

*ANNUAL FINANCIAL REPORT*

of the

**THE UNIVERSITY OF TEXAS  
AT TYLER**

**INNOVATION ACADEMY**

(a department of the University of Texas at Tyler,  
which is an agency of the State of Texas)

For the Year Ended  
August 31, 2018

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# THE UNIVERSITY OF TEXAS AT TYLER INNOVATION ACADEMY

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August 31, 2018

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# THE UNIVERSITY OF TEXAS AT TYLER INNOVATION ACADEMY

## *CERTIFICATE OF BOARD*

The University of Texas at Tyler Innovation Academy  
Name of School

Smith  
County

212-804  
School Number

We, the undersigned, certify that the attached annual financial reports of the above named School were reviewed and (check one) \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended August 31, 2018 at a meeting of the School Board on the \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
Signature of Board President

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

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***FINANCIAL SECTION***

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## *INDEPENDENT AUDITORS' REPORT*

To the School Board of  
The University of Texas at Tyler Innovation Academy:

### **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 at Tyler Innovation Academy (the "School") (a department of the University of Texas at Tyler, which is an agency of the State of Texas) as of and for the year ended August 31, 2018, 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 auditors' 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.

## **Opinion**

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 the School as of August 31, 2018, and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

While the results of our audit are not modified with respect to this matter, the financial statements of the School are intended to present the financial position and the changes in financial position of The University of Texas at Tyler (UTT), University of Texas System (“UT System”), and the State of Texas (the “State”) that are attributable to the transactions of the School, as discussed in Note I. Transactions associated with facilities, bonds, pensions, and other postemployment benefits related to the School’s activities in the name of UTT and/or UT System, are reported by UTT and/or UT system, and not the School. The financial statements do not purport to, and do not, present fairly the financial position of UTT, UT System, or the State as of August 31, 2018, or the changes in their 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 and budgetary comparison information, identified as Required Supplementary Information on 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 School’s basic financial statements. The introductory section, other supplementary information, and the schedule of required responses to selected school first indicators are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates 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 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 other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and the schedule of required responses to selected school first indicators have 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 them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2019 on our consideration of the 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 the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
January 14, 2019

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

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**THE UNIVERSITY OF TEXAS AT TYLER**  
**INNOVATION ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended August 31, 2018**

This discussion and analysis of The University of Texas at Tyler Innovation Academy's (the "School") financial performance provides an overview of the School's financial activities for the fiscal year ended August 31, 2018. It should be read in conjunction with the School's financial statements.

**FINANCIAL HIGHLIGHTS**

- The School's total net position at August 31, 2018 was \$883,760.
- For the fiscal year ended August 31, 2018, the School's general fund reported a total fund balance of \$830,465. All of which are unassigned.
- At the end of the fiscal year, the School's governmental funds (the general fund plus all state and federal grant funds) reported combined ending fund balances of \$883,760.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic financial statements include two kinds of statements that present different views of the School.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the School's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School, reporting the School's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *instructional* services were financed in the *short-term*, as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the School's assets and liabilities. All of the current period's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The government-wide statements report the School's net position and how it has changed. Net position is the difference between the School's assets, liabilities, and is one way to measure the School's financial health or position.

- Over time, increases or decreases in the School's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

**THE UNIVERSITY OF TEXAS AT TYLER**  
**INNOVATION ACADEMY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
For the Year Ended August 31, 2018

- To assess the overall health of the School, one needs to consider additional nonfinancial factors such as changes in the School's staffing patterns, enrollment, and attendance.

The government-wide financial statements of the School include the *governmental activities*. The School's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant maintenance and operation are included in *governmental activities*.

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the School's most significant funds – not the School as a whole. Funds are simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law.
- The School Board (the "Board") establishes other funds to control and manage money set aside for particular purposes or to show that the School is properly using certain grants.

The School has the following kinds of funds:

- *Governmental funds* – The School's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs.

**FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

The School's net position was \$883,760 at August 31, 2018. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2018.

