

**LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED AUGUST 31, 2016**

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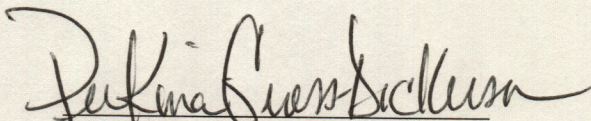
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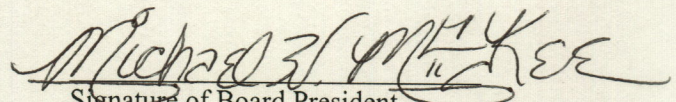


**LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY**  
(Federal Employer Identification Number 75-2739703)  
057-808

**CERTIFICATE OF BOARD**  
August 31, 2016

We, the undersigned, certify that the attached Annual Financial and Compliance Report of LTTS Charter School, Inc. dba Universal Academy was reviewed and ☒ approved ☐ disapproved for the year ended August 31, 2016, at a meeting of the governing body of said charter holder on the 24<sup>th</sup> day of January, 2017.

  
Signature of Board Secretary

  
Signature of Board President



**GOMEZ & COMPANY**  
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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
LTTS Charter School, Inc. dba Universal Academy  
Irving, TX

**Report on the Financial Statements**

We have audited the accompanying financial statements of LTTS Charter School, Inc. dba Universal Academy ("the Academy") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, 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.

***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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is 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 December 21, 2016, 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.

A handwritten signature in cursive script that reads "Loney & Company". The signature is written in dark ink and is positioned above the printed text of the firm's name and location.

Houston, TX  
December 21, 2016

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2016

ASSETS

Current Assets:

Cash	\$ 325,104
Restricted Cash	3,710,433
Grants Receivable	1,135,937
Note Receivable	264,603
Prepaid Expenses	51,356
Total Current Assets	<u>5,487,433</u>

Property & Equipment

Land	5,735,708
Buildings and Improvements	18,472,602
Furniture and Equipment	1,935,813
Vehicles	1,161,663
	<u>27,305,786</u>

Less: Accumulated Depreciation (2,401,556)

Net Property & Equipment 24,904,230

Other Assets:

Deposits	22,245
Bond Issuance Cost	957,896
Total Other Assets	<u>980,141</u>

Total Assets \$ 31,371,804

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts Payable	\$ 679,686
Accrued Wages	521,738
Bond Interest Payable	1,013,612
Deferred Revenue	28,922
Current Portion of Capital Lease Payable	175,657
Current Portion Bonds Payable	345,000
Total Current Liabilities	<u>2,764,615</u>

Long-term Liabilities:

Capital Lease Payable, Net of Current Portion	599,792
Bonds Payable, Net of Discount and Current Portion	28,419,864
Total Long-term Liabilities	<u>29,019,656</u>

Total Liabilities 31,784,271

Net Assets:

Unrestricted (412,467)

Total Net Assets (412,467)

Total Liabilities and Net Assets \$ 31,371,804

See accompanying notes to financial statements.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2016

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Local Support:			
5740 Other Revenues from Local Sources	\$ 515,456	\$	\$ 515,456
5750 Other Revenues from Cocurricular Activities	9,649		9,649
Total Local Support	525,105		525,105
State Program Revenues			
5810 Foundation School Program Act Revenues		15,750,117	15,750,117
5820 State Program Revenues Distributed by Texas Education Agency		41,063	41,063
Total State Program Revenues		15,791,180	15,791,180
Federal Program Revenues:			
5920 Federal Revenues Distributed by Texas Education Agency		970,408	970,408
Total Federal Program Revenues		970,408	970,408
Net assets released from restrictions:			
Restrictions satisfied by payments	16,761,588	(16,761,588)	
Total Revenues	17,286,693		17,286,693
<b>EXPENSES</b>			
11 Instruction	7,772,887		7,772,887
12 Instructional Resources and Media Services	279,931		279,931
13 Curriculum Development and Instructional Staff Development	4,090		4,090
21 Instructional Leadership	124,023		124,023
23 School Leadership	373,710		373,710
31 Guidance, Counseling, and Evaluation Services	271,515		271,515
33 Health Services	118,268		118,268
34 Student (Pupil) Transportation	599,648		599,648
35 Food Service	378,680		378,680
36 Cocurricular/Extracurricular Activities	480,854		480,854
41 General Administration	1,279,705		1,279,705
51 Plant Maintenance and Operations	2,504,550		2,504,550
52 Security and Monitoring Services	484,964		484,964
53 Data Processing Services	304,089		304,089
71 Debt Service	2,224,703		2,224,703
81 Fundraising	157,315		157,315
Total Expenses	17,358,932		17,358,932
Change in Net Assets	(72,239)		(72,239)
Net Assets, Beginning of Year	(340,228)		(340,228)
Net Assets, End of Year	\$ (412,467)	\$	\$ (412,467)

