

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED AUGUST 31, 2019

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

CERTIFICATE OF BOARD
August 31, 2019

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, 2019, at a meeting of the governing body of said charter holder on the 23rd day of January, 2020.



Signature of Board Secretary



Signature of Board President

GOMEZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2019, 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, 2019, 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 January 23, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Loney & Company". The signature is written in black ink and is positioned above the typed name and date.

Houston, TX
January 23, 2020

LTTS CHARTER SCHOOL, INC. DBA UNIVERSAL ACADEMY

STATEMENT OF FINANCIAL POSITION

August 31, 2019

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 261,899
Restricted Cash	3,849,192
Grants Receivable	1,210,398
TOTAL CURRENT ASSETS	<u>5,321,489</u>
PROPERTY AND EQUIPMENT	
Land	5,813,423
Building and Improvements	18,506,873
Furniture and Equipment	1,565,420
Vehicles	1,161,663
	<u>27,047,379</u>
Less: Accumulated Depreciation	<u>(4,423,684)</u>
	<u>22,623,695</u>
OTHER ASSETS	
Certificate of Deposit	2,049,848
Prepays	50,473
TOTAL OTHER ASSETS	<u>2,100,321</u>
TOTAL ASSETS	<u>\$ 30,045,505</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable	\$ 337,110
Accrued Wages	836,614
Accrued Liabilities	107,020
Bond Interest Payable	974,166
Current Portion of Capital Lease	193,847
Current Portion of Bonds Payable	430,000
TOTAL CURRENT LIABILITIES	<u>2,878,757</u>
NONCURRENT LIABILITIES	
Capital Lease Payable, Net of Current Portion	26,941
Bonds Payable, Net of Discount, Issuance Costs and Current Portion	26,677,114
TOTAL NONCURRENT LIABILITIES	<u>26,704,055</u>
TOTAL LIABILITIES	<u>29,582,812</u>
NET ASSETS	
Without Donor Restrictions	462,693
With Donor Restrictions	
TOTAL NET ASSETS	<u>462,693</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,045,505</u>

LTTS CHARTER SCHOOL, INC. DBA UNIVERSAL ACADEMY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES			
Federal Program Revenues	\$	\$ 972,694	\$ 972,694
State Program Revenues		17,520,914	17,520,914
Contributions	700,000		700,000
Interest Income	127,931		127,931
Other Income	130,699		130,699
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	<u>18,493,608</u>	<u>(18,493,608)</u>	
Total Revenues	<u>19,452,238</u>		<u>19,452,238</u>
EXPENSES			
Program Services			
Instruction and Instructional-Related Services	9,992,798		9,992,798
Instructional and School Leadership	790,333		790,333
Ancillary Services	40,262		40,262
Support Services- Student (Pupil)	<u>1,750,718</u>		<u>1,750,718</u>
Total Program Services	12,574,111		12,574,111
Support Services			
Administrative Support Services	1,228,006		1,228,006
Support Services- Non-Student Based	3,349,560		3,349,560
Debt Service	2,125,668		2,125,668
Fundraising	<u>87,799</u>		<u>87,799</u>
Total Support Services	6,791,033		6,791,033
 Total Expenses	 <u>19,365,144</u>		 <u>19,365,144</u>
 CHANGE IN NET ASSETS	 <u>87,094</u>		 <u>87,094</u>
NET ASSETS, beginning of year	<u>375,599</u>		<u>375,599</u>
NET ASSETS, end of year	<u>\$ 462,693</u>	<u>\$</u>	<u>\$ 462,693</u>

LTTS CHARTER SCHOOL, INC. DBA UNIVERSAL ACADEMY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019

	Program Services	Supporting Services			Total
	Program Expense	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 9,893,131	\$ 1,031,046	\$	\$ 1,031,046	\$ 10,924,177
Employee benefits	618,269	50,406		50,406	668,675
Payroll Taxes	184,620	18,158		18,158	202,778
Professional Fees	894,594	1,064,097	87,799	1,151,896	2,046,490
Utilities		407,280		407,280	407,280
Travel	82,333	3,213		3,213	85,546
Interest expense		1,987,310		1,987,310	1,987,310
Insurance		195,437		195,437	195,437
Depreciation	82,005	678,398		678,398	760,403
Amortization		138,358		138,358	138,358
Supplies	683,781	73,748		73,748	757,529
Rental and Maintenance of Equipment	37,749	904,936		904,936	942,685
Miscellaneous Expenses	70,166	26,120		26,120	96,286
Repairs and Maintenance	27,463	124,727		124,727	152,190
	\$ 12,574,111	\$ 6,703,234	\$ 87,799	\$ 6,791,033	\$ 19,365,144

See accompanying notes to financial statements.