**Table 1**  
**Net Position**

	Governmental Activities		Total Change
	2018	2017	2018-2017
Current assets	\$ 923,707	\$ 656,886	\$ 266,821
<b>Total Assets</b>	<b>923,707</b>	<b>656,886</b>	<b>266,821</b>
Current liabilities	39,947	51,022	(11,075)
<b>Total Liabilities</b>	<b>39,947</b>	<b>51,022</b>	<b>(11,075)</b>
<b>Net Position:</b>			
Restricted	53,295	44,741	8,554
Unrestricted	830,465	561,123	269,342
<b>Total Net Position</b>	<b>\$ 883,760</b>	<b>\$ 605,864</b>	<b>\$ 277,896</b>



**THE UNIVERSITY OF TEXAS AT TYLER**  
**INNOVATION ACADEMY**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)*  
For the Year Ended August 31, 2018

**Table 2**  
**Changes in Net Position**

	Governmental Activities		Total
	2018	2017	Change 2018-2017
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 150,802	\$ 71,084	\$ 79,718
Operating grants and contributions	238,023	336,388	(98,365)
General revenues:			
Grants and contributions not restricted	5,620,631	4,962,159	658,472
Miscellaneous	7,446	11,716	(4,270)
<b>Total Revenue</b>	<u>6,016,902</u>	<u>5,381,347</u>	<u>635,555</u>
<b>Expenses</b>			
Instruction	3,548,833	3,074,225	474,608
Instructional resources and media services	4,877	8,991	(4,114)
Curriculum and staff development	279,960	352,392	(72,432)
Instructional leadership	61,991	111,538	(49,547)
School leadership	552,414	476,301	76,113
Guidance, counseling, and evaluation services	165,855	163,120	2,735
Social work	18,413	8,278	10,135
Health services	27,047	29,181	(2,134)
Student (pupil) transportation	47,806	26,580	21,226
Food services	46,702	49,543	(2,841)
Extracurricular	86,714	63,619	23,095
General administration	407,064	342,952	64,112
Plant maintenance and operations	433,167	353,252	79,915
Data processing	58,163	57,845	318
<b>Total Expenses</b>	<u>5,739,006</u>	<u>5,117,817</u>	<u>621,189</u>
<b>Change in Net Position</b>	<u>277,896</u>	<u>263,530</u>	<u>14,366</u>
Beginning net position	605,864	342,334	263,530
<b>Ending Net Position</b>	<u>\$ 883,760</u>	<u>\$ 605,864</u>	<u>\$ 277,896</u>

Current year end ending net position is \$883,760, which is an increase of \$277,896 over prior year net position of \$605,864. Total revenue for governmental activities increased by \$635,555, which is primarily due to an increase in grants and contributions not restricted. The increase in total revenue is offset by an increase in total expenses of \$621,189. This increase in expenses is mainly due to a rise in instruction expenses. Both the increases in revenue and expenses can be attributed to the growth in enrollment for the School.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

At the close of the fiscal year ending August 31, 2018, the School's governmental funds reported a combined fund balance of \$883,760. This compares to a combined fund balance of \$605,864 at August 31, 2017. The general fund experienced a positive increase in fund balance of \$269,342 as a result of additional state program revenue.

# **THE UNIVERSITY OF TEXAS AT TYLER INNOVATION ACADEMY**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***

**For the Year Ended August 31, 2018**

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

In accordance with State law and generally accepted accounting principles, the School prepares an annual budget for the general fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2018, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. There were no material changes between the original budget and the final amended budget. The general fund's actual revenues were more than budgeted revenues by \$526,291 and the budgeted expenditures exceeded actual expenditures by \$381,551.

The variance in expenditures was primarily the result of lower than expected expenditures for instruction; curriculum and instructional staff development; guidance; counseling; and evaluation services; and student transportation.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The School's Board considered many factors when setting the 2018-2019 budget including:

- Average daily attendance
- State aid
- Federal grants
- Donations and contributions

The School has plans to add a twelfth-grade program during 2018-2019 and anticipates increases in revenues and expenditures for the additional grade level.

### **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 3900 University Blvd., Tyler, Texas.

***BASIC FINANCIAL STATEMENTS***

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**THE UNIVERSITY OF TEXAS AT TYLER**  
**INNOVATION ACADEMY**

*STATEMENT OF NET POSITION - EXHIBIT A-1*

August 31, 2018

1

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	<u>Assets</u>	
1110	Cash and cash equivalents	\$ 854,997
1240	Due from other governments	68,710
1000	<b>Total Assets</b>	<u>923,707</u>
	<u>Liabilities</u>	
2110	Accounts payable	\$ 32,158
2181	Due to other governments	6,750
2190	Due to students	1,039
	<b>Total Liabilities</b>	<u>39,947</u>
	<u>Net Position</u>	
	Restricted for:	
3890	Other programs	53,295
3900	Unrestricted	830,465
3000	<b>Total Net Position</b>	<u>883,760</u>
	<b>Total Liabilities and Net Position</b>	<u>\$ 923,707</u>

See Notes to Financial Statements.

