Academy for the fiscal year ended August 31, 2014, 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 Academy’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.