

UNIVERSITY OF TEXAS  
UNIVERSITY CHARTER SCHOOL

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2017*

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University of Texas-University Charter School  
Annual Financial Report  
For The Year Ended August 31, 2017

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
<b>INTRODUCTORY SECTION</b>		
Certificate of Board.....	1	
<b>FINANCIAL SECTION</b>		
Independent Auditors' Report.....	2	
Management's Discussion and Analysis (Required Supplementary Information).....	5	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	10	A-1
Statement of Activities.....	11	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	12	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	13	C-1R
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	14	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	15	C-3
Notes to the Financial Statements .....	16	
<u>Required Supplementary Information</u>		
Budgetary Comparison Schedules:		
General Fund.....	29	G-1
Schedule of the School's Proportionate Share of the		
Net Pension Liability - Teacher Retirement System Of Texas.....	30	G-2
Schedule of School's Contributions - Teacher Retirement System Of Texas.....	32	G-3
Notes to Required Supplementary Information.....	34	
<u>Combining Statements and Budgetary Comparison Schedules as Supplementary Information:</u>		
Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	35	H-1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Special Revenue Funds.....	37	H-2
Budgetary Comparison Schedule:		
Special Revenue Fund.....	39	H-3
<b>OTHER SUPPLEMENTARY INFORMATION SECTION</b>		
Schedule of Expenditures by Object Code - General Special Revenue Funds.....	40	J-1
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	41	
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Title 2 CFR Part 200 (Uniform Guidance).....	43	
Schedule of Findings and Questioned Costs .....	45	
Schedule of Expenditures of Federal Awards .....	46	K-1
Notes to the Schedule of Expenditures of Federal Awards.....	47	
Schedule of Required Responses to Selected School First Indicators.....	48	K-2

*Introductory Section*

CERTIFICATE OF BOARD

University of Texas-University Charter School  
Name of School District

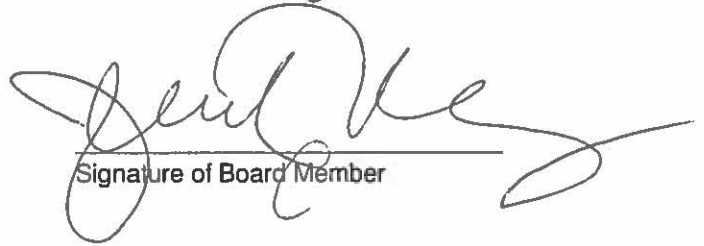
Travis  
County

227-806  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one)  approved  disapproved for the year ended August 31, 2017, at a meeting of the Advisory Board of such charter school on the 17 day of January, 2018.

Eura Rosales

Signature of Vice Chairman



Signature of Board Member

If the Advisory Board disapproved of the auditors' report, the reason(s) for disapproving it is (are):  
(attach list as necessary)

*Financial Section*

**WEST, DAVIS & COMPANY, LLP**  
11824 Jollyville Road, Suite 100  
Austin, Texas 78759

**Independent Auditors' Report**

To the Advisory Board  
University of Texas-University Charter School  
Austin, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the University of Texas-University Charter School ("the School") as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

**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.

**Auditors' Responsibility**

Our responsibility is to express opinions 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 School'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 School'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 opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of University of Texas-University Charter School as of August 31, 2017, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the School's proportionate share of the net pension liability and schedule of School pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University of Texas-University Charter School's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2018 on our consideration of University of Texas-University Charter School'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 University of Texas-University Charter School's internal control over financial reporting and compliance.

West, Davis & Company

West, Davis & Company, LLP  
Austin, TX  
January 8, 2018



## University of Texas-University Charter School

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the Annual Financial and Compliance Report presents management's discussion and analysis of University of Texas-University Charter School's (the School) financial performance for the fiscal year ended August 31, 2017. This section of the report should be read in conjunction with the independent auditors' report on page 2, and the School's financial statements, which begin on page 10.

#### **FINANCIAL HIGHLIGHTS**

- At year end the School had a deficit net position of \$5.7 million. This is primarily the result of the School's net pension liability of \$4.1 million dollars (see note G to the financial statements) and other post-employment benefits of \$3.2 million (see note L to the financial statements).
- During the year, the School had operating expenses totaling \$10.5 million.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The School is considered a governmental organization for accounting, financial reporting, and auditing purposes. Organizations other than public corporations and bodies corporate and politic are classified as governmental organizations if they have one or more of the following characteristics:

- Popular election of officers or appointment (or approval) of a controlling majority of the members of the organization's governing body by officials of one or more state or local governments;
- The potential for unilateral dissolution by a government with the net position reverting to a government; or
- The power to enact and enforce a tax levy.

The School has the potential for unilateral dissolution by The University of Texas at Austin or the Texas Education Agency. Therefore, the School exhibits one of the characteristics and is considered to be a governmental organization for accounting, financial reporting, and auditing purposes.

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities on pages 10 through 11. These provide information about the activities of the School as a whole and present a longer-term view of the School's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements, starting on page 12, report the School's operations in more detail than the government-wide statements by providing information about the School's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for the budget.

The notes to the financial statements starting on page 16 provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The section labeled Other Supplementary Information Section contains data used by monitoring or regulatory agencies for assurance that the School is using funds supplied in compliance with the terms of grants.

This report consists of three parts – *management’s discussion and analysis* (this section), *independent auditor’s opinion*, and *basic financial statements*.

