

**CONSOLIDATED ANNUAL FINANCIAL REPORT**

**of the**

**UNIVERSITY OF NORTH TEXAS  
SYSTEM**

**DALLAS, TEXAS**

**Lee Jackson, Chancellor**

**For the fiscal year ended August 31, 2014**



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November 20, 2014

Lee Jackson  
Chancellor  
University of North Texas System  
1901 Main Street  
Dallas, TX 75201

Dear Chancellor Jackson:

We are pleased to submit the Annual Financial Report of the University of North Texas System for the year ended August 31, 2014 in compliance with TEX. GOV'T CODE ANN §2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the State Auditor as part of the audit of the State of Texas Comprehensive Annual Financial Report (CAFR); therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Jane-Anne Kanke at (940) 565-3214. Susan Carine may be contacted at (940) 369-5560 for questions related to the Schedule of Expenditures of Federal Awards.

Sincerely,

Janet Waldron  
Vice Chancellor for Finance



**UNIVERSITY OF NORTH TEXAS SYSTEM ADMINISTRATION**

**ORGANIZATIONAL DATA**

**August 31, 2014**

**BOARD OF REGENTS**

Brint Ryan .....(Term expires 5-22-15)..... Dallas  
Michael R. Bradford .....(Term expires 5-22-15)..... Midland  
Steve Mitchell .....(Term expires 5-22-15)..... Richardson  
  
Donald Potts.....(Term expires 5-22-17)..... Dallas  
Al Silva .....(Term expires 5-22-17)..... San Antonio  
Milton B. Lee.....(Term expires 5-22-17)..... San Antonio  
  
Rusty Reid .....(Term expires 5-22-19)..... Ft. Worth  
Gwyn Shea.....(Term expires 5-22-19)..... Irving  
B. Glen Whitley.....(Term expires 5-22-19)..... Hurst

**STUDENT REGENT**

Christopher D. Vera.....(Term expires 5-31-14)..... Victoria

**OFFICERS OF THE BOARD**

Brint Ryan.....Chairman  
Donald Potts..... Vice Chairman  
Rosemary R. Haggett..... Secretary

**ADMINISTRATIVE OFFICERS**

Lee F. Jackson ..... Chancellor  
Janet Waldron ..... Vice Chancellor for Finance

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### UNIVERSITY OF NORTH TEXAS SYSTEM (794) Management's Discussion and Analysis For the Year Ended August 31, 2014

#### Introduction

The University of North Texas System (the "System") was established by the 76th Legislature, and legislative funding was provided for the fiscal year beginning September 1, 1999. The System is currently comprised of four components funded by the Legislature: the University of North Texas System Administration (System Administration), established 1999; the University of North Texas (UNT), established 1890; the University of North Texas Health Science Center at Fort Worth (HSC), established 1970; and the University of North Texas at Dallas (UNTD), established 1999. The System components are agencies of the State of Texas.

The System serves the North Texas area, boosting economic activity in the region by around \$2 billion annually. Approximately 41,000 students are enrolled in undergraduate, graduate and professional programs. The System awarded more than 9,300 degrees this past academic year, including the largest number of Master's and Doctoral degrees in the region. The System has a network of over 360,000 alumni with more than 237,000 alumni living in the Dallas-Fort Worth Metroplex. The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas State Senate. Three members are appointed every odd-numbered year for six-year terms. In addition, the Governor appoints a non-voting Student Regent for a one-year term.

#### Overview of the Financial Statements and Financial Analysis

The objective of Management's Discussion and Analysis (MD&A) is to provide an overview of the financial position and activities of the System for the year ended August 31, 2014, with selected comparative information for the year ended August 31, 2013. As discussed in Note 14, *Adjustments to Net Position*, in the footnotes to the Consolidated Financial Statements, the beginning balance for the year ended August 31, 2014 was restated. The comparative information provided in MD&A compares the year ended August 31, 2014 to the year ended August 31, 2013 as originally reported. The MD&A was prepared by management and should be read in conjunction with the accompanying financial statements and notes. The emphasis of discussion about these financial statements will focus on current year data. Unless otherwise indicated, years in this MD&A refer to the fiscal years ended August 31. The System consolidated financial report includes three primary financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The financial statements of the System have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