LTTS CHARTER SCHOOL, INC. DBA UNIVERSAL ACADEMY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 87,094
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	760,403
Amortization expense	138,358
(Increase) decrease in Grants Receivable	48,344
(Increase) decrease in Prepaid Expenses	901
(Increase) decrease in Pledges Receivable	1,300,000
Increase (decrease) in Accounts Payable	8
Increase (decrease) in Accrued Wages	15,343
Increase (decrease) in Accrued Liabilities	94,319
Increase (decrease) in Bond Interest Payable	<u>(14,500)</u>

NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES 2,430,270

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Certificate of Deposit	<u>(2,049,848)</u>
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NET CASH PROVIDED (USED) BY INVESTMENT ACTIVITIES (2,049,848)

CASH FLOWS FROM FINANCING ACTIVITIES

Repayment of Loans	(2,693,855)
Repayment of Bonds	<u>(400,000)</u>

NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES (3,093,855)

NET INCREASE (DECREASE) IN CASH (2,713,433)

CASH AT BEGINNING OF YEAR 6,824,524

CASH AT END OF YEAR \$ 4,111,091

SUPPLEMENTAL DISCLOSURES

CASH PAID DURING THE YEAR FOR:

Interest	<u><u>\$ 1,987,310</u></u>
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LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

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 financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. 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 two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

NEW ACCOUNTING PRONOUNCEMENT

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two – net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the organization, including required disclosures about liquidity and availability of resources and increased disclosures on August 31, 2019 and thereafter and must be applied on a retrospective basis. The organization adopted the ASU effective September 1, 2018. Adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.

CLASSIFICATION OF NET ASSETS

Net assets of the organization are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

Net Assets Without Donor Restrictions – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

B. Summary of Significant Accounting Policies: (Continued)

CLASSIFICATION OF NET ASSETS (CONTINUED)

Net Assets with Donor Restrictions – Assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the organization. Certain restrictions may need to be maintained in perpetuity.

Earnings related to restricted net assets will be included in net assets without donor-restrictions unless otherwise specifically required to be included in donor-restricted net assets by the donor or by applicable state law.

On occasion, the governing board may designate a portion of net assets without donor restrictions for a specific purpose. Designated net assets are not governed by donor-imposed restrictions and may be reversed by the governing board at any time.

SUPPORT AND REVENUE

Support and revenue are recorded based on the accrual method.

PRESENTATION OF DEBT ISSUANCE COSTS

The Academy presents debt issuance costs within the statement of financial position as a direct deduction from the face amount of the debt. Amortization of debt issuance costs is reported as interest expense. Debt issuance costs are recognized at historical cost as incurred. The cost of issuance of bonds is amortized over the life of each bond. The Academy nets issuance costs against long-term bonds payable amounts.

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 with donor restrictions and without donor restrictions support depending on the existence or nature of any donor restrictions.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

B. Summary of Significant Accounting Policies: (Continued)

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 \$5,000 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 net assets without donor restrictions.

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.

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 the net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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.

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. Each account is insured by the Federal Deposit Insurance Corporation up to a maximum 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.

LTTs CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

B. Summary of Significant Accounting Policies: (Continued)

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. Liquidity and Availability of Financial Assets:

The following reflects the Organization’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

Financial assets at year-end		
Cash	\$	4,111,091
Accounts Receivable		1,210,398
Total Financial assets at year-end	\$	<u>5,321,489</u>
Less those unavailable for general expenditures within one year, due to:		
Donor-restricted imposed restrictions as to use or time:		-
Financial assets available to meet cash needs for general expenditure within one year	\$	<u>5,321,489</u>

The Organization manages its liquid assets conservatively within standard depository bank accounts at national banks. Cash is managed to provide sufficient funds for meeting program expenditures of the Organization.

E. 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.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

E. Pension Plan: (Continued)

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, under the TRS Publications Heading.