The basic financial statements include:

- Statement of Net Position includes all of the School’s assets and liabilities. The difference between the School’s assets and liabilities is its net assets. Net position is presented in two components – unrestricted and restricted.
- Statement of Activities reports all of the School’s revenues and expenses. The statement measures the results of the School’s operations.
- Fund financial statements report the School’s operations in more detail.
- The Notes to the Financial Statements present information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. The notes are an integral part of the basic financial statements.

## **FINANCIAL ANALYSIS OF THE SCHOOL**

### **Reporting the School as a Whole**

#### ***The Statement of Net Position and the Statement of Activities***

The analysis of the School's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the School is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the School's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the School's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. the School's revenues are divided into those provided by outside parties who share the costs of some programs, such as grants provided by the U.S. Department of Education to assist children with disabilities and/or from disadvantaged backgrounds (program revenues), and revenues provided by TEA in equalization funding processes (general revenues). All the School's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years (such as workers' compensation claims).

These two statements report the School's net position and changes in it. The School's net position (the difference between assets and liabilities) provide one measure of the School's financial health, or financial position. Over time, increases or decreases in the School's net position is one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the School, however, you should consider non-financial factors as well, such as changes in the School's average daily attendance.

In the Statement of Net Position and the Statement of Activities, we divide the School into two kinds of activities:

- Governmental activities—Most of the School's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. State and federal grants finance most of these activities.
- Business-type activities—the School charges a fee to “customers” to help it cover all or most of the cost of services it provides in the child care programs. The School has no such business-type activities.

## **Reporting the School's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements begin on page 12 and provide detailed information about the most significant funds—not the School as a whole. Laws and contracts require the School to establish some funds. The School's administration establishes many other funds to help it control and manage money for particular purposes. The School has only one kind of fund—governmental.

- Governmental funds—the School's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the School's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the School's governmental activities.

Net position of the School's governmental activities decreased from a deficit \$5.3 million to a deficit of \$5.7 million. Unrestricted net position – the part of the net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was a deficit of \$5.7 million at August 31, 2017. This decrease in governmental net position was primarily due to little change in the School's proportionate share of the Net Pension Liability of the Teacher Retirement System (\$4.1 million) and the School's proportionate share of Other Post- Employment Benefits (\$3.2 million). Deferred outflows at year end exceeded deferred inflows by \$155 thousand.

Total government-wide revenues increased from \$9 million to \$10.1 million or 12%. Total government-wide expenses increased from \$9.2 million to \$10.5 million or 14%.

**Table I**  
**University of Texas-University Charter School**

**NET POSITION**  
in thousands

	Governmental Activities	
	2017	2016
Current and other assets	1,520	1,467
Capital assets	-	-
Total assets	<u>1,520</u>	<u>1,467</u>
Deferred Outflow Related to Pensions	<u>957</u>	<u>597</u>
Long-term liabilities	7,348	6,438
Other liabilities	47	37
Total liabilities	<u>7,395</u>	<u>6,475</u>
Deferred Inflow Related to Pensions	<u>802</u>	<u>850</u>
Total net position	<u>(5,720)</u>	<u>(5,261)</u>

**Table II**  
**University of Texas - University Charter School**

**CHANGES IN NET POSITION**  
in thousands

	Governmental Activities	
	2017	2016
Grants and Contributions:		
Operating Grants and Contributions	1,153	1,554
Not Restricted	8,928	7,815
Total Grants and Contributions	<u>10,081</u>	<u>9,369</u>
Operating Expenses:		
Instructional	7,104	6,298
Instructional and School Leadership	1,527	1,145
Student Support Services	635	546
Cocurricular/Extracurricular	2	0
General Administration	612	720
Plant Maintenance & Operation	141	121
Data Processing	352	235
Communtiy Services	0	0
Fund Raising	167	118
Total Operating Expenses	<u>10,540</u>	<u>9,183</u>
Change in Net Positon	<u>(459)</u>	<u>186</u>

## **NET PENSION LIABILITY (GASB 68)**

The School must assume their proportionate share of the Net Pension Liability of the Teacher Retirement System. The School's net pension liability at year end totaled \$4.1 million.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

### **Looking Beyond 2016-2017**

In 2016-2017, UT-UCS was approved to open three new campuses. All of these facilities support mental wellness for children in kindergarten 12<sup>th</sup> grade.

- Cedar Crest Hospital (Belton, TX): a residential treatment center offering comprehensive mental healthcare program for adolescents (ages 12-17) who are struggling with emotional problems, chemical dependency or both.
- Seton Home (San Antonio, TX): A residential program providing a caring home, education and support services necessary to transform the lives of pregnant and parenting teen mothers and their children.
- The Refuge (Bastrop, TX) A residential center offering trauma-informed, long-term restoration shelter and services to girls (ages 11-17) who have been exploited through sex trafficking.

In 2017-2018, UT-UCS expanded Seton Home to serve St. PJs Children's Home. St. PJ's is an emergency shelter for domestic and international children and youth (grades PK-12<sup>th</sup>) who are victims of abuse, neglect and human sex trafficking.

In 2018-2019, UT-UCS plans to open SJRC, a residential treatment center for children in the foster care system who are in need of 24 hour care. The district is also pursuing other residential facility partners for youth in the central Texas area.

UT-UCS and its growing campuses within the greater Austin community and the Houston area is in fact an extension of the University of Texas at Austin's mission, which is to serve the people of Texas. So, building new relationships with the community continues to be at the forefront of the district's work this school year and beyond. All of our new facilities support mental wellness for children in kindergarten - 12th grade. Our mission is to serve and so growth will continue to play an important factor in the financial picture of our organization. Our growth over the past few years requires us to plan for the expense of serving children with innovative technologies and curriculum. Planning for this investment continues to lead the work of our Strategic Planning Committee and the Advisory Board. Our next priority is to develop a plan for technology replacement on several of our campuses.