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# THE UNIVERSITY OF TEXAS AT TYLER INNOVATION ACADEMY

## STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2018

Data Control Codes	Functions/Programs	1	3	4	6
		Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Governmental Activities
<b>Primary Governmental Activities</b>					
0011	Instruction	\$ 3,548,833	\$ 80,278	\$ 124,526	\$ (3,344,029)
0012	Instructional resources and media services	4,877	-	-	(4,877)
0013	Curriculum and staff development	279,960	-	10,066	(269,894)
0021	Instructional leadership	61,991	-	-	(61,991)
0023	School leadership	552,414	-	37,030	(515,384)
0031	Guidance, counseling, and evaluation services	165,855	-	50,583	(115,272)
0032	Social services	18,413	-	9,141	(9,272)
0033	Health services	27,047	-	-	(27,047)
0034	Student (pupil) transportation	47,806	-	-	(47,806)
0035	Food services	46,702	2,429	6,677	(37,596)
0036	Extracurricular	86,714	63,104	-	(23,610)
0041	General administration	407,064	-	-	(407,064)
0051	Plant maintenance and operations	433,167	4,991	-	(428,176)
0053	Data processing	58,163	-	-	(58,163)
	<b>Total Governmental Activities</b>	<u>\$ 5,739,006</u>	<u>\$ 150,802</u>	<u>\$ 238,023</u>	<u>(5,350,181)</u>
<b>General Revenues</b>					
GC	Grants and contributions not restricted				5,620,631
MI	Miscellaneous local and intermediate revenue				7,446
TR				<b>Total General Revenues</b>	<u>5,628,077</u>
CN				<b>Change in Net Position</b>	277,896
NB	Beginning net position				605,864
NE				<b>Ending Net Position</b>	<u>\$ 883,760</u>

See Notes to Financial Statements.

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**THE UNIVERSITY OF TEXAS AT TYLER  
INNOVATION ACADEMY**

***BALANCE SHEET  
GOVERNMENTAL FUNDS - EXHIBIT C-1***

August 31, 2018

Data Control Codes		10		Other	98
		General	State Textbook	Nonmajor Governmental	Total Governmental Funds
<b><u>Assets</u></b>					
1110	Cash and cash equivalents	\$ 797,028	\$ 3,510	\$ 54,459	\$ 854,997
1240	Due from other governments	916	66,876	918	68,710
1260	Due from other funds	67,794	-	-	67,794
1000	<b>Total Assets</b>	<b>\$ 865,738</b>	<b>\$ 70,386</b>	<b>\$ 55,377</b>	<b>\$ 991,501</b>
<b><u>Liabilities</u></b>					
2110	Accounts payable	\$ 28,523	\$ 3,510	\$ 125	\$ 32,158
2181	Due to other governments	6,750	-	-	6,750
2170	Due to other funds	-	66,876	918	67,794
2190	Due to students	-	-	1,039	1,039
2000	<b>Total Liabilities</b>	<b>35,273</b>	<b>70,386</b>	<b>2,082</b>	<b>107,741</b>
<b><u>Fund Balances</u></b>					
Restricted for:					
3490	Other programs	-	-	53,295	53,295
3600	Unassigned	830,465	-	-	830,465
3000	<b>Total Fund Balances</b>	<b>830,465</b>	<b>-</b>	<b>53,295</b>	<b>883,760</b>
4000	<b>Total Liabilities</b>				
4000	<b>and Fund Balances</b>	<b>\$ 865,738</b>	<b>\$ 70,386</b>	<b>\$ 55,377</b>	<b>\$ 991,501</b>

See Notes to Financial Statements.