#### Financial Highlights

- Fiscal year 2014 fall semester headcount enrollment at UNT, UNTD, and HSC reflected an overall increase of approximately 1.7% compared to the previous fiscal year's fall semester. The enrollment growth experienced by the System is notable during a time of flat enrollments across the higher education industry.
- Total operating revenues increased this year compared to last year by \$30.9 million or 5.8%. This increase is primarily driven from a \$23.5 million or 6.9% increase in tuition and fees due to approved tuition and fee increases and enrollment increases; however, there was also an increase in discounts and allowances of \$8.1 million or 10.6%. The overall effect was a net increase in tuition and fees of \$15.3 million or 5.8%.
- The System's investment activity was strong this fiscal year, with a net increase in the fair market value of investments of \$17.9 million within the long-term pool and endowments.
- Non-operating revenues increased by \$61.9 million or 24.3% due primarily to increases in legislative appropriations, federal revenue, and the net increase in the fair value of investments.
- State appropriations increased \$29.3 million or 14.2% between 2013 and 2014 due, in part, to an increased enrollment growth at HSC.



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### UNIVERSITY OF NORTH TEXAS SYSTEM (794) Management's Discussion and Analysis For the Year Ended August 31, 2014

- Operating expenses increased by approximately \$38.6 million or 4.7%, which is a lower percentage growth than revenues due partly to cost containment.
- UNT, HSC, UNTD and the College of Law strengthened their focus on raising private revenue with UNT bringing to completion its \$200 million fundraising campaign and UNTHSC raising approximately \$6.5 million in pledges and philanthropic gifts.
- The Net Investment in Capital Assets increased by \$34.0 million or 8.6% reflecting significant capital project work to benefit the faculty, staff and students of the System.

Investments in capital asset additions were \$92.1 million in 2014. Major capital projects completed in 2014 include:

- Land Acquisitions (UNT) – 1811 Maple Street and 915 North Texas Boulevard
- Land Improvements (UNT) – 2350 North I-35E
- Building Improvements (System Administration) – 1900 Elm Majestic Lofts, 1901 Main (Interim College of Law)
- Building Improvements (UNT) – General Academic Building, Sycamore Hall, Eagle Student Services Center, Chilton Hall, Performing Arts Center, Welch Street Complex One & Two, Life Sciences Complex, Library Annex, Discovery Park, Research Greenhouse, Chestnut Hall, Crumley Hall, Kerr Hall, Maple Street Hall, College Inn, Santa Fe Square Hall, Greek Life Center, Woodhill Square One and Three
- Building Improvements (HSC) – 7<sup>th</sup> Street Professional Building, Research & Education, Everett Education & Administration, Lewis Library
- Infrastructure Improvements (UNT) – Outdoor Lighting System, Energy Performance Improvements
- Facilities & Other Improvements (UNT) – West Plaza at Wooten Hall and Plazas at I-35E Pedestrian Bridge
- Facilities & Other Improvements (HSC) – Library Courtyard
- Facilities & Other Improvements (UNTD) – Sports Fields

Revenue Bonds Payable represents the largest portion of the System's liabilities. Current and Non-Current Revenue Bonds Payable decreased \$25.4 million to \$416.1 million at August 31, 2014. All bonds that relate to the financing of current and prior years' construction needs reflect "Aa2", "AA", and "A+" credit ratings from the three major bond-rating agencies.

#### Overview of the Financial Statements

The System consolidated financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. This report has been prepared in accordance with GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public College and Universities*, as amended, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended.

These statements are prepared applying the following principles and standards:

- Reporting is on a full accrual basis of accounting. All current year revenues and expenses are recognized when earned or incurred, regardless of when the cash is received or disbursed.
- Depreciation expense on capital assets is reported as an operating expense on the Statement of Revenues, Expenses, and Changes in Net Position. The historical value of capital assets and the accumulated depreciation are reported on the Statement of Net Position.
- Revenues and expenses are categorized as operating or nonoperating. Revenues from state appropriations, gifts, and investment income are reported as nonoperating revenue in accordance with GASB Statement No. 35, as amended.