## **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the School's business office at University of Texas-University Charter School, The University of Texas at Austin, Division of Diversity and Community Engagement, 2200 East 6<sup>th</sup> Street, Austin, Texas 78702.

*Basic Financial Statements*

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**STATEMENT OF NET POSITION**  
**AUGUST 31, 2017**

Data Control Codes	1	Governmental Activities
<b>ASSETS:</b>		
1110	<i>Cash and Cash Equivalents</i>	\$ 1,319,853
1240	<i>Due from Other Governments</i>	199,786
1000	Total Assets	<u>1,519,639</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
1705	<i>Deferred Outflow Related to Pensions</i>	957,266
1700	Total Deferred Outflows of Resources	<u>957,266</u>
<b>LIABILITIES:</b>		
2110	<i>Accounts Payable</i>	47,578
Noncurrent Liabilities:		
2590	<i>Other Post Employment Benefits</i>	3,240,000
2540	<i>Net Pension Liability</i>	4,107,652
2000	Total Liabilities	<u>7,395,230</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
2605	<i>Deferred Inflow Related to Pensions</i>	802,069
2600	Total Deferred Inflows of Resources	<u>802,069</u>
<b>NET POSITION:</b>		
3900	Unrestricted	(5,720,394)
3000	Total Net Position	<u>\$ (5,720,394)</u>

The accompanying notes are an integral part of this statement.

## UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	1 Expenses	4 Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
	Governmental Activities:		
11	\$ 6,058,597	\$ 344,406	\$ (5,714,191)
13	1,045,149	501,649	(543,500)
21	73,903	67,169	(6,734)
23	1,453,537	--	(1,453,537)
31	633,970	239,729	(394,241)
33	610	--	(610)
36	1,603	--	(1,603)
41	612,462	--	(612,462)
51	141,201	--	(141,201)
53	352,022	--	(352,022)
81	166,458	--	(166,458)
TG	<u>10,539,512</u>	<u>1,152,953</u>	<u>(9,386,559)</u>
TP	<u>\$ 10,539,512</u>	<u>\$ 1,152,953</u>	<u>(9,386,559)</u>
	General Revenues:		
GC		<i>Grants and Contributions Not Restricted to Specific Progra</i>	8,864,626
MI		<i>Miscellaneous</i>	63,043
TR		Total General Revenues	<u>8,927,669</u>
CN		Change in Net Position	<u>(458,890)</u>
NB		Net Position - Beginning	<u>(5,261,504)</u>
NE		Net Position - Ending	<u>\$ (5,720,394)</u>

The accompanying notes are an integral part of this statement.



## UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2017

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds	
<b>ASSETS:</b>				
1110	Cash and Cash Equivalents	\$ 1,473,234	\$ (153,381)	\$ 1,319,853
1240	Due from Other Governments	31,705	168,081	199,786
1000	Total Assets	<u>1,504,939</u>	<u>14,700</u>	<u>1,519,639</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
2110	Accounts Payable	\$ 47,470	\$ 108	\$ 47,578
2000	Total Liabilities	<u>47,470</u>	<u>108</u>	<u>47,578</u>
<b>FUND BALANCES:</b>				
Restricted Fund Balances:				
3490	Other Restrictions of Fund Balance	--	8,771	8,771
Committed Fund Balances:				
3545	Other Committed Fund Balance	6,897	5,821	12,718
3600	Unassigned	1,450,572	--	1,450,572
3000	Total Fund Balances	<u>1,457,469</u>	<u>14,592</u>	<u>1,472,061</u>
4000	Total Liabilities and Fund Balances	<u>\$ 1,504,939</u>	<u>\$ 14,700</u>	<u>\$ 1,519,639</u>

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 AUGUST 31, 2017*

Total fund balances - governmental funds balance sheet	\$ 1,472,061
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Recognition of the School's proportionate share of the net pension liability is not reported in the funds.	(4,107,652)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(802,069)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	957,266
OPEB liabilities are reported in the SNA but not in the funds.	<u>(3,240,000)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ (5,720,394)</u>

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ 63,043	\$ 63,043
5800 <i>State Program Revenues</i>	8,824,874	39,752	8,864,626
5900 <i>Federal Program Revenues</i>	--	1,152,953	1,152,953
5020 <b>Total Revenues</b>	<u>8,824,874</u>	<u>1,255,748</u>	<u>10,080,622</u>
<b>EXPENDITURES:</b>			
Current:			
0011 <i>Instruction</i>	5,354,495	430,317	5,784,812
0013 <i>Curriculum and Staff Development</i>	522,599	502,943	1,025,542
0021 <i>Instructional Leadership</i>	200	67,180	67,380
0023 <i>School Leadership</i>	1,329,914	--	1,329,914
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	384,677	239,718	624,395
0033 <i>Health Services</i>	610	--	610
0036 <i>Cocurricular/Extracurricular Activities</i>	1,603	--	1,603
0041 <i>General Administration</i>	601,796	--	601,796
0051 <i>Facilities Maintenance and Operations</i>	129,425	11,776	141,201
0053 <i>Data Processing Services</i>	285,711	--	285,711
0081 <i>Fund Raising</i>	175,171	--	175,171
6030 <b>Total Expenditures</b>	<u>8,786,201</u>	<u>1,251,934</u>	<u>10,038,135</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	38,673	3,814	42,487
1200 Net Change in Fund Balances	<u>38,673</u>	<u>3,814</u>	<u>42,487</u>
0100 Fund Balances - Beginning	1,418,796	10,778	1,429,574
3000 Fund Balances - Ending	<u>\$ 1,457,469</u>	<u>\$ 14,592</u>	<u>\$ 1,472,061</u>