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**THE UNIVERSITY OF TEXAS AT TYLER**  
**INNOVATION ACADEMY**

*STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - EXHIBIT C-2*

For the Year Ended August 31, 2018

Data Control Codes		10			98
		General	State Textbook	Nonmajor Governmental	Total Governmental Funds
	<b>Revenues</b>				
5700	Local and intermediate sources	\$ 7,446	\$ -	\$ 150,802	\$ 158,248
5800	State program revenues	5,620,631	70,248	-	5,690,879
5900	Federal program revenues	-	-	167,775	167,775
5020	<b>Total Revenues</b>	<u>5,628,077</u>	<u>70,248</u>	<u>318,577</u>	<u>6,016,902</u>
	<b>Expenditures</b>				
	<b>Current:</b>				
0011	Instruction	3,362,249	70,248	116,336	3,548,833
0012	Instructional resources and media services	4,877	-	-	4,877
0013	Curriculum/instructional staff development	269,894	-	10,066	279,960
0021	Instructional leadership	61,991	-	-	61,991
0023	School leadership	515,384	-	37,030	552,414
0031	Guidance, counseling, and evaluation services	115,272	-	50,583	165,855
0032	Social work	9,272	-	9,141	18,413
0033	Health services	27,047	-	-	27,047
0034	Student (pupil) transportation	47,806	-	-	47,806
0035	Food services	36,333	-	10,369	46,702
0036	Extracurricular	15,207	-	71,507	86,714
0041	General administration	407,064	-	-	407,064
0051	Plant maintenance and operations	428,176	-	4,991	433,167
0053	Data processing	58,163	-	-	58,163
6030	<b>Total Expenditures</b>	<u>5,358,735</u>	<u>70,248</u>	<u>310,023</u>	<u>5,739,006</u>
1200	<b>Net Change in Fund Balances</b>	269,342	-	8,554	277,896
0100	Beginning fund balances	561,123	-	44,741	605,864
3000	<b>Ending Fund Balances</b>	<u>\$ 830,465</u>	<u>\$ -</u>	<u>\$ 53,295</u>	<u>\$ 883,760</u>

See Notes to Financial Statements.

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**THE UNIVERSITY OF TEXAS AT TYLER**  
**INNOVATION ACADEMY**  
*NOTES TO FINANCIAL STATEMENTS*  
For the Year Ended August 31, 2018

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements are prepared in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and they comply with the requirements of the appropriate version of Texas Education Agency's (TEA) *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which funds are received.

**A. Reporting Entity**

The University of Texas at Tyler Innovation Academy (the "School") is a department of the University of Texas at Tyler (UTT), which is an agency of the State of Texas (the "State"). The University is one of the universities that make up the University of Texas System (UT System) and UT System is one of six university systems and five independent universities that in total are presented as a major enterprise fund in the State's Comprehensive Annual Financial Report.

UTT, and UT System, and the School have elected to define the School's reporting entity to include only activities in the School's name. The School's proportionate share of liabilities in the name of UTT and/or UT System are reported by UTT and/or UT System. Accordingly, transactions associated with facilities and associated bonds, pensions, and other postemployment benefits related to the School's activities in the name of UTT and/or UT System are not reported by the School. However, the School has elected to make limited disclosures with respect to these matters in notes III. C. and D. The associated financial activities related to these items and required disclosures are made within the UT System and the State's Annual Financial Reports. These financial statements present financial information that is attributable to the School and do not purport to, and do not, present fairly the financial position of UTT, UT System, or the State.

The School is chartered by the State Board of Education and accredited by the TEA. Courses are developed to comply with the Texas Essential Knowledge and Skills (TEKS) objectives and are 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 Chief Administrative Officer of the School is the Superintendent of the School. The Superintendent reports to the School Board (the "Board"), which reports to the President of UTT, who is ultimately responsible to the UT System Board of Regents (the "Regents"), appointed by the Governor of the State and confirmed by the Texas Senate. The reporting structure effectively outlines the governing body of the School, with the President and the Regents retaining final oversight. The Board works to ensure effective operation of the School. The UTT faculty provides educational curriculum to grade kindergarten through grade eleven.

The School is supported by UTT, both directly and indirectly, through revenue, management oversight, services, supplies, operation, and maintenance.

# THE UNIVERSITY OF TEXAS AT TYLER INNOVATION ACADEMY

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

### B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the School. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The School has no business-type activities.

### C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments where the amounts are reasonably equivalent in value to the interfund services provided and various other functions of the School. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the School's funds. Separate statements for governmental funds are presented. 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.

The School reports the following governmental funds:

#### **General Fund**

The general fund is used to account for and report all financial resources of the School not accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

#### **Special Revenue Funds**

Special revenue funds are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Most of the special revenue funds are considered nonmajor funds for reporting purposes, however the State Textbook fund met the technical criteria to be presented as a major fund.