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**UNIVERSITY OF NORTH TEXAS SYSTEM (794)  
Management's Discussion and Analysis  
For the Year Ended August 31, 2014**

**Statement of Net Position**

The Statement of Net Position presents the financial position of the System at fiscal year end. From the data presented, readers of this statement are able to determine the assets available to continue the operations of the System. They are also able to determine what the System owes to vendors, investors and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and the availability of resources to cover the expenses of the System. The change in net position is one indicator of whether the financial condition has improved or worsened during the fiscal year when considered with nonfinancial facts, such as enrollment levels and the condition of facilities.

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows and net position of the System as of the end of the year. The net position section presents assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. The net position section of the statement is reported by three major categories: 1) Net Investment in Capital Assets; 2) Restricted; and 3) Unrestricted. The Net Investment in Capital Assets section represents the System's equity in property, plant, and equipment, net of accumulated depreciation, and unspent bond proceeds, reduced by outstanding balances for bonds and other debt that are attributed to the acquisition, construction or improvement of those assets. Restricted Net Position is divided into two categories: 1) Non-Expendable and 2) Expendable. Unrestricted Net Position is available for any lawful purpose of the institution.

The following table reflects the Condensed Comparative Statement of Net Position for the System as of August 31, 2014 and 2013:

<b>Condensed Comparative Statements of Net Position</b>			
<b>As of August 31, 2014 and 2013</b>			
<b>(in thousands of dollars)</b>			
	<u>2014</u>	<u>2013</u>	<u>% Incr/Decr</u>
Assets and Deferred Outflows			
Current Assets	\$ 464,237	\$ 476,116	-2.5%
Noncurrent Assets			
Capital Assets, Net	930,893	893,379	4.2
Other Noncurrent Assets	244,426	181,416	34.7
Deferred Outflows	4,768	-	100
<b>Total Assets and Deferred Outflows</b>	<b><u>\$ 1,644,324</u></b>	<b><u>\$ 1,550,911</u></b>	<b><u>6.02%</u></b>
Liabilities			
Current Liabilities	\$ 419,222	\$ 324,537	29.2%
Noncurrent Liabilities			
Bonded Indebtedness	389,737	417,588	-6.7
Other Noncurrent Liabilities	39,103	50,329	-22.3
<b>Total Liabilities</b>	<b><u>848,062</u></b>	<b><u>792,454</u></b>	<b><u>7.0</u></b>
Net Position			
Net Investment in Capital Assets	429,303	395,278	8.6
Restricted:			
Funds Held as Permanent Investments:			
Non-Expendable	50,874	47,932	6.1
Expendable	16,245	12,195	33.2
Other Restricted	13,293	88,232	-84.9
Total Restricted	<u>80,412</u>	<u>148,359</u>	<u>-45.8</u>
Unrestricted	<u>286,547</u>	<u>214,821</u>	<u>33.4</u>
<b>Total Net Position</b>	<b><u>796,262</u></b>	<b><u>758,458</u></b>	<b><u>5.0</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 1,644,324</u></b>	<b><u>\$ 1,550,911</u></b>	<b><u>6.02%</u></b>

## UNAUDITED

### UNIVERSITY OF NORTH TEXAS SYSTEM (794) Management's Discussion and Analysis For the Year Ended August 31, 2014

The section below includes explanations and management's analysis of significant changes within the Statement of Net Position:

#### **Total Assets and Deferred Outflows**

Total assets and deferred outflows increased \$93.4 million, or 6%, in 2014 primarily due to a significant increase in the fair value of investments, discussed below, as well as additions to capital assets.

