

**UNIVERSITY OF NORTH TEXAS
FOUNDATION, INC.**

FINANCIAL STATEMENTS
AND
AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 2005

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1
Statement of Financial Position	2
Statement of Activities	3-6
Statement of Cash Flows	7
Notes to Financial Statements.....	8-12

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
University of North Texas Foundation, Inc.
Denton, Texas

We have audited the accompanying statement of financial position of University of North Texas Foundation, Inc. (a nonprofit organization) as of December 31, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2004 financial statements and, in our report dated May 6, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of North Texas Foundation, Inc. as of December 31, 2005, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay
A Professional Corporation
Certified Public Accountants

May 15, 2006

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2005
WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2004

ASSETS

	<u>2005</u>	<u>2004</u>
Cash and cash equivalent	\$ 2,711,227	\$ 5,273,135
Investments	43,083,525	38,896,801
Contributions and other receivables	3,385,212	3,609,845
Prepaid expenses	23,996	1,352
Real property	111,735	272,498
Inventory	8,400	12,350
Cash value - life insurance policies	309,609	303,840
Assets held under trust agreements	<u>4,115,310</u>	<u>4,299,139</u>
Total Assets	<u>\$53,749,014</u>	<u>\$52,668,960</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 75,946	\$ 47,684
Agency funds	44,299	16,868
Annuity obligations	1,590,127	1,686,732
Refundable advances	<u>1,912,302</u>	<u>1,889,132</u>
Total Liabilities	<u>3,622,674</u>	<u>3,640,416</u>

Net Assets:

Unrestricted:

Board designated for reserves	508,427	402,250
Fair value of endowments below historical cost	(56,385)	(117,019)
Undesignated	<u>260,839</u>	<u>278,079</u>
Total Unrestricted	712,881	563,310

Temporarily restricted	13,505,674	13,763,293
Permanently restricted	<u>35,907,785</u>	<u>34,701,941</u>

Total Net Assets	<u>50,126,340</u>	<u>49,028,544</u>
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Total Liabilities and Net Assets	<u>\$53,749,014</u>	<u>\$52,668,960</u>
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See accompanying notes to financial statements.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Revenues, Gains, and Other Support		
Contributions	\$ -	\$ 1,745,357
Life insurance premiums	-	-
Investment income	(11,526)	498,223
Internal management fee	563,565	-
Other income	1,218	218,254
Realized and unrealized gain (loss) on market value of investments	-	2,296,387
Actuarial gain (loss) on annuity obligations	-	-
Increase in cash value - life insurance	-	-
	<hr/>	<hr/>
Total Revenues, Gains, And Other Support	<u>553,257</u>	<u>4,758,221</u>
Net Assets Released from Restrictions	5,449,825	(5,403,985)
Transfers/Changes in Donor Restrictions	<u>58,554</u>	<u>388,145</u>
	<hr/>	<hr/>
Total Net Assets Released From Restrictions	<u>5,508,379</u>	<u>(5,015,840)</u>
Program Expenses		
Internal management fee	563,565	-
Scholarships	736,899	-
Expense reimbursements	16,581	-
Services for programs	226,538	-
Distributions to UNT	3,881,811	-
Distributions to other Institutions	7,550	-
Life insurance premiums	7,886	-
Maintenance and repairs	8,995	-
	<hr/>	<hr/>
Total Program Expenses	<u>5,449,825</u>	<u>-</u>

See accompanying notes to financial statements.

<u>Permanently Restricted</u>	<u>2005 Total</u>	<u>2004 Total</u>
\$ 1,810,193	\$ 3,555,550	\$ 3,908,820
5,185	5,185	10,263
-	486,697	422,562
-	563,565	509,888
3,557	223,029	165,948
(652)	2,295,735	3,803,059
(139,270)	(139,270)	(87,673)
<u>19,370</u>	<u>19,370</u>	<u>36,938</u>
 <u>1,698,383</u>	 <u>7,009,861</u>	 <u>8,769,805</u>
 (45,840)	 -	 -
<u>(446,699)</u>	<u>-</u>	<u>-</u>
 <u>(492,539)</u>	 <u>-</u>	 <u>-</u>
 -	563,565	509,888
-	736,899	523,296
-	16,581	9,650
-	226,538	234,590
-	3,881,811	2,196,569
-	7,550	14,050
-	7,886	8,986
<u>-</u>	<u>8,995</u>	<u>9,076</u>
 <u>-</u>	 <u>5,449,825</u>	 <u>3,506,105</u>

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

STATEMENT OF ACTIVITIES (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2005
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Management and General Expenses		
Salaries and benefits	\$ 365,768	\$ -
Consulting fees	39,945	-
Professional services	12,720	-
Travel	6,113	-
Administrative	7,729	-
Bank and credit card charges	4,019	-
Office and computer equipment	6,398	-
Insurance	12,459	-
Professional development	<u>7,089</u>	<u>-</u>
Total Management and General	<u>462,240</u>	<u>-</u>
TOTAL EXPENSES	<u>5,912,065</u>	<u>-</u>
Change in Net Assets	149,571	(257,619)
Net Assets - Beginning of Year	<u>563,310</u>	<u>13,763,293</u>
Net Assets - End of Year	<u>\$ 712,881</u>	<u>\$13,505,674</u>

See accompanying notes to financial statements.