During the course of operations, the School has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

# THE UNIVERSITY OF TEXAS AT TYLER INNOVATION ACADEMY

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

### E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Grant revenue and interest associated with the current fiscal period is considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the School.

### F. Assets, Liabilities, and Net Position/Fund Balance

#### 1. Cash and Cash Equivalents

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 UTT.

On a monthly basis, UTT provides the School with a statement of accounts showing all fund

# THE UNIVERSITY OF TEXAS AT TYLER

## INNOVATION ACADEMY

### *NOTES TO FINANCIAL STATEMENTS (Continued)*

For the Year Ended August 31, 2018

activities for the month and ending monthly balances which is then reconciled to the accounts of the School. Such deposits are insured or collateralized with securities held by UTT in UTT's name. The School does not maintain investments of any kind outside the operating bank account since funds available are retained by UTT, therefore, the only interest accruing to the School is from the operating bank account.

#### **2. Investments**

The School does not maintain investments of any kind.

#### **3. Capital Assets**

Since title and ownership of all capital assets are in UTT's name, no capital assets are reported in the accompanying financial statements.

#### **4. Receivables and Payables**

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 to further disaggregate those balances. All receivables are scheduled for collection within one year from year end.

#### **5. Long-Term Obligations**

The School does not separately issue long-term debt. The School is not currently engaged in any long-term financing transactions.

#### **6. Net Position Flow Assumption**

Sometimes the School will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide 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.

#### **7. 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.

#### **8. Fund Balance Policies**

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The School itself can establish



# THE UNIVERSITY OF TEXAS AT TYLER INNOVATION ACADEMY

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Restricted fund balance represents amounts that are constrained by external parties, constitutional provisions, or enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School's highest level of decision-making authority. The Board is the highest level of decision-making authority for the School that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the School for specific purposes but do not meet the criteria to be classified as committed. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

### 9. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### 10. Data Control Codes

The data control codes refer to the account code structure prescribed by the TEA in the Resource Guide. The TEA requires schools to display these codes in the financial statements filed with the TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

## G. Revenues and Expenditures/Expenses

### 1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment.

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the School prior to the beginning of the year. The legal level of control is the function

# THE UNIVERSITY OF TEXAS AT TYLER INNOVATION ACADEMY

## *NOTES TO FINANCIAL STATEMENTS (Continued)*

For the Year Ended August 31, 2018

code stated in the approved budget. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year.

In accordance with State law, the School prepares an annual budget for the general fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

### III. OTHER INFORMATION

#### A. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which UTT purchases commercial insurance. The School's operations have been incidental to UTT insurance coverage or settlements for the past three years.

#### B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

#### C. Pension Plans

##### Teacher Retirement System (TRS)

The State has joint contributory retirement plans for substantially all its employees. One of the primary plans in which the UT System participates is a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the Teacher Retirement System of Texas (TRS). TRS is primarily funded through State and employee contributions. Depending upon the source of funding for a participant's salary, the UT System may be required to make contributions in lieu of the State.

All UT System personnel employed in a position on a half time or greater basis for at least 4½ months or more are eligible for membership in TRS. However, students employed in positions that require student status as a condition of employment do not participate. Members with at least five years of service have a vested right to unreduced retirement benefits at age 65 or provided they have a combination of age plus years of service totaling 80 or more. However, members who began TRS participation on or after September 1, 2007 must be age 60 to retire with unreduced benefits and members who are not vested in TRS on August 31, 2014 must be age 62 to retire with unreduced benefits under the second option. Members are fully vested after five years of service and are entitled to any reduced benefits for which the eligibility requirements have been met prior to meeting the eligibility requirements for unreduced benefits.

# THE UNIVERSITY OF TEXAS AT TYLER

## INNOVATION ACADEMY

### *NOTES TO FINANCIAL STATEMENTS (Continued)*

For the Year Ended August 31, 2018

TRS provides retirement, disability annuities, and death and survivor benefits. The benefit and contribution provisions of TRS are authorized by state law and may be amended by the Legislature. The pension benefit formulas are based on members' average annual compensation and years of service credit. The standard annuity is 2.3 percent of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before August 31, 2005 and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. TRS does not provide automatic cost-of-living adjustments.