#### **Other Assets**

##### **Current Assets**

The System's Current Assets decreased \$11.9 million in 2014 primarily as a result of the reclassification of UNT's endowment investments to noncurrent restricted assets in the current year; offset by an increase in Accounts Receivable of \$7.6 million; and an increase of \$12.5 million in Other Receivables related to the restatement of clinical receivables, to include receivables for services provided, but not yet billed, as discussed in Note 14, *Adjustments to Net Position*, in the footnotes to the Consolidated Financial Statements.

##### **Restricted Non-Current Investments**

Restricted Non-Current Investments include permanent endowments and funds functioning as endowments. These assets increased \$81.1 million in 2014 primarily due to a reclassification of endowment investments from both Current Restricted Short Term Investments and Non-Current Unrestricted Investments to Non-Current Restricted Investments.

##### **Unrestricted Non-Current Investments**

Unrestricted Non-Current Investments decreased by \$19.0 million in 2014 primarily due to a reclassification of endowment investments from Unrestricted Non-Current Investments to Restricted Non-Current Investments.

#### **Capital Assets**

##### **Non-Depreciable Capital and Intangible Assets**

Non-Depreciable Capital and Intangible Assets increased by \$26.7 million. Construction in Progress increased by \$24.4 million, or 37.5%, in 2014 primarily due to the ongoing Student Union, Discovery Park, and Rawlins Hall projects at UNT.

##### **Depreciable Capital and Intangible Assets**

In total, Depreciable Capital and Intangible Assets increased by \$10.8 million, primarily the result of the completion of various construction projects, including, but not limited to: the renovation of the System's main administration office in downtown Dallas; the completion and transfer of \$52.2 million of construction projects to completed capital assets; and the purchase of \$20.7 million of capital assets additions during the year. This increase was offset by \$53.1 million in depreciation expense and restatements of \$7.5 million as discussed in Note 14, *Adjustments to Net Position*, in the footnotes to the Consolidated Financial Statements.

#### **Deferred Outflows**

Deferred outflows consist of unamortized losses on refunding of debt, which increased from zero in 2013 to \$4.8 million in 2014 due to a restatement in the current year to record these amounts in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, as amended.

#### **Total Liabilities**

Total Liabilities increased \$55.6 million in 2014, or 7%, mainly due to the issuance of commercial paper and private placement bonds in the amount of \$44.5 million offset by \$32.2 million in payments on long-term liabilities; increases in accounts payable due to increases in ongoing construction projects at August 31, 2014; and increases in unearned revenue related to the upcoming semester.

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**UNIVERSITY OF NORTH TEXAS SYSTEM (794)  
Management's Discussion and Analysis  
For the Year Ended August 31, 2014**

**Current Liabilities**

The System's Current Liabilities increased \$94.7 million, or 29.2%, in 2014 primarily due to increases in Accounts Payable related to the various ongoing construction projects throughout the System. Additionally, the Non-Current Notes and Loans Payable amount in 2013 was reclassified as Current Notes and Loans payable, resulting in an increase of \$49 million. Payroll Payable also increased by \$9.7 million due to restatements described in Note 14, *Adjustments to Net Position*, in the footnotes to the Consolidated Financial Statements.

Claims and Judgments amounts were also included in the Current Liabilities section, as they relate to two current outstanding contingent liabilities as discussed in Note 15, *Contingencies and Commitments*, in the footnotes to the Consolidated Financial Statements.

**Non-Current or Long-Term Liabilities**

Non-Current Liabilities consist primarily of Non-Current portions of Notes and Loans; Capital Lease Obligations; Revenue Bonds Payable; and Employees' Compensable Leave. In total, Non-Current Liabilities decreased \$39.1 million, primarily due to a reclassification of the Non-Current Notes and Loans Payable amounts reported in 2013 to Current Notes & Loans Payable as indicated above. In addition, the System incurred \$15.0 million of private placement debt which offset a portion of this change.