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, 2019 provided the following information (ABO refers to the accumulated benefit obligation):

Pension Fund	Total Plan Assets 2019	ABO 2019	Percent Funded
TRS	\$ 181,800,159,000	\$ 209,961,325,000	76.40%

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 7.7% for the 2019 fiscal period. The state’s contribution rate as a non-employer contributing entity was 6.8% in 2019. The Academy’s employees’ contributions to the system for the year ended August 31, 2019 were \$834,648 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 \$44,872 for the year ended August 31, 2019. 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, 2019

F. 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:

<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>	

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:

<u>Year of Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>
2021	\$ 1,585,000	7.25%

Bonds payable at August 31, 2018 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 165,000

Total	<u>\$ 28,020,000</u>
Less current portion of bonds payable	(430,000)
Less unamortized discount	(312,698)
Net of unamortized bond issuance costs	(600,188)
Long-term portion of bonds payable net of discount	<u>\$ 26,677,114</u>

Future maturities of bond payable debt at August 31, 2019 are as follows:

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

F. Bonds Payable: (Continued)

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 430,000	\$ 1,933,138	\$ 2,363,138
2020	455,000	1,906,006	2,361,006
2021	485,000	1,877,878	2,362,878
2022	510,000	1,848,650	2,358,650
2023	540,000	1,817,806	2,357,806
Thereafter	25,600,000	23,382,947	48,982,947
Total	<u>\$ 28,020,000</u>	<u>\$ 32,766,425</u>	<u>\$ 60,786,425</u>

The Academy must maintain a debt service reserve fund. At August 31, 2019, the debt service fund had a balance of \$2,380,875.

G. Capital Lease Obligation:

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

Noncancelable, 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.

	\$ 220,788
Less Current Portion	<u>(193,847)</u>
Capital Lease Payable	<u>\$ 17,388</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>
2020	\$ 193,847	\$ 6,188	\$ 200,035
2021	26,941	70	27,011
2022	-	-	-
2023	-	-	-
2024	-	-	-
Total	<u>\$ 220,788</u>	<u>\$ 6,258</u>	<u>\$ 227,046</u>

H. 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.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

H. Debt Covenants: (Continued)

In addition, the Academy is required to meet certain student enrollment targets by October 1 of each fiscal year. The Projected Enrollment Covenant requires that the school enroll at least 2,100 students in the 2016-17 school year and in subsequent fiscal years. The Academy did not meet its enrollment target for the fiscal year ended August 31, 2019.

The Academy is also required to maintain an operating cash reserve that covers 45 days of budgeted expenses at the end of the current fiscal year, and in fiscal years thereafter. For the fiscal year ending August 31, 2019, the Academy failed to maintain the required level of cash on hand. Management believes this shortcoming can also be cured within the next fiscal year. Failure to meet the conditions established under borrowing agreements could have an adverse effect on the operations of the Academy.

I. 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>
2020	\$ 1,237,468
2021	789,410
2022	789,410
2023	785,842
2024	768,000
Thereafter	3,840,000
	<u>\$ 8,210,132</u>

Operating lease expense amounted to \$942,685 for the year ended August 31, 2019.

J. Net Assets with Donor Restrictions:

Net assets with donor restrictions at August 31, 2019 are restricted as follows:

Periods after August 31, 2019	\$ _____ -
Total restricted funds	<u>\$ _____ -</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-Federal	\$ 972,694
Texas Education Agency-State	<u>17,520,914</u>
Total restrictions released	<u>\$ 18,493,608</u>

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

K. Health Care Coverage:

During the year ended August 31, 2019 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.

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. Related Party Transaction:

During the year ended August 31, 2019 a Board Member which has a contract to provide various consulting services such as marketing and Web maintenance, was renewed for 2018-2019. The amount received totaled 98,500.

Education Leads to Success (“ELTS”), a related entity, is directed and managed by the Superintendent of the Academy. The Academy leases space at two different properties from ELTS, at monthly rates of \$64,000 and \$25,000, respectively. The rent paid to ELTS during the year totaled \$752,251. The Academy has pledged a two-million-dollar certificate of deposit as collateral for loans belonging to ELTS totaling \$3,082,197 at August 31, 2019. The loans associated with the certificate of deposit were repaid in full by ELTS as of December 13, 2019. The Academy also received a contribution from ELTS of \$700,000 during the year.

N. Certificate of Deposit:

The Academy acquired on October 26, 2018 a 36-month certificate of deposit with an interest rate of 2.96%. The certificate of deposit matures on October 26, 2021. Investments in the certificate of deposit total \$2,049,848 at August 31, 2019. The certificate of deposit is collateral on loans obtain by Education Leads to Success, a related party. See Note M.

O. Restricted Cash:

Restricted cash at August 31, 2019 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.

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2019

P. Evaluation of Subsequent Events:

The Organization has evaluated subsequent events through January 23, 2020, the date which the financial statements were available to be issued.