See accompanying notes to financial statements.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2016

Cash Flows from Operating Activities	
Increase (Decrease) in Net Assets	\$ (72,239)
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided (Used) by Operating Activities	
Depreciation	839,120
Amortization	138,369
(Increase) Decrease in Grants Receivable	(387,249)
(Increase) Decrease in Note Receivable	3,994
(Increase) Decrease in Prepaid Expenses	17,391
Increase (Decrease) in Accounts Payable	16,108
Increase (Decrease) in Accrued Wages	46,292
Increase ( Decrease ) in Deferred Revenue	28,922
Increase (Decrease) in Bond Interest Payable	<u>(11,037)</u>
Net Cash Provided (Used) by Operating Activities	<u>619,671</u>
Cash Flows from Investing Activities	
Purchase of Fixed Assets	<u>(1,052,644)</u>
Net Cash Provided (Used) by Investing Activities	<u>(1,052,644)</u>
Cash Flows from Financing Activities	
Proceeds from Loans	929,376
Repayment of Loans	(153,927)
Repayment of Bonds	<u>(305,000)</u>
Net Cash Provided (Used) by Financing Activities	<u>470,449</u>
NET INCREASE ( DECREASE ) IN CASH	37,476
CASH AT BEGINNING OF YEAR	<u>3,998,061</u>
CASH AT END OF YEAR	<u>\$ 4,035,537</u>
Supplemental Disclosures of Cash Flow Information	
<u>Cash Paid During the Year for:</u>	
Interest	<u>\$ 2,086,334</u>

See accompanying notes to financial statements.



LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

A. Organization:

LTTS Charter School, Inc. (a Texas non-profit corporation) doing business as Universal Academy (the “Academy”) provides educational services for students from pre-kindergarten through twelfth grade. The Academy operates under an enrollment charter granted by the State of Texas Board of Education. This charter was renewed November 5, 2012, for a period of ten years and is subject to review and renewal prior to the expiration date of July 31, 2022. The Academy is part of the public school system of the State of Texas and is therefore entitled to distribution from the State’s available school fund. The Academy does not have the authority to impose ad valorem taxes or to charge tuition.

The charter holder LTTS Charter School dba Universal Academy only operates a single charter school and does not conduct any other charter or non-charter activities.

B. Summary of Significant Accounting Policies:

**BASIS OF PRESENTATION**

The Academy reports its financial information based on the *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-205 Presentation of Financial Statements*. Under FASB ASC 958-205, an organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Academy is required to present a statement of cash flows.

Unrestricted net assets

Unrestricted net assets include unrestricted resources which represent the portion of funds that are available for the operating objectives of the Academy.

Temporarily restricted net assets

Temporarily restricted net assets consist of donor restricted contributions and grants. Amounts restricted by donors for a specific purpose are deemed to be earned and reported as temporarily restricted revenue, when received, and such unexpended amounts are reported as temporarily restricted net assets at year-end. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as “net assets released from restrictions.”

Permanently restricted net assets

Permanently restricted net assets consist of donor restricted contributions, which are required to be held in perpetuity. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

**SUPPORT AND REVENUE**

Support and revenue are recorded based on the accrual method.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

B. Summary of Significant Accounting Policies: (continued)

CASH DONATIONS AND DONATED SERVICES

Cash donations are considered to be available for unrestricted use unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless a substantial number of volunteers have donated their time in connection with the program service and administration of the Academy.