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED AUGUST 31, 2017*

Net change in fund balances - total governmental funds	\$ 42,487
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
OPEB liabilities are reported in the SNA but not in the funds.	(65,994)
Certain contributions are de-expended and recorded as deferred resource outflows.	345,371
Pension contributions made after the measurement date were de-expended and reduced NPL.	(120,977)
The School's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	62,378
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(722,155)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ (458,890)</u>

The accompanying notes are an integral part of this statement.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

A. Summary of Significant Accounting Policies

The basic financial statements of University of Texas-University Charter School (the "School") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

University of Texas-University Charter School is chartered by the State Board of Education and accredited by the Texas Education Agency. The school operates within the Division of Diversity and Community Engagement (DDCE) at the University of Texas at Austin (UT). UT is accredited with the Southern Association of Colleges and Schools. Courses are developed to the Texas Essential Knowledge and Skills (TEKS) objectives and are TEKS compliant. The School's administrators and staff are degreed and certified for the positions to which they are assigned.

As approved in the charter application, the Superintendent oversees all day to day operations of the University of Texas-University Charter School. The Superintendent reports to the Vice President of DDCE, who reports to the President of the University, who is ultimately responsible to the Chancellor and UT System Board of Regents. The UT System Board of Regents is appointed by the Governor and confirmed by the State Senate. This reporting structure effectively outlines the governing body of the School with the Vice President, President and the Board of Regents retaining final oversight. On a monthly basis, an advisory board works to ensure effective management of the School. Community members, students, parents, treatment facility staff, and additional UT members are asked to attend meetings as appropriate. The School provides K-12 educational services to students in residential treatment and special program facilities. By providing individualized education at students' location and at a time tailored to specific need, individuals can continue their education while in residence. Many students returning to public school find success because of the support and flexibility of the School's instructional model.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The School does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the School's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

The School reports the following major governmental funds:

General Fund: This is the School's primary operating fund. It accounts for all financial resources of the School except those required to be accounted for in another fund.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the School gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the School incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the School's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Vehicles	2-15
Computer Equipment	3-15

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

b. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

c. Receivable and Payable Balances

The School believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

d. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

e. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

f. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

**Nonspendable Fund Balance** - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

**Restricted Fund Balance** - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**Committed Fund Balance** - represents amounts that can only be used for a specific purpose because of a formal action by the School's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

Assigned Fund Balance - represents amounts which the School intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the School itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

g. Net Position Flow Assumption

Sometimes the School will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

h. Fund Balance Flow Assumptions

Sometimes the School will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

4. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS' fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

5. New Accounting Standards Adopted

In fiscal year 2017, the School adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement No. 80, *Blending Requirements for Certain Component Units*
- Statement No. 82, *Pension Issues - An Amendment of GASB No. 67, No. 68 and No. 73*



**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

- a. Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement No. 43, and Statement No. 50, Pension Disclosures.

The scope of this Statement includes OPEB plans, defined benefit and defined contribution that are administered through trusts that meet the following criteria:

- 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The District does not administer their OPEB plan through a trust that meets the criteria noted above. As a result, the adoption of GASB Statement No. 74 did not result in a change to the financial statements or note disclosures.

- b. GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

The District did not have any component units which met the definition noted above. As a result, the adoption of GASB Statement No. 80 did not result in a change to the financial statements or note disclosures.

- c. GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The financial statements and note disclosures have been updated for the affects of the adoption of GASB Statement No. 82.

**B. Compliance and Accountability**

**1. Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

**2. Deficit Fund Balance or Fund Net Position of Individual Funds**

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
Government wide net position	\$ 5,720,394	Result of pension liability of \$4,107,652 and other post employment benefits (OPEB) liability of \$3,240,000

**C. Deposits and Investments**

The School's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the School's agent bank approved pledged securities in an amount sufficient to protect School funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. The School's funds are maintained by UT.

On a monthly basis, UT provides the School with a statement of account showing all fund activities for the month and ending monthly balances which is then reconciled to the accounts of the School. Such deposits are insured or to protect School funds on a day-to-day basis during the period of the contract. The pledge of approved securities is collateralized with securities held by The University of Texas at Austin in UT's name. The School does not maintain investments of any kind since funds available are retained by UT, therefore, no interest accrues to the School.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

D. Capital Assets

Capital asset activity for the year ended August 31, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets being depreciated:</i>				
Equipment	19,549	--	--	19,549
Vehicles	21,597	--	--	21,597
Total capital assets being depreciated	41,146	--	--	41,146
Less accumulated depreciation for:				
Equipment	(19,549)	--	--	(19,549)
Vehicles	(21,597)	--	--	(21,597)
Total accumulated depreciation	(41,146)	--	--	(41,146)
Total capital assets being depreciated, net	--	--	--	--
Governmental activities capital assets, net	\$ --	\$ --	\$ --	\$ --

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2017, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
None	None	\$ --	Not Applicable

F. Risk Management

The School is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2017, the School purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

G. Pension Plan

1. Plan Description

The School participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67, and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

2. Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [https://www.trs.texas.gov/TRS%20Documents/cafr\\_2016.pdf](https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the Plan description in (1.) above.

4. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<b><u>Contribution Rates</u></b>	
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
School's 2017 Employer Contributions	\$ 376,225	
School's 2017 Member Contributions	\$ 465,122	
NECE 2016 On-Behalf Contributions to School	\$ --	

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

5. Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial evaluation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore,

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

<b>Teacher Retirement System of Texas</b>			
<b>Asset Allocation and Long-Term Expected Real Rate of Return</b>			
<b>As of August 31, 2016</b>			
<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Geometric Real Rate of Return</b>	<b>Expected Contribution to Long-term Portfolio Returns *</b>
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

\* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
School's proportionate share of the net pension liability	\$ 6,357,261	\$ 4,107,652	\$ 2,199,528

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

8. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2017, the School reported a liability of \$4,107,652 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the School. The amount recognized by the School as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the School were as follows:

School's proportionate share of the collective net pension liability	\$ 4,107,652
State's proportionate share that is associated with School	<u>          --          </u>
Total	<u>\$ 4,107,652</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 1.1452489%. which was an increase (decrease) of 0.0556760% from its proportion measured as of August 31, 2015.

The School's proportional share of the Univeristy of Texas at Austin's pension liability was 0.94915% which was a increase of increase of 0.10175% from that of the prior year.

**Changes Since the Prior Actuarial Valuation - There were no changes to the actuarial assumptions of other inputs that affected measurement of the total pension liability since the prior measurement period:**

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

At August 31, 2017, the School reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 64,407	\$ 122,652
Changes in actuarial assumptions	125,195	113,859
Difference between projected and actual investment earnings	347,827	--
Changes in proportion and difference between the School's contributions and the proportionate share of contributions	<u>43,612</u>	<u>565,558</u>
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	<u>581,041</u>	<u>802,069</u>
	<u>376,225</u>	<u>          --          </u>
Total	<u>\$ 957,266</u>	<u>\$ 802,069</u>

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

The net amounts of the School's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31	Pension Expense Amount
2018	\$ (75,569)
2019	\$ (75,569)
2020	\$ 146,292
2021	\$ (92,611)
2022	\$ (134,039)
Thereafter	\$ 76,299

The net change in pension liability is detailed below.

	Beginning Balance	Additions	Retirements	Ending Balance
Net Pension Liability	\$ 3,264,027	1,170,013	326,388	\$ 4,107,652

H. Employee Health Care Coverage

UT provides health care benefits to all School employees who meet UT employment qualifications and requirements. Contributions are required for coverage of dependents. During the year, UT deducted amounts from the School's cash accounts to cover their portion of health care coverage.

I. Commitments and Contingencies

1. Contingencies

The School participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the School at August 31, 2017.

J. Related Party Transactions

The School operates within the Division of Diversity and Community Engagement as detailed in Note A1; therefore, the School has several transactions within UT. In addition to payroll and supplies processed or purchased through UT, significant financial transactions include the following:

Allocation to the Center for Teaching and Learning	\$ 250,000
Administrative Services Charge to UT	272,604
Total	<u>\$ 522,604</u>



**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

K. Other Long-Term Liabilities Postemployment Health Care and Life Insurance Benefits (OPEB)

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees in accordance with state statutes. These postretirement benefits are administered at the UT System level. Substantially, all UT Austin employees may become eligible for the health and life insurance benefits as a retired employee if they reach normal retirement age while working for the State. As of August 31, 2017 and 2016, there were 5,576 and 5,428 retirees, respectively, who were eligible for these benefits. Similar benefits for active employees are provided through the same self-funded plan. Depending upon the status of the employee at the time of retirement, the State or UT Austin recognizes the cost of providing these benefits. The cost of retiree postemployment benefits is recognized when paid. This contribution paid all of the "employee/retiree only" premiums and a portion of the premiums for those employees/retirees selecting dependent coverage. The employee/retiree was required to pay a portion of the cost of dependent coverage.

UT System follows an accrual-based measurement, recognition, and disclosure of OPEB expense, such as retiree medical, over the employees' years of service, along with the related liability, net of any plan assets. The UT System's Employee Group Insurance (EGI) program is a single employer plan in which a uniform benefit package is provided to all employees and retirees of the UT System (collectively, "subscribers") through a single risk pool. Uniform employer and subscriber contribution rates are developed by an actuary for each fiscal year based on a single actuarial valuation and are uniformly applicable to all subscribers from all institutions. Once the contributions are made, they are combined in a single risk pool from which all benefits and expenses are paid. Separate accounts are not maintained for UT Austin and contributions, benefits, and expenses are not tracked by individual component. As of August 31, 2017 and 2016, UT System's net OPEB obligation was \$5.4 billion and \$4.6 billion, respectively. The unfunded actuarial accrued liability was \$8.6 billion as of December 31, 2016, and was based on an actuarial roll-forward of the December 31, 2015, valuation results.

The UT System EGI program is disclosed within the primary consolidated financial statements of the UT System.

This School's share of this liability at August 31, 2017 is \$3,240,000 or 6%.