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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, 2019, and our report thereon dated January 23, 2020, 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 dated August 31, 2019, and appearing on pages 18 to 21, are presented for 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
January 23, 2020

LTTS CHARTER SCHOOL, INC. DBA UNIVERSAL ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
Local Support:			
5740 Other Revenues from Local Sources	\$ 953,558	\$	\$ 953,558
5750 Revenue from Cocurricular Activities	5,072		5,072
Total Local Support	958,630		958,630
State Program Revenues:			
5810 Foundation School Program Act Revenues		17,169,639	17,169,639
5820 State Program Revenues Distributed by Texas Education Agency		351,275	351,275
Total State Program Revenues		17,520,914	17,520,914
Federal Program Revenues:			
5920 Federal Revenue Distributed by Texas Department of Agriculture		972,694	972,694
Total Federal Program Revenues		972,694	972,694
Net Assets Released from Restrictions:			
Restrictions Satisfied by Payments	18,493,608	(18,493,608)	
Total Revenues	19,452,238		19,452,238
EXPENSES			
11 Instruction	9,171,636		9,171,636
12 Instructional Resources and Media Services	120,949		120,949
13 Curriculum Development and Instructional Staff Development	700,212		700,212
21 Instructional Leadership	197,896		197,896
23 School Leadership	592,437		592,437
31 Guidance, Counseling and Evaluating Services	194,019		194,019
33 Health Services	157,241		157,241
34 Student (Pupil) Transportation	886,143		886,143
35 Food Services	368,436		368,436
36 Cocurricular/Extracurricular Activities	144,880		144,880
41 General Administration	1,228,006		1,228,006
51 Plant Maintenance and Operations	2,667,732		2,667,732
52 Security and Monitoring Services	400,596		400,596
53 Data Processing Services	281,232		281,232
61 Community Services	40,262		40,262
71 Debt Service	2,125,668		2,125,668
81 Fundraising	87,799		87,799
Total Expenses	19,365,144		19,365,144
CHANGE IN NET ASSETS	87,094		87,094
NET ASSETS, beginning of year	375,599		375,599
NET ASSETS, end of year	\$ 462,693	\$	\$ 462,693

LTTS CHARTER SCHOOL, INC. DBA UNIVERSAL ACADEMY
 SCHEDULE OF CAPITAL ASSETS
 FOR THE YEAR ENDED AUGUST 31, 2019

	Ownership Interest		
	Local	State	Federal
1110 Cash	\$	\$ 4,111,091	\$
1910 Certificate of Deposit	2,049,848		
1520 Land		5,813,423	
1520 Building and Improvements		18,506,873	
1531 Vehicles		1,161,663	
1539 Furniture and Equipment		1,519,289	2,500
1549 Furniture and Equipment		43,631	
Total Capital Assets	\$ 2,049,848	\$ 31,155,970	\$ 2,500

LTTS CHARTER SCHOOL, INC. DBA UNIVERSAL ACADEMY
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2019

EXPENSES

6100 Payroll Costs	\$ 11,795,630
6200 Professional and Contracted Services	3,548,645
6300 Supplies and Materials	822,123
6400 Other Operating Costs	1,073,078
6500 Debt	<u>2,125,668</u>
Total Expenses	<u><u>\$ 19,365,144</u></u>