#### Optional Retirement Program (ORP)

The State has also established an optional defined contribution retirement program (ORP) for institutions of higher education. Participation in the ORP is in lieu of participation in TRS. ORP is available to certain eligible employees who hold faculty positions and other professional positions including but limited to director-level and above, librarians, and coaches. ORP provides for the purchase of annuity contracts and mutual funds. Participants are vested in the employer contributions after one year and one day of service. Depending upon the source of funding for the employee's compensation, the UT System may be required to make the employer contributions in lieu of the State. Since these are individual annuity contracts, the State and the System have no additional or unfunded liability for this program. The employee and employer contribution rates are established by the State Legislature each biennium. The State provides an option for a local supplement on top of the state base rate. Each institution within the UT System can decide to adopt and fund a local supplement each year to provide each ORP employee the maximum employer rate. The chancellor then approves the employer rates each fiscal year.

Additional information may be obtained from the UT System annual financial report:  
<https://www.utsystem.edu/sites/default/files/documents/report-state/2018/consolidated-annual-financial-report-fy-2018/ut-system-audit-afr-2018.pdf>

#### **D. Postemployment Benefits Other Than Pensions**

In addition to providing pension benefits, the State provides certain health and life insurance benefits for retired employees (OPEB), in accordance with State statutes. Many employees may become eligible for the health and life insurance benefits as a retired employee if they meet certain age and service requirements as defined by the State. Similar benefits for active employees are provided through the same self-funded plan.

#### Plan Description and Funding Policy

OPEB are provided to the UT System's retirees under the UT System Employee Group Insurance Program (EGIP). EGIP is a single-employer defined benefit OPEB plan; however, due to the State statute requiring appropriations for funding EGIP, the State is reporting a proportionate share. Chapter 1551 of the Texas Insurance Code, Sections 310 and 311, require that the State contribute to the cost of each participant's insurance coverage. The funds are appropriated under the General Appropriations Act Higher Education Employees Group Insurance (HEGI) contributions. The State's proportion is 22.83 percent of the collective OPEB related liabilities, deferred outflows and inflows, and expense based on HEGI contributions by the State to total contributions as of August 31, 2018 and 2017. The UT System's proportion as of August 31, 2018 and 2017 measurement dates was 77.17 percent. At August 31, 2018 and 2017, the amount of the total OPEB liability related to the UT System reported by the State was \$3,171,184,120 and \$3,188,913,639, respectively. The amount reported by the State is related to the premium sharing contributions, which are recognized as State appropriation general

# THE UNIVERSITY OF TEXAS AT TYLER INNOVATION ACADEMY

## *NOTES TO FINANCIAL STATEMENTS (Continued)*

For the Year Ended August 31, 2018

revenue on the UT System's financial statements in the fiscal year that the State contributed the amounts for OPEB on the UT System's behalf.

The UT System and member contribution rates are determined annually by the UT System based on the recommendations of the UT System's Office of Employee Benefits staff and consulting actuary. The contribution rates are determined based on the benefit and administrative costs expected to be incurred, the funds appropriated, and the funding policy established by the Texas Legislature in connection with benefits provided through the EGIP. The UT System revises benefits when necessary to match expected benefit and administrative costs with available revenue. EGIP is operated on a pay-as-you-go basis and no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Additional information may be obtained from the UT System annual financial report:  
<https://www.utsystem.edu/sites/default/files/documents/report-state/2018/consolidated-annual-financial-report-fy-2018/ut-system-audit-afr-2018.pdf>

### E. Restatement

UTT, UT System, and the School have elected to no longer report the School's proportionate share of the pension liability and related deferred outflows and inflows resulting in the beginning balance of net position being restated as follows:

	<b>Governmental Activities</b>
Beginning net position - as reported	\$ (569,967)
Restatement - Net pension liability	1,557,554
Restatement - deferred outflows - pensions	(540,434)
Restatement - deferred inflows - pensions	158,711
Beginning net position - restated	\$ 605,864

### F. Employee Health Care Coverage

The School provides health care benefits through the UTT health coverage plan to all School employees who meet UTT employment qualifications and requirements.

### G. School Operations

The School did not conduct any other charter or noncharter activities.