**Total Net Position**

Total net position represents the residual interest in the System's assets and deferred outflows after liabilities and deferred inflows are deducted. As stated previously under the *Financial Highlights* section, net position increased by \$37.8 million in 2014. The following table summarizes the composition of net position at August 31, 2014 and 2013:

<b>Net Position</b>			
<b>As of August 31, 2014 and 2013</b>			
<b>(in thousands of dollars)</b>			
	<b>2014</b>	<b>2013</b>	<b>% Incr/Decr</b>
Net Investment in Capital Assets	\$ 429,303	\$ 395,278	8.6%
Restricted:			
Debt Retirement	19	19	-
Funds Held as Permanent Investments:			
Non-Expendable	50,874	47,932	6.1
Expendable	16,245	12,195	33.2
Other	13,274	88,213	-85.0
Total Restricted	<u>80,412</u>	<u>148,359</u>	<u>-45.8</u>
Unrestricted	286,547	214,821	33.4
<b>Total Net Position</b>	<b><u>\$ 796,262</u></b>	<b><u>\$ 758,458</u></b>	<b><u>5.0%</u></b>

**Net Investment in Capital Assets**

Net Investment in Capital Assets represents the System's capital and intangible assets, net of accumulated depreciation and amortization and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets. The net \$34.0 million increase in net investment in capital assets in 2014 primarily resulted from a \$37.5 million increase in capital assets, net of accumulated depreciation and a \$4.8 million restatement to record a deferred outflow of resources for unamortized losses on refunding bonds, offset by a \$9.1 million increase in notes, loans, and revenue bonds payable.

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### UNIVERSITY OF NORTH TEXAS SYSTEM (794) Management's Discussion and Analysis For the Year Ended August 31, 2014

#### **Restricted Net Position**

Restricted Net Position primarily includes the System's permanent investments subject to externally imposed restrictions governing their use. In total, Restricted Net Position decreased by \$68.0 million, or 45.8%, primarily due to a reclassification of Higher Education Assistance Funds (HEAF) from restricted funding to unrestricted funding. While the State has designated this amount to be used for capital purposes, it is unrestricted as the System is part of the State. The amount of HEAF funding available as of August 31, 2014 and August 31, 2013, respectively, was \$60.0 million and \$66.2 million.

#### **Unrestricted Net Position**

Unrestricted Net Position increased by \$71.7 million, or 33.4%, due to the increase of \$29.3 million in legislative appropriations revenue; the net increase of \$15.3 million in net tuition and fees revenue; and the reclassification of HEAF from restricted to unrestricted net position. The increase is offset by an increase in operating expenses of \$38.6 million.

#### **Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position presents the System's revenues earned and the expenses incurred during the 2014 fiscal year, regardless of when cash is received or paid. Activities are reported as either operating or nonoperating. Generally, operating revenues are earned in exchange for providing goods and services. Operating expenses are incurred in the normal operation of the System, including a provision for depreciation on capital assets. Certain revenue sources that the System relies on for operations, including State appropriations, gifts, grants and investment income are required by GASB Statement No. 35 to be classified as nonoperating revenues. Revenues are reported by major source, and expenses are reported on the face of the statement by National Association of College and University Business Officers' (NACUBO's) functional (programmatic) categories.

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**UNIVERSITY OF NORTH TEXAS SYSTEM (794)**  
**Management's Discussion and Analysis**  
**For the Year Ended August 31, 2014**

The following table reflects the System's Condensed Comparative Statement of Revenues, Expenses and Changes in Net Position for the fiscal years ended August 31, 2014 and 2013:

<b>Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position</b>			
<b>For the Fiscal Years Ended August 31, 2014 and 2013</b>			
<b>(in thousands of dollars)</b>			
	<b>2014</b>	<b>2013</b>	<b>% Incr/Decr</b>
Total Operating Revenues	\$ 560,906	\$ 530,008	5.8%
Total Operating Expenses	861,895	823,755	4.6
<b>Operating Income/(Loss)</b>	<b>(300,989)</b>	<b>(293,747)</b>	<b>2.5</b>
Total Nonoperating Revenues/(Expenses)	316,495	255,025	24.1
Income/(Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	15,506	(38,722)	-140
Other Revenues, Expenses, and Transfers	35,132	33,024	6.4
<b>Change in Net Position</b>	<b>50,638</b>	<b>(5,696)</b>	<b>-989</b>
Net Position, Beginning of Year	758,458	764,154	-0.7
Restatement	(12,833)	-	100
Restated Net Position, Beginning of Year	745,625	764,154	-2.4
<b>Net Position, End of Year</b>	<b>\$ 796,263</b>	<b>\$ 758,458</b>	<b>5.0%</b>