LTTS CHARTER SCHOOL, INC. DBA UNIVERSAL ACADEMY
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2019

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
REVENUES, GAINS AND OTHER SUPPORT				
Local Support:				
5740 Other Revenues from Local Sources	\$ 23,866	\$ 23,866	\$ 953,558	\$ 929,692
5750 Revenue from Cocurricular Activities	52,234	52,234	5,072	(47,162)
Total Local Support	<u>76,100</u>	<u>76,100</u>	<u>958,630</u>	<u>882,530</u>
State Program Revenues:				
5810 Foundation School Program Act Revenues	17,378,000	17,378,000	17,169,639	(208,361)
5820 State Program Revenues Distributed by Texas Education Agency	57,400	57,400	351,275	293,875
Total State Program Revenues	<u>17,435,400</u>	<u>17,435,400</u>	<u>17,520,914</u>	<u>85,514</u>
Federal Program Revenues:				
5920 Federal Revenues Distributed by Texas Education Agency	1,014,500	1,014,500	972,694	(41,806)
Total Federal Program Revenues	<u>1,014,500</u>	<u>1,014,500</u>	<u>972,694</u>	<u>(41,806)</u>
Total Revenues	<u>18,526,000</u>	<u>18,526,000</u>	<u>19,452,238</u>	<u>926,238</u>
EXPENSES				
11 Instruction	8,482,000	8,482,000	9,171,636	(689,636)
12 Instructional Resources and Media Services	109,500	109,500	120,949	(11,449)
13 Curriculum Development and Instructional Staff Development	897,400	897,400	700,212	197,188
21 Instructional Leadership	205,400	205,400	197,896	7,504
23 School Leadership	510,700	510,700	592,437	(81,737)
31 Guidance, Counseling and Evaluating Services	354,300	354,300	194,019	160,281
33 Health Services	145,100	145,100	157,241	(12,141)
34 Student (Pupil) Transportation	908,900	908,900	886,143	22,757
35 Food Services	453,700	453,700	368,436	85,264
36 Cocurricular/Extracurricular Activities	157,500	157,500	144,880	12,620
41 General Administration	1,206,200	1,206,200	1,228,006	(21,806)
51 Plant Maintenance and Operations	2,318,100	2,318,100	2,667,732	(349,632)
52 Security and Monitoring Services	439,300	439,300	400,596	38,704
53 Data Processing Services	270,300	270,300	281,232	(10,932)
61 Community Services			40,262	(40,262)
71 Debt Service	1,992,400	1,992,400	2,125,668	(133,268)
81 Fundraising	75,200	75,200	87,799	(12,599)
Total Expenses	<u>18,526,000</u>	<u>18,526,000</u>	<u>19,365,144</u>	<u>(839,144)</u>
CHANGE IN NET ASSETS			<u>87,094</u>	<u>87,094</u>
NET ASSETS, beginning of year			<u>375,599</u>	<u>375,599</u>
NET ASSETS, end of year			<u>\$ 375,599</u>	<u>\$ 462,693</u>
			<u>\$ 462,693</u>	<u>\$ 87,094</u>

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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, 2019, 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 23, 2020.

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.

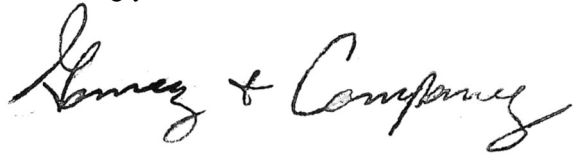
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 "Ramirez & Company". The signature is written in black ink and is positioned above the typed text.

Houston, TX
January 23, 2020

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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, 2019. 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, 2019.

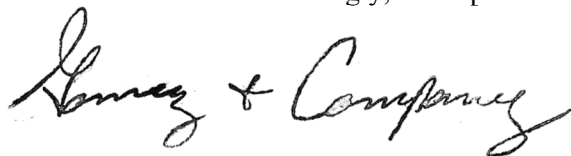
Report on Internal Control Over Compliance

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
January 23, 2020

LTTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2019

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 Texas Education Agency
 - IDEA-B Formula* CFDA Number 84.010A
 - IDEA-B Preschool* CFDA Number 84.173A
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.

<u>Current Year Findings</u>	<u>Questioned Costs</u>
No audit findings were noted as per governmental auditing standards and 2 CFR section 200.516(a).	<u>\$ -0-</u>

<u>Summary Schedule of Prior Year Findings</u>	
No audit findings were noted as per governmental auditing standards and 2 CFR section 200.516(a) for the year ended August 31, 2018.	<u>\$ -0-</u>

* Denotes cluster

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2019

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	19610101057808	\$ 232,956
Title II, Part A, Teacher/Principal Training & Recruiting	84.367A	19694501057808	36,834
ESEA, Title III, Part A, LEP	84.365A	19671001057808	57,906
Idea - B Preschool	84.173A	196610010578086000	3,640
Idea - B Formula	84.027A	196600010578086000	285,543
Title IV, Part A: Student Support and Academic Enrichment Program (SSAE)	84.424A	19680101057808	15,131
Total U.S. Department of Education			632,010
<u>U.S. Department of Agriculture</u>			
Passed - Through Texas Education Agency			
Federal Food Service Reimbursement			
Breakfast	10.553	71401801	7,974
Breakfast	10.553	71401901	61,218
Lunch	10.555	71301801	28,671
Lunch	10.555	71301901	220,761
Passed - Through Texas Department of Agriculture			
USDA Commodity Food Distribution	10.555		22,060
Total U.S. Department of Agriculture			340,684
Total Expenditures of Federal Awards			\$ 972,694

LTTS CHARTER SCHOOL, INC. dba UNIVERSAL ACADEMY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2019

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, 2019. 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.

Subrecipients

The Organization did not provide federal awards to subrecipients.