CONTRIBUTIONS

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-for-Profit Entities-605 Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

PROPERTY AND EQUIPMENT

Property and equipment purchased by the Academy are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All assets acquired with a value in excess of \$500 are recorded as fixed assets. Depreciation is provided on the straight-line method based upon estimated useful lives of 3 to 39 years based on classification of property and equipment. Gains or losses on retired or sold property and equipment are reflected in income for the period. The proceeds from such sales which are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

PLEDGES AND ACCOUNTS RECEIVABLE

Contributions are recognized when the donor makes a promise to give to the Academy, which is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

FUNCTIONAL EXPENSES

Expenses are charged to each program based on direct expenditures incurred. Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff, or other reasonable methods for allocating the Academy's multiple function expenditures.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

B. Summary of Significant Accounting Policies: (continued)

INCOME TAXES

The Academy qualifies as a tax-exempt organization under section 501 (c) (3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

CASH AND CASH EQUIVALENTS

The Academy considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All accounts are insured by the Federal Deposit Insurance Corporation and the National Credit Union Administration up to a limited amount of \$250,000. During the year, some of the bank depository accounts may have exceeded federally insured limits. The Academy has not experienced any losses on such accounts.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the Academy's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

C. Budget:

The official school budget is prepared for adoption for required Governmental Fund Types. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board of Directors.

D. Pension Plan:

*Plan Description*

The Academy contributes to the Teacher Retirement System of Texas ("TRS"), 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. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas.

The plan operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800- 223-8778, or by downloading the report form the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications Heading.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

D. Pension Plan: (continued)

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district (“ISD”) may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement. The latest TRS Comprehensive Annual Financial Report available dated August 31, 2016 provided the following information (ABO refers to the accumulated benefit obligation):

Pension Fund	Total Plan Assets 2016	ABO 2016	Percent Funded
TRS	\$ 152,925,647,000	\$ 171,797,150,000	78.00%

*Funding Policy*

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 year, the period would be increased by such action. State law provides for a member contribution rate of 7.2% for the 2016 fiscal period. The state’s contribution rate as a non-employer contributing entity was 6.8% in 2016. The Academy’s employees’ contributions to the system for the year ended August 31, 2016 were \$678,820, equal to the required contributions for the year.

Other contributions made from federal and private grants and from the Academy for salaries above the statutory minimum were contributed at a rate of 6.8% totaling \$62,743 for the year ended August 31, 2016. The Charter School’s contributions into this plan do not represent more than 5% of the total contributions to the plan. The Academy was not assessed a surcharge.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

E. Note Receivable:

The Academy has a Subordinate (Second Lien) Promissory Note of \$300,000 due from a related party, Education Leads to Success Foundation. The note is receivable in monthly installments of \$1,500, including interest of 5.25% and matures August 31, 2029. As of August 31, 2016, the remaining principal balance is \$264,603.

Note receivable has the following maturities:

<u>Year ending August 31,</u>	<u>Principal</u>
2017	\$ 4,209
2018	4,435
2019	4,674
2020	4,925
2021	5,190
Thereafter	241,170
	<u>\$ 264,603</u>

F. Restricted Cash:

Restricted cash at August 31, 2016 consisted of debt service and debt service reserve fund bond cash accounts. These funds are to be solely used in the construction and acquisition of new facilities and repayment of bond liabilities and cannot be used for normal operating expenditures.

G. Bonds Payable:

The Academy has secured bond financing pursuant to Chapter 53 of the Texas Education Code, \$27,855,000 of Tax-Exempt Education Revenue Bonds, Series 2014A and \$1,585,000 of Taxable Education Revenue Bonds, Series 2014B. The bonds are limited obligations of the issuer payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower. No state, city, political corporation, subdivision, or agency of the state is pledged to the payment of the principal of premium, or interest on the bonds.

The Series 2014A Bonds are dated as of March 1, 2014, and shall mature on March 1 in the years and in the amounts set forth below, and shall bear interest at the following rates:

<b>Table - 2014A</b>		
<u>Year of Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>
2024	\$ 2,255,000	5.875%
2029	\$ 3,275,000	6.625%
2034	\$ 4,545,000	7.000%
2044	\$17,780,000	7.125%
	<u>\$ 27,855,000</u>	



LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

G. Bonds Payable: (continued)

The Series 2014B Bonds are dated as of March 1, 2014, shall mature on March 1 in the years and in the amounts set forth below, and shall bear interest at the following rate:

<b>Table - 2014B</b>		
<b>Year of Maturity</b>	<b>Amount</b>	<b>Interest Rate</b>
2021	\$ 1,585,000	7.25%

Bonds payable at August 31, 2016 consist of the following:

2014A Bonds, interest due in September 1 and March 1  
semi-annual installments, commencing September 1, 2014;  
Maturity dates range from 2024 to 2044 with various interest rates  
noted in Table – 2014A \$ 27,855,000

2014B Bonds, interest due in September 1 and March 1  
semi-annual installments, commencing September 1, 2014;  
Maturity date in 2021 with interest rate noted in Table – 2014B 1,280,000

Total	\$ 29,135,000
Less current portion of bonds payable	(345,000)
Less unamortized discount	(370,136)
Long-term portion of bonds payable net of discount	<u>\$ 28,419,864</u>

Future maturities of bond payable debt at August 31, 2016 are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 345,000	\$ 2,014,719	\$ 2,359,719
2018	370,000	1,988,800	2,358,800
2019	400,000	1,960,888	2,360,888
2020	430,000	1,933,138	2,363,138
2021	455,000	1,906,006	2,361,006
Thereafter	27,135,000	28,927,281	56,062,281
Total	<u>\$ 29,135,000</u>	<u>\$ 38,730,832</u>	<u>\$ 67,865,832</u>

The Academy must maintain a debt service reserve fund, which is required to maintain a minimum balance of \$2,140,931. At August 31, 2016, the debt service fund had a balance of \$2,514,633.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

H. Capital Lease Obligation:

The Academy's obligations under capital lease obligations consist of the following:

Noncancellable, net capital lease obligation to a bank for acquisition of 10 Blue Bird school buses. The lease began October 5, 2015; has a fixed interest rate of 5.0%; an initial balance of \$929,377; and is payable in 60 monthly installments of \$17,466. The date of maturity is September 5, 2020.	\$ 775,449
Less Current Portion	<u>(175,657)</u>
Capital Lease Payable	<u>\$ 599,792</u>

Future maturities of capital lease payable are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 175,657	\$ 34,805	\$ 210,462
2018	184,644	25,818	210,462
2019	194,091	16,371	210,462
2020	204,021	6,441	210,462
2021	17,036	73	17,109
Total	<u>\$ 775,449</u>	<u>\$ 83,508</u>	<u>\$ 858,957</u>

I. Debt Covenants:

The bond agreements contain certain restrictions and covenants. Among these requirements is a requirement that the Academy maintain a debt service coverage ratio equal to at least 110 percent the annual debt service requirements. The Academy attained a debt service coverage ratio that exceeded the established debt service coverage threshold and has complied with this requirement.

In addition, the academy is required to meet certain student enrollment targets by October 15 of each fiscal year. The Projected Enrollment Covenant requires that the school enroll at least 1,900 students in the 2015-16 school year, and 2,100 students in subsequent fiscal years. The Academy met its enrollment target for the fiscal year ended August 31, 2016 and has complied with this requirement.

The Academy is also required to maintain an operating cash reserve that covers 40 days of budgeted expenses at the end of the current fiscal year, and 45 days of budgeted expenses in fiscal years thereafter. For the fiscal year ending August 31, 2016, the Academy was required to carry \$1,795,227 in operating reserves in order to meet the budgeted expense covenant. At August 31, 2016, the Academy maintained an operating cash reserve of only \$1,520,373 and did not meet this covenant. Failure to meet the conditions established under borrowing agreements could have an adverse effect on the operations of the Academy.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

J. Temporarily Restricted Net Assets:

Temporarily restricted net assets at August 31, 2016, are available for the following periods:

Periods after August 31, 2016	\$ -0-
Total restricted funds	<u>\$ -0-</u>

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

Texas Education Agency	\$ 16,761,588
Total restrictions released	<u>\$ 16,761,588</u>

K. Operating Lease Commitment:

The Academy is currently leasing its building and equipment on non-cancelable operating leases. The Academy's minimum annual lease commitments are as follows:

<u>Year ending August 31,</u>	<u>Amount</u>
2017	\$ 662,001
2018	652,844
2019	630,020
2020	616,489
2021	616,489
Thereafter	4,546,656
	<u>\$ 7,724,499</u>

Operating lease expense amounted to \$754,834 for the year ended August 31, 2016.

L. Commitments and Contingencies:

The charter school receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the 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. The Academy is economically dependent on these charter school funds.

M. Health Care Coverage:

During the year ended August 31, 2016 employees of the Academy were covered by a health insurance plan. The school contributed \$225 per month per employee (depending upon coverage selected) to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

N. Related Party Transaction:

During the year ended August 31, 2016 the Academy contracted the President of the Board of Directors to provide PEIMS services. The amount paid to him during the year totaled \$68,400.