The section below includes explanations and management's analysis of significant changes within the Statement of Revenues, Expenses, and Changes in Net Position:

**Operating Revenues**

Operating revenues totaled \$560.9 million for the fiscal year ended August 31, 2014, an increase of \$30.9 million over 2013. The System's primary sources of operating revenues come from net student tuition and fees, sponsored programs, net sales and services, net professional fees, and auxiliary enterprises.

**Net Student Tuition and Fees**

Student tuition and fees, a primary source of funding for the System's academic programs, representing 49.9% of operating revenues, are reflected net of associated discounts and allowances. Net student tuition and fees increased \$15.3 million, or 5.8%, as a result of increased enrollment and increased tuition rates throughout the System.

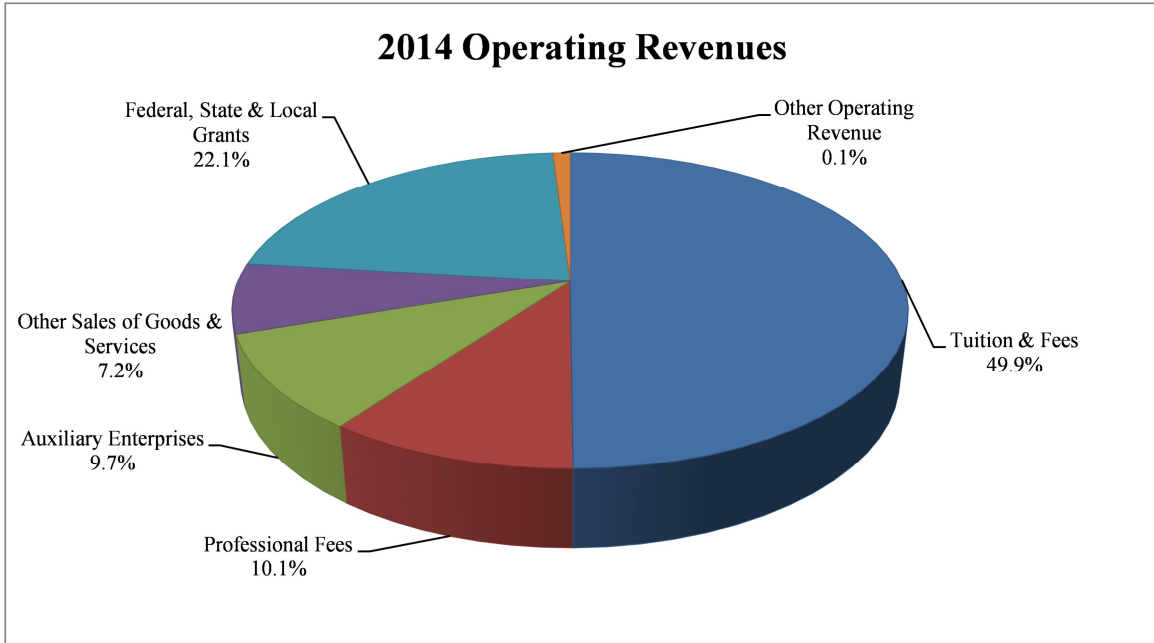
**Sponsored Programs**

Sponsored program revenues, representing 22.1% of operating revenues, are primarily from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. Governmental sponsored programs include grants from the federal government. Other sponsored programs include revenues from contracts with the Federal Bureau of Prisons for clinical activities, which were reported as Professional Fees in 2013, that have been reclassified to Federal Revenue - Operating. These revenues increased by \$23.5 million, or 23.3%, in 2014. Part of the increase in Sponsored Programs was due to the increase of Net Patient Care Revenues, which