***REQUIRED SUPPLEMENTARY INFORMATION***

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**THE UNIVERSITY OF TEXAS AT TYLER**  
**INNOVATION ACADEMY**  
*SCHEDULE OF REVENUES, EXPENDITURES,*  
*AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL*  
**GENERAL FUND - EXHIBIT G-1**

For the Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	<b>Revenues</b>				
5700	Local and intermediate sources	\$ 5,000	\$ 10,780	\$ 7,446	\$ (3,334)
5800	State program revenues	5,909,167	5,091,006	5,620,631	529,625
5020	<b>Total Revenues</b>	<u>5,914,167</u>	<u>5,101,786</u>	<u>5,628,077</u>	<u>526,291</u>
	<b>Expenditures</b>				
0011	Instruction	3,727,331	3,582,713	3,362,249	220,464
0012	Instructional resources and media services	5,000	5,000	4,877	123
0013	Curriculum and instructional staff development	323,722	311,524	269,894	41,630
0021	Instructional leadership	60,523	60,523	61,991	(1,468)
0023	School leadership	494,708	520,708	515,384	5,324
0031	Guidance, counseling, and evaluation services	131,817	130,817	115,272	15,545
0032	Social services	-	14,123	9,272	4,851
0033	Health services	29,400	29,400	27,047	2,353
0034	Student (pupil) transportation	32,250	56,550	47,806	8,744
0035	Food service	28,043	35,608	36,333	(725)
0036	Extracurricular	18,900	26,222	15,207	11,015
0041	General administration	421,492	421,492	407,064	14,428
0051	Plant maintenance and operations	348,684	486,970	428,176	58,794
0053	Data processing	58,636	58,636	58,163	473
6030	<b>Total Expenditures</b>	<u>5,680,506</u>	<u>5,740,286</u>	<u>5,358,735</u>	<u>381,551</u>
1200	<b>Net Change in Fund Balance</b>	233,661	(638,500)	269,342	907,842
0100	Beginning fund balance	561,123	561,123	561,123	-
3000	<b>Ending Fund Balance</b>	<u>\$ 794,784</u>	<u>\$ (77,377)</u>	<u>\$ 830,465</u>	<u>\$ 907,842</u>

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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***OTHER SUPPLEMENTARY INFORMATION***

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**THE UNIVERSITY OF TEXAS AT TYLER  
INNOVATION ACADEMY**

***SCHEDULE OF EXPENSES - EXHIBIT J-2***

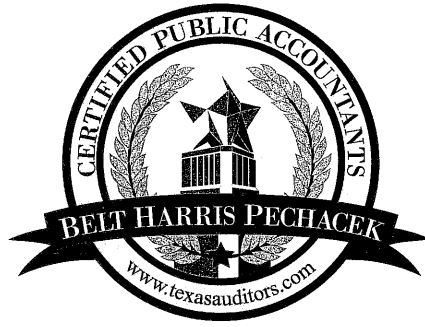
**For the Year Ended August 31, 2018**

<b>Data Control Codes</b>	<b>Expenses</b>	<b>Amount</b>
6100	Payroll costs	\$ 4,503,327
6200	Professional and contractual services	515,125
6300	Supplies and materials	607,698
6400	Other operating costs	112,856
	<b>Total Expenses</b>	<b>\$ 5,739,006</b>

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***COMPLIANCE SECTION***

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

January 14, 2019

To the School Board of  
The University of Texas at Tyler Innovation Academy:

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 The University of Texas at Tyler Innovation Academy (the "School") (a department of the University of Texas at Tyler, which is an agency of the State of Texas) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated January 14, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School'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 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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BELT HARRIS PECHACEK, LLLP**

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas



**THE UNIVERSITY OF TEXAS AT TYLER  
INNOVATION ACADEMY**

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

**For the Year Ended August 31, 2018**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unmodified opinion on the financial statements of The University of Texas at Tyler Innovation Academy.
2. Significant deficiencies in internal control were not disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.

**B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT**

*None Noted*

**C. FINDINGS – FEDERAL AWARDS**

*None Noted*

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**THE UNIVERSITY OF TEXAS AT TYLER**  
**INNOVATION ACADEMY**  
*SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS*  
For the Year Ended August 31, 2018

**A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS**

No prior year findings.