### *Required Supplementary Information*

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

**EXHIBIT G-1**

Data Control Codes	1		2		3		Variance with Final Budget Positive (Negative)
	Budgeted Amounts				Actual		
	Original	Final					
<b>REVENUES:</b>							
5800	State Program Revenues		\$ 8,418,251	\$ 8,564,747	\$ 8,824,874	\$ 260,127	
5020	Total Revenues		8,418,251	8,564,747	8,824,874	260,127	
<b>EXPENDITURES:</b>							
Current:							
Instruction & Instructional Related Services:							
0011	Instruction		5,780,381	5,456,495	5,354,495	102,000	
0013	Curriculum and Staff Development		307,772	593,081	522,599	70,482	
	Total Instruction & Instr. Related Services		6,088,153	6,049,576	5,877,094	172,482	
Instructional and School Leadership:							
0021	Instructional Leadership		--	200	200	--	
0023	School Leadership		1,080,931	1,333,706	1,329,914	3,792	
	Total Instructional & School Leadership		1,080,931	1,333,906	1,330,114	3,792	
Support Services - Student (Pupil):							
0031	Guidance, Counseling and Evaluation Services		364,628	399,269	384,677	14,592	
0033	Health Services		1,575	950	610	340	
0036	Cocurricular/Extracurricular Activities		1,025	1,650	1,603	47	
	Total Support Services - Student (Pupil)		367,228	401,869	386,890	14,979	
Administrative Support Services:							
0041	General Administration		665,986	612,000	601,796	10,204	
	Total Administrative Support Services		665,986	612,000	601,796	10,204	
Support Services - Nonstudent Based:							
0051	Plant Maintenance and Operations		121,200	131,010	129,425	1,585	
0053	Data Processing Services		288,387	307,673	285,711	21,962	
	Total Support Services - Nonstudent Based		409,587	438,683	415,136	23,547	
Fund Raising:							
0081	Fund Raising		128,161	176,138	175,171	967	
	Total Fund Raising		128,161	176,138	175,171	967	
6030	Total Expenditures		8,740,046	9,012,172	8,786,201	225,971	
1100	Excess (Deficiency) of Revenues Over (Under)						
1100	Expenditures		(321,795)	(447,425)	38,673	486,098	
1200	Net Change in Fund Balance		(321,795)	(447,425)	38,673	486,098	
0100	Fund Balance - Beginning		1,418,796	1,418,796	1,418,796	--	
3000	Fund Balance - Ending		\$ 1,097,001	\$ 971,371	\$ 1,457,469	\$ 486,098	

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**

*SCHEDULE OF THE SCHOOL'S PROPORTIONATE*

*SHARE OF THE NET PENSION LIABILITY*

*TEACHER RETIREMENT SYSTEM OF TEXAS*

*LAST TEN FISCAL YEARS \**

	Fiscal Year				
	2017	2016	2015	2014	2013
Univeristy's proportion of the net" pension liability (asset)	1.1452489%	1.0895729%	1.4031778%	--	--
School's proportionate share of the net pension liability (asset)	\$ 4,107,652	\$ 3,264,027	\$ 4,106,849	\$ --	\$ --
State's proportionate share of the net pension liability (asset) associated with the School	--	--	--	--	--
Total	<u>\$ 4,107,652</u>	<u>\$ 3,264,027</u>	<u>\$ 4,106,849</u>	<u>\$ --</u>	<u>\$ --</u>
School's covered-employee payroll	\$ 5,679,716	\$ 4,361,461	\$ 5,676,191	\$ --	\$ --
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	72.32%	74.84%	72.35%	--	--
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%	--	--

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

EXHIBIT G-2

Fiscal Year				
2012	2011	2010	2009	2008
--	--	--	--	--
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
--	--	--	--	--

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
*SCHEDULE OF SCHOOL CONTRIBUTIONS*  
*TEACHER RETIREMENT SYSTEM OF TEXAS*  
*LAST TEN FISCAL YEARS \**

	Fiscal Year				
	2017	2016	2015	2014	2013
Contractually required contribution	\$ 376,225	\$ 308,535	\$ 365,699	\$ --	\$ --
Contributions in relation to the contractually required contribution	(376,225)	(308,535)	(365,699)	--	--
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
School's covered-employee payroll	\$ 6,460,033	\$ 5,071,273	\$ 5,377,926	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	5.82%	6.08%	6.80%	--	--

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

EXHIBIT G-3

Fiscal Year				
2012	2011	2010	2009	2008
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--

## UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED AUGUST 31, 2017

### Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to August 21 of the preceding fiscal year, the School prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

### Defined Benefit Pension Plan

#### *Changes of benefit terms*

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

#### *Changes of assumptions*

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.



*Combining Statements and Budget Comparisons  
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 AUGUST 31, 2017

Data Control Codes		211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula	255 ESEA Title II Training & Recruiting	263 Title III Part A English Lang. Acq. & Enh.
<b>ASSETS:</b>					
1110	Cash and Cash Equivalents	\$ (78,662)	\$ (77,241)	\$ (2,323)	\$ --
1240	Due from Other Governments	78,662	77,241	2,323	--
1000	Total Assets	--	--	--	--
<b>LIABILITIES:</b>					
Current Liabilities:					
2110	Accounts Payable	\$ --	\$ --	\$ --	\$ --
2000	Total Liabilities	--	--	--	--
<b>FUND BALANCES:</b>					
Restricted Fund Balances:					
3490	Other Restrictions of Fund Balance	--	--	--	--
Committed Fund Balances:					
3545	Other Committed Fund Balance	--	--	--	--
3000	Total Fund Balances	--	--	--	--
4000	Total Liabilities and Fund Balances	\$ --	\$ --	\$ --	\$ --