The Academy contracted the Secretary of the Board to provide administrative services. The amounts paid to her during the year totaled \$82,056.

The Academy leases space from Education Leads to Success (“ELTS”), at a monthly rate of \$51,374. ELTS is directed and managed by the Superintendent of Universal Academy, Inc. The amount paid to ELTS during the year totaled \$616,489.

The Academy contracted Universal Satori Learning Centers, Inc. (“USLC”) as a general contractor for building renovation and upkeep. The Academy’s Superintendent, Director of Administrative Services, Board President, and Board Secretary also serve as directors of USLC. The amounts paid to USLC during the year totaled \$59,406. USLC also provides extended day services to students in grades K-12.

O. Conditional Pledge:

The Organization received a conditional pledge in the amount of \$1,000,000 from ELTS, a related party, conditioned upon ELTS’ future ability to refinance real estate debt. The pledge has not been recognized in the financial statements as of August 31, 2016.

P. Evaluation of Subsequent Events:

The Organization has evaluated subsequent events through December 21, 2016, the date which the financial statements were available to be issued.

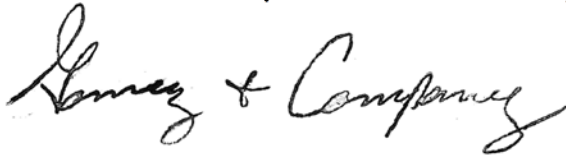
**GOMEZ & COMPANY**  
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**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION**

To The Board of Directors of  
LTTS Charter School, Inc. dba Universal Academy  
Irving, Texas

We have audited the financial statements of LTTS Charter School, Inc. dba Universal Academy ("the Academy") as of and for the year ended August 31, 2016, and our report thereon dated December 21, 2016, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules for Individual Charter School are presented on pages 16 to 18 for the purposes of additional analysis and are 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.



Houston, TX  
December 21, 2016



LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

SCHEDULE OF CAPITAL ASSETS

FOR THE YEAR ENDED AUGUST 31, 2016

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 4,035,537	\$
1510 Land		5,735,708	
1520 Buildings and Improvements		18,472,602	
1530 Furniture and Equipment		1,907,019	28,794
1531 Vehicles		1,161,663	
Total Capital Assets	<u>\$</u>	<u>\$ 31,312,529</u>	<u>\$ 28,794</u>

See accompanying notes to financial statements.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2016

**Expenses**

6100 Payroll Costs	\$ 9,768,451
6200 Professional and Contracted Services	3,759,333
6300 Supplies and Materials	206,815
6400 Other Operating Costs	1,399,630
6500 Debt	<u>2,224,703</u>
Total Expenses	<u>\$ 17,358,932</u>

See accompanying notes to financial statements.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Support:				
5740 Other Revenues from Local Sources	\$ 220,818	\$ 1,236,688	\$ 515,456	\$ (721,232)
5750 Revenues from Cocurricular Activities			9,649	9,649
Total Local Support	220,818	1,236,688	525,105	(711,583)
State Program Revenues:				
5810 Foundation School Program Act Revenues			15,750,117	15,750,117
5820 State Program Revenues Distributed by				
Texas Education Agency	15,953,309	15,702,099	41,063	(15,661,036)
Total State Program Revenues	15,953,309	15,702,099	15,791,180	89,081
Federal Program Revenues:				
5920 Federal Revenues Distributed by				
Texas Education Agency	1,036,765	1,041,391	970,408	(70,983)
Total Federal Program Revenues	1,036,765	1,041,391	970,408	(70,983)
Total Revenues	17,210,892	17,980,178	17,286,693	(693,485)
<b>EXPENSES</b>				
11 Instruction	6,920,332	8,034,020	7,772,887	261,133
12 Instructional Resources and Media Services	279,702	287,103	279,931	7,172
13 Curriculum Development and Instructional Staff Development	1,027		4,090	(4,090)
21 Instructional Leadership	132,725	105,889	124,023	(18,134)
23 School Leadership	496,892	397,417	373,710	23,707
31 Guidance, Counseling, and Evaluation Services	130,288	133,268	271,515	(138,247)
33 Health Services	133,587	137,488	118,268	19,221
34 Student (Pupil) Transportation	540,753	708,928	599,648	109,280
35 Food Service	391,974	450,367	378,680	71,687
36 Cocurricular/Extracurricular Activities	45,850	41,869	480,854	(438,985)
41 General Administration	1,371,347	1,386,870	1,279,705	107,165
51 Plant Maintenance and Operations	2,448,579	2,455,752	2,504,550	(48,798)
52 Security and Monitoring Services	488,234	533,369	484,964	48,405
53 Data Processing Services	174,342	318,825	304,089	14,736
71 Debt Service	2,180,600	2,289,481	2,224,703	64,778
81 Fund Raising		157,174	157,315	(141)
Total Expenses	15,736,232	17,437,820	17,358,931	78,889
Change in Net Assets	1,474,660	542,358	(72,238)	(614,596)
Net Assets, Beginning of Year	(340,228)	(340,228)	(340,228)	
Net Assets at End of Year	\$ 1,134,432	\$ 202,130	\$ (412,466)	\$ (614,596)