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**THE UNIVERSITY OF TEXAS AT TYLER**  
**INNOVATION ACADEMY**  
*SCHEDULE OF REQUIRED RESPONSES TO*  
*SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1*  
For the Year Ended August 31, 2018

<u>Data Control Codes</u>		<u>Responses</u>
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 on the financial statements as a whole?	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 make timely payments to the Teacher Retirement System, Texas Workforce Commission, Internal Revenue Service, and other government agencies?	Yes
SF8	Did the School <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year end.	\$ <u>          -</u>
SF11	Net pension asset (1920) at fiscal year end	\$ <u>          -</u>
SF12	Net pension liability (2540) at fiscal year end	\$ <u>          -</u>

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## Required Auditor Disclosure Letter

January 14, 2019

To the School Board of  
The University of Texas at Tyler Innovation Academy:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the University of Texas at Tyler Innovation Academy (the "School") (a department of the University of Texas at Tyler, which is an agency of the State of Texas), as of and for the year ended August 31, 2018, and have issued our report thereon dated January 14, 2019. Professional standards require that we provide the School Board (the "governing body") with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards*), as well as certain information related to the planned scope and timing of the audit.

### I. Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 5, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with the governing body's oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve the governing body or management of its responsibilities.

### II. Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to the governing body in our engagement letter dated June 5, 2018.

### III. Significant Audit Findings

#### *1. Qualitative Aspects of Accounting Practices*

- A. Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

- B. Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.
- C. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the School's relationship with The University of Texas at Tyler, including direct and indirect support provided through revenue, management oversight, services and supplies, operations, and maintenance.

### *2. Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *3. Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes both material and immaterial misstatements detected as a result of our audit procedures.

### *4. Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *5. Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 14, 2019.

### *6. Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.



7. *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

IV. Other Matters

We applied certain limited procedures to the Required Supplementary Information (RSI), as identified on the table of contents, that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on supplementary information, as identified on the table of contents, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section or required responses to selected school first indicators, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this information and we do not express an opinion or provide any assurance on it.

V. Restrictions on Use

This information is intended solely for the use of the governing body and management of the School and is not intended to be, and should not be, used by anyone other than these specified parties.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas

**THE UNIVERSITY OF TEXAS AT TYLER**  
**INNOVATION ACADEMY**  
**AUDIT ADJUSTING JOURNAL ENTRIES**  
For the Year Ended August 31, 2018

<u>AJE</u>	<u>Fund</u>	<u>Object</u>	<u>Description</u>	<u>Debits</u>	<u>Credits</u>	<u>Explanation</u>
1	420	1241	Due from other governments	\$ 916		To record additional settle-up.
	420	5812	State Program revenues		\$ 916	
2	410	1241	Due from other governments	66,876		Accrue revenue from reimbursable expenses for 410 fund.
	410	5829	Reimbursement for State revenue		66,876	
3	410	1110	Cash	66,876		Record due to general fund to cover negative cash.
	410	2170	Due to other funds		66,876	
4	420	1260	Due from other funds	66,876		Record due from nonmajor to cover negative cash.
	420	1110	Cash		66,876	
5	420	5812	State Program revenues	6,750		Record due to state for near final settle-up
	420	2181	Due to state		6,750	
6	240	5751	Due to students	1,243		Reversing prior year lunch funds due to students at year end.
	240	1290	Revenues		1,243	
7	240	5751	Revenues	1,039		Record lunch funds due to students at year end.
	240	1290	Due to students		1,039	
8	240	2110	Accounts payable	752		To move 2019 fiscal year expenses recorded in 2018 year.
	240	6341	Food for resale		752	
9	224	1110	Cash	249		Record due to general fund to cover negative cash.
	224	2170	Due to other funds		249	
10	420	1260	Due from other funds	249		Record due from nonmajor to cover negative cash.
	420	1110	Cash		249	

<u>AJE</u>	<u>Fund</u>	<u>Object</u>	<u>Description</u>	<u>Debits</u>	<u>Credits</u>	<u>Explanation</u>
11	240	1110	Cash	720		Record due to general fund to cover negative cash.
	240	2170	Due to other funds		720	
12	420	1260	Due from other funds	720		Record due from nonmajor to cover negative cash.
	420	1110	Cash		720	
13	289	1110	Cash	669		Record due to general fund to cover negative cash.
	289	2170	Due to other funds		669	
14	420	1260	Due from other funds	669		Record due from nonmajor to cover negative cash.
	420	1110	Cash		669	
15	420	1260	Due from other funds	19,868		Reversing entry for prior year for near final settle-up.
	420	1110	Cash		19,868	
16	240	1110	Cash	751		Client adjusting entry.
	240	6341	Food		751	