<u>Permanently Restricted</u>	<u>2005 Total</u>	<u>2004 Total</u>
\$ -	\$ 365,768	\$ 341,271
-	39,945	35,067
-	12,720	13,220
-	6,113	5,013
-	7,729	9,980
-	4,019	2,626
-	6,398	5,658
-	12,459	9,989
-	<u>7,089</u>	<u>7,205</u>
-	<u>462,240</u>	<u>430,029</u>
-	<u>5,912,065</u>	<u>3,936,134</u>
1,205,844	1,097,796	4,833,671
<u>34,701,941</u>	<u>49,028,544</u>	<u>44,194,873</u>
<u>\$35,907,785</u>	<u>\$50,126,340</u>	<u>\$49,028,544</u>

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>2005</u>	<u>2004</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 1,097,796	\$ 4,833,671
Adjustments to reconcile change in net assets to net cash provided by Operating activities:		
Realized and unrealized gain on market value of investments	(2,295,735)	(3,803,059)
(Increase)/Decrease in contributions and other receivables	224,633	(301,150)
Actuarial (gain)/loss on annuity obligations	139,270	87,673
(Increase) in cash value – life insurance	(5,769)	(26,455)
(Increase)/Decrease in prepaid expense	(22,644)	5,678
Increase/(Decrease) in accounts payable and accrued expenses	28,262	(83,785)
Increase/(Decrease) in agency funds	27,431	(151,455)
Increase/(Decrease) in annuity obligations	(96,605)	5,245
Decrease in inventory	3,950	-
Noncash contributions	<u>(74,014)</u>	<u>(404,877)</u>
Net Cash Provided (Used) By Operating Activities	<u>(973,425)</u>	<u>161,486</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	7,834,106	12,805,364
Purchases of investments	<u>(9,422,589)</u>	<u>(10,374,429)</u>
Net Cash Provided (Used) By Investing Activities	<u>(1,588,483)</u>	<u>2,430,935</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,561,908)	2,592,421
Cash and Cash Equivalents- Beginning of Year	<u>5,273,135</u>	<u>2,680,714</u>
Cash and Cash Equivalents- End of Year	<u>\$ 2,711,227</u>	<u>\$ 5,273,135</u>
Supplemental Data:		
Gifts of securities	\$ 74,014	\$ 404,877
Interest paid	-	-
Income taxes paid	-	-

See accompanying notes to financial statements.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1 – PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

The University of North Texas Foundation, Inc. (Foundation) is a nonprofit organization with the purpose of providing financial support to the University of North Texas. This purpose is accomplished by the Foundation receiving and managing donations (cash and non-cash) from individuals and organizations.

The Foundation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting. The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2004, from which the summarized information was derived.

Contributions

Contributions are generally temporarily or permanently restricted by the donor to support specific programs within the University of North Texas. Unconditional promises to give are recorded as received. Contributions receivable due in the next year are recorded at their net realizable value. Contributions receivable due in subsequent years are recorded at the present value of their net realizable value, using interest rates applicable to the years in which the promises are received to discount the amounts. An allowance of \$288,056 for uncollectible promises to give has been provided based on management's evaluation of contributions receivable at year end.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are recorded in temporarily restricted net assets because of program restrictions. The portion of the fair value of endowment funds which is below the endowment fund's historical cost is recorded as a reduction in unrestricted net assets.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Estimates

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

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1 – PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTS POLICIES
(Continued)

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with an initial maturity at the time of purchase of three months or less.

Investments

The Foundation carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Real Estate

Real estate consists of property that has been purchased by or donated to the Foundation. The property is stated at cost or the estimated fair value at the time of the donation.

Inventory

Inventory consists of paintings donated to the Foundation and held for sale. The paintings are recorded at their fair value as of the date of the donation.

Agency Funds

Agency funds consist of resources held by the Foundation as an agent for resource providers and will be transferred to third-party recipients specified by the resource provider.

NOTE 2 – INVESTMENTS

Investment securities consist of the following at December 31, 2005:

	<u>Cost</u>	<u>Fair Value</u>
Fixed income mutual funds	\$ 6,967,055	\$ 7,033,584
Marketable stocks	17,561,455	23,221,067
Equity mutual funds	<u>9,589,048</u>	<u>12,828,874</u>
	<u>\$34,117,558</u>	<u>\$43,083,525</u>

Investment income consists of interest and dividends on investment securities and is shown net of investment fees and expenses.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 3 – CONTRIBUTIONS AND OTHER RECEIVABLES

Contributions and other receivables as of December 31, 2005 are as follows:

Contributions receivable in less than one year	\$ 888,590
Contributions receivable in one to five years	2,951,850
Contributions receivable in six to ten years	64,000
Contributions receivable in over ten years	<u>21,000</u>
Total Contributions Receivables	3,925,440
Less allowance for uncollectible amounts	(288,056)
Less discounts to net present value	<u>(844,883)</u>
Net Contributions Receivable	2,792,501
Other amounts receivable	<u>592,711</u>
Total Contributions and Other Receivables	<u>\$3,385,212</u>

NOTE 4 – UNRESTRICTED NET ASSETS

Unrestricted net assets at December 31, 2005 include \$508,427 which has been designated by the Foundation's Board of Directors as a reserve for future operations.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributions from donors who have specified certain programs or scholarships within the University of North Texas for use of the contributions. Temporarily restricted net assets also includes income from endowment funds that are available for distribution upon satisfaction of the specific program restriction stated in the endowment agreement.

NOTE 6 – PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at December 31, 2005:

Endowments to support various programs, scholarships and other activities of the University of North Texas	\$35,598,176
Cash value of life insurance policies that will provide proceeds upon death of insured for endowments	<u>309,609</u>
Total	<u>\$35,907,785</u>

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 7 – REAL PROPERTY

Real property donated to the Foundation is recorded at fair value at the date of the donation. Real estate purchased by the Foundation is recorded at cost. Real property consists of the following at December 31, 2005:

	<u>Fair Value Recorded</u>	<u>Current Fair Value</u>
Mineral rights	\$ 12,860	Not Determined
1/4 undivided interest 34 acres – Loop 288	<u>98,875</u>	Not Determined
	<u>\$111,735</u>	

NOTE 8 – LIFE INSURANCE POLICIES

Several endowments have been established which are to be funded or partially funded by life insurance policies for which the Foundation has been named owner and beneficiary. Premium payments made by the Foundation are reimbursed by donors of the policies. As of December 31, 2005, there were a total of 24 such policies with death benefits totaling \$1,689,749 and cash values totaling \$309,609.

NOTE 9 – INCOME TAX STATUS

The Foundation has received a letter of determination from the Internal Revenue Service advising that it qualifies as a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code and, therefore, is not subject to income tax. The Foundation is not a private foundation within the meaning of section 509(a) of the Internal Revenue Code.

NOTE 10 – RETIREMENT PLAN

The Foundation sponsors a defined contribution retirement plan covering all full time employees of the Foundation. The Foundation contributes 8.5% of eligible employees' compensation to the plan, and employees are required to contribute a minimum of 6.65% of compensation to the plan. Employees may make voluntary contributions in addition to the required contribution, up to the limits prescribed by the Internal Revenue Code. The expense to the Foundation for retirement plan contributions for 2005 was \$22,257.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 11 – ASSETS HELD UNDER SPLIT INTEREST AGREEMENTS AND REFUNDABLE ADVANCES

The Foundation is the Trustee or Co-Trustee of various charitable remainder trusts and administers several gift annuity contracts. The agreements require annuity payments to the income beneficiaries for life, with the remaining assets of the trusts or agreements creating endowments upon the death of the income beneficiary. The Foundation has recorded the present value of the annuity payments as annuity obligations.

Two trusts for which the Foundation serves as Trustee currently name the Foundation as the remainder beneficiary, however, the donors have retained the right to change the remainder beneficiary to other charitable organizations. As a result, the Foundation has recorded the assets held under these trusts as refundable advances.

The assets held under these agreements are included in the statement of financial position at fair value. The annuity obligations are recorded at the present value of the expected future cash payments based on published life expectancy tables using a discount rate of eight percent.

NOTE 12 – DEFERRED GIFTS

The Foundation has been advised by many donors of bequests and other deferred gifts to the Foundation to be made in the future. The total of such deferred gifts that the Foundation has been informed of is approximately \$103.2 million.

The Foundation has also received a conditional pledge in support of the University of North Texas Club Management Program. The pledge consists of stock to be transferred to the Foundation in 2006. The fair value of the stock at the time of the pledge was approximately \$900,000. The fair value at December 31, 2005 was approximately \$1,062,532.

These gifts do not meet the requirements of unconditional promises to give, therefore have not been recorded in the financial statements of the Foundation.

NOTE 13 – CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash balances at times in excess of \$100,000 in banks, which are insured by the Federal Deposit Insurance Corporation up to \$100,000. The Foundation's depository bank, Wells Fargo Bank N.A., has pledged government backed securities with a par value of \$523,097 to secure Foundation deposits in excess of \$100,000. The pledged security is held by a third-party safekeeping bank under a pledged collateral agreement. The market value of the pledged security at December 31, 2005 was \$523,318. The total amount of checking account deposits with Wells Fargo Bank N.A. as of December 31, 2005 was \$100,008. In addition to the checking account balance, the Foundation had cash balances of \$790,797 at December 31, 2005 invested with Wells Fargo Bank N.A. under a fully collateralized repurchase agreement.

The Foundation also maintains short-term cash investments in money-market mutual funds, which are not insured.