EXHIBIT H-1

288 Title I Part D Subpart 2	410 State Textbook Fund	429 State Funded Special Revenue Fund	499 Various Donors Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ (9,855)	\$ 9	\$ --	\$ 14,691	\$ (153,381)
9,855	--	--	--	168,081
<u>          </u>	<u>          9</u>	<u>          </u>	<u>        14,691</u>	<u>        14,700</u>
\$ --	\$ --	\$ --	\$ 108	\$ 108
<u>          </u>	<u>          </u>	<u>          </u>	<u>          108</u>	<u>          108</u>
--	9	--	8,762	8,771
<u>          </u>	<u>          </u>	<u>          </u>	<u>          5,821</u>	<u>          5,821</u>
<u>          </u>	<u>          9</u>	<u>          </u>	<u>        14,583</u>	<u>        14,592</u>
<u>\$ --</u>	<u>\$ 9</u>	<u>\$ --</u>	<u>\$ 14,691</u>	<u>\$ 14,700</u>

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula	255 ESEA Title II Training & Recruiting	263 Title III Part A English Lang. Acq. & Enh.
<b>REVENUES:</b>				
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --	\$ --	\$ --
5800 <i>State Program Revenues</i>	--	--	--	--
5900 <i>Federal Program Revenues</i>	492,804	452,292	27,369	500
5020 <b>Total Revenues</b>	<u>492,804</u>	<u>452,292</u>	<u>27,369</u>	<u>500</u>
<b>EXPENDITURES:</b>				
Current:				
0011 <i>Instruction</i>	102,132	213,807	27,369	500
0013 <i>Curriculum and Staff Development</i>	233,966	134,129	--	--
0021 <i>Instructional Leadership</i>	67,180	--	--	--
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	89,526	104,356	--	--
0051 <i>Facilities Maintenance and Operations</i>	--	--	--	--
6030 <b>Total Expenditures</b>	<u>492,804</u>	<u>452,292</u>	<u>27,369</u>	<u>500</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	--	--	--	--
1200 Net Change in Fund Balances	--	--	--	--
0100 Fund Balances - Beginning	--	--	--	--
3000 Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

EXHIBIT H-2

288 Title I Part D Subpart 2	410 State Textbook Fund	429 State Funded Special Revenue Fund	499 Various Donors Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ --	\$ --	\$ 63,043	\$ 63,043
--	39,052	700	--	39,752
179,988	--	--	--	1,152,953
<u>179,988</u>	<u>39,052</u>	<u>700</u>	<u>63,043</u>	<u>1,255,748</u>
623	39,523	700	45,663	430,317
133,529	--	--	1,319	502,943
--	--	--	--	67,180
45,836	--	--	--	239,718
--	--	--	11,776	11,776
<u>179,988</u>	<u>39,523</u>	<u>700</u>	<u>58,758</u>	<u>1,251,934</u>
--	(471)	--	4,285	3,814
--	(471)	--	4,285	3,814
--	480	--	10,298	10,778
<u>\$ --</u>	<u>\$ 9</u>	<u>\$ --</u>	<u>\$ 14,583</u>	<u>\$ 14,592</u>

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
SPECIAL REVENUE FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT H-3

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
5700 Local and Intermediate Sources			
Various Donors	63,744	63,043	(701)
5800 State Program Revenues			
Instructional Materials Allotment	41,000	39,052	(1,948)
Math/Literacy Achievement Academies	700	700	--
	<u>41,700</u>	<u>39,752</u>	<u>(1,948)</u>
5900 Federal Program Revenues			
Title I, Part A, Improving Basic Programs	591,482	492,804	(98,678)
Title I, Part D, Subpart 2, Delinquent Programs	225,612	179,988	(45,624)
IDEA - Part B, Formula	445,148	452,292	7,144
Title II Part A - Teacher and Principal Training	31,272	27,369	(3,903)
Title III Part A - English Language Acquisition	500	500	--
	<u>1,294,014</u>	<u>1,152,953</u>	<u>(141,061)</u>
5020 Total Revenues	<u>1,399,458</u>	<u>1,255,748</u>	<u>(143,710)</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction & Instructional Related Services:			
11 Instruction	495,735	430,318	65,417
12 Instructional Resources and Media Services	--	--	--
13 Curriculum and Staff Development	539,982	502,943	37,039
Total Instruction & Instr. Related Services	<u>1,035,717</u>	<u>933,261</u>	<u>102,456</u>
Instructional and School Leadership:			
21 Instructional Leadership	74,140	67,180	6,960
23 School Leadership	--	--	--
Total Instructional & School Leadership	<u>74,140</u>	<u>67,180</u>	<u>6,960</u>
Support Services - Student (Pupil):			
31 Guidance, Counseling and Evaluation Services	274,602	239,717	34,885
32 Social Work Services	--	--	--
33 Health Services	--	--	--
Total Support Services - Student (Pupil)	<u>274,602</u>	<u>239,717</u>	<u>34,885</u>
Administrative Support Services:			
41 General Administration	--	--	--
Total Administrative Support Services	<u>--</u>	<u>--</u>	<u>--</u>
Support Services - Nonstudent Based:			
51 Plant Maintenance and Operations	12,000	11,776	224
53 Data Processing Services	--	--	--
Total Support Services - Nonstudent Based	<u>12,000</u>	<u>11,776</u>	<u>224</u>
Ancillary Services:			
61 Community Services	--	--	--
Total Ancillary Services	<u>--</u>	<u>--</u>	<u>--</u>
6030 Total Expenditures	<u>1,396,459</u>	<u>1,251,934</u>	<u>144,525</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	2,999	3,814	(815)
Other Financing Sources (Uses):			
8911 Transfers Out	--	--	--
7080 Total Other Financing Sources and (Uses)	--	--	--
1200 Net Change in Fund Balances	<u>2,999</u>	<u>3,814</u>	<u>(815)</u>
0100 Fund Balance - Beginning	10,778	10,778	--
3000 Fund Balance - Ending	<u>\$ 13,777</u>	<u>\$ 14,592</u>	<u>\$ (815)</u>