See accompanying notes to financial statements.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of  
LTTS Charter School, Inc. dba Universal Academy  
Irving, 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 LTTS Charter School, Inc. dba Universal Academy ("the Academy") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, 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 December 21, 2016.

**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.

**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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Hamez & Company". The signature is written in black ink and is positioned above the printed text of the location and date.

Houston, TX  
December 21, 2016



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

To The Board of Directors of  
LTTS Charter School, Inc. dba Universal Academy  
Irving, Texas

**Report on Compliance for Each Major Federal Program**

We have audited LTTS Charter School, Inc. dba Universal Academy ("the Academy") (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended August 31, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2016.

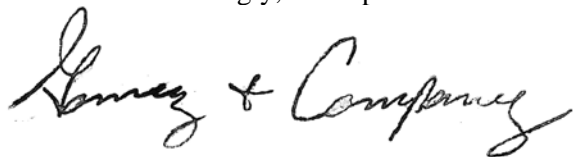
## Report on Internal Control Over Compliance

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

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

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

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



Houston, TX  
December 21, 2016

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2016

Summary of Audit Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements were prepared in accordance with GAAP.
2. No significant deficiencies or material weaknesses on internal control over financial statements.
3. No instances of noncompliance material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses on internal control over major federal award programs.
5. The auditor's report on compliance for the major federal award programs expresses an unmodified opinion on all major federal programs.
6. The audit did not disclose any audit findings which are required to be reported in accordance with 2 CFR section 200.516(a).
7. Major programs:  
  
    U.S. Department of Education  
    Passed through the Texas Education Agency  
    Title I, Part A  
  
    CFDA Number 84.010A
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. The Academy qualifies as a low-risk auditee.

Current Year Findings

No audit findings were noted as per governmental auditing standards and 2 CFR section 200.516(a).

Questioned  
Costs

\$ -0-

Summary Schedule of Prior Year Findings

No audit findings were noted as per Section .300 (f) of OMB A-133 for the year ended August 31, 2015.

\$ -0-

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2016

Federal Grantor/ Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass - Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed - Through Texas Education Agency:			
ESEA, Title I, Part A, Improving Basic Skills	84.010A	16610101057808	\$ 263,333
Title II, Part A, Teacher/Principal Training & Recruiting	84.367A	16694501057808	56,026
Idea - B Formula	84.027A	166600010578086000	227,647
Title III, PART A-LEP	84.365A	15671001057808	2,453
Title III, PART A-LEP	84.365A	16671001057808	46,470
LEP Summer School	84.369A	69551602	2,200
Total U.S. Department of Education			<u>598,129</u>
<u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
Breakfast	10.553	71401501	10,182
Breakfast	10.553	71401601	62,940
Lunch	10.555	71301501	29,376
Lunch	10.555	71301601	246,682
Passed - Through Texas Department of Agriculture			
USDA Commodity Food Distribution	10.555		<u>23,099</u>
Total U.S. Department of Agriculture			<u>372,279</u>
Total Expenditures of Federal Awards			<u>\$ 970,408</u>

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2016

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying schedule of expenditures of federal awards ("the Schedule") includes federal award activity of LTTS Charter School, Inc. dba Universal Academy ("the Academy") under programs of the federal government for the year ended August 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operation of the Academy, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Academy.

***Summary of Significant Accounting Policies***

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

***Indirect Cost Rate***

The Academy has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.