### *Other Supplementary Information*

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
*SCHEDULE OF EXPENDITURES BY OBJECT CODE*  
*GENERAL AND SPECIAL REVENUE FUNDS*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

EXHIBIT J-1

<u>Expenditures</u>		<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
6100	Payroll Costs	\$ 7,564,637	\$ 1,028,312	\$ 8,592,949
6200	Professional and Contract Services	488,394	158,994	647,388
6300	Supplies and Materials	287,162	49,447	336,609
6400	Other Operating Costs	446,008	8,041	454,049
6600	Capital Outlay	--	7,140	7,140
	Total	<u>\$ 8,786,201</u>	<u>\$ 1,251,934</u>	<u>\$ 10,038,135</u>



**WEST, DAVIS & COMPANY, LLP**  
11824 Jollyville Road, Suite 100  
Austin, Texas 78759

Independent Auditors' Report on Internal Control over Financial Reporting and  
On Compliance and Other Matters Based on an Audit of Financial Statements  
Performed In Accordance With Government Auditing Standards

Advisory Board  
University of Texas-University Charter School  
Austin, Texas

Members of the Advisory Board:

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 the governmental activities, each major fund, and the aggregate remaining fund information of University of Texas-University Charter School, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise University of Texas-University Charter School's basic financial statements, and have issued our report thereon dated January 8, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University of Texas-University Charter School'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University of Texas-University Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the University of Texas-University Charter School'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 University of Texas-University Charter School'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

West, Davis & Company

West, Davis & Company, LLP  
Austin, TX  
January 8, 2018

**WEST, DAVIS & COMPANY, LLP**  
11824 Jollyville Road, Suite 100  
Austin, Texas 78759

Independent Auditors' Report on Compliance for Each Major Program and on Internal  
Control Over Compliance Required by the Uniform Guidance

Advisory Board  
University of Texas-University Charter School  
Austin, Texas

Members of the Advisory Board:

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

We have audited the University of Texas-University Charter School's 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 University of Texas-University Charter School's major federal programs for the year ended August 31, 2017. University of Texas-University Charter School'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 University of Texas-University Charter School'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 University of Texas-University Charter School'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 University of Texas-University Charter School's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the University of Texas-University Charter School 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, 2017.

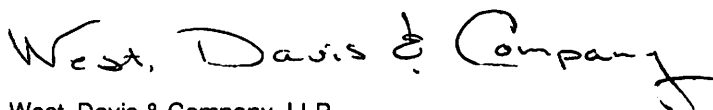
## Report on Internal Control Over Compliance

Management of the University of Texas-University Charter School 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 University of Texas-University Charter School'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 University of Texas-University Charter School'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 considered 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.



West, Davis & Company, LLP  
Austin, TX  
January 8, 2018

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?      Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?      Yes   X   None Reported

Noncompliance material to financial statements noted?      Yes   X   No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified?      Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?      Yes   X   None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200?      Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027A	IDEA-B Formula

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes      No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

**EXHIBIT K-1**

(1)	(2)	(2A)	(3)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<b>SPECIAL EDUCATION (IDEA) CLUSTER:</b>				
<i>U. S. Department of Education</i>				
Passed Through State Department of Education:				
<i>IDEA-B Formula</i>	84.027A	166600012278066000	\$ --	\$ 12,034
<i>IDEA - B Formula</i>	84.027A	176600012278066600	--	440,258
Total CFDA Number 84.027A			--	452,292
Total Passed Through State Department of Education			--	452,292
Total U. S. Department of Education			--	452,292
Total Special Education (IDEA) Cluster			--	452,292
<b>OTHER PROGRAMS:</b>				
<i>U. S. Department of Education</i>				
Passed Through Region XIII:				
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365	227-806	--	500
Passed Through State Department of Education:				
<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010A	17610103227806	--	492,804
<i>Title I, Part D, Subpart 2</i>	84.010A	17610103227806	--	179,988
Total CFDA Number 84.010A			--	672,792
<i>ESEA Title II Part A - Teacher &amp; Principal Training &amp; Recruiting</i>	84.367A	17694501227806	--	27,369
Total CFDA Number 84.367A			--	27,369
Total Passed Through State Department of Education			--	700,161
Total U. S. Department of Education			--	700,661
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ --</b>	<b>\$ 1,152,953</b>

The accompanying notes are an integral part of this schedule.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2017

Basis of Presentation

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award grant activity of the District under programs of the federal government for the year. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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 operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

B. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

C. Subrecipients

The District has no subrecipients.

D. Child Nutrition Cluster

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

E. Food Donation Program

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program(s) [National School Lunch Program (Non-Cash)] that benefitted from the use of those donated food commodities.

F. Matching Requirements

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

**UNIVERSITY OF TEXAS-UNIVERSITY CHARTER SCHOOL**  
**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS**  
**AS OF AUGUST 31, 2017**

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 4,107,652
SF13	Pension Expense (object 6147) at fiscal year-end.	\$

In correspondence to all school administrators dated November 1, 2017, the TEA's Director of Financial Compliance stated "For 2017, and until further notice, no data should be entered in the field for data feed Schedule L-1 question SF13. If the AFR and data feed has been submitted no additional steps need to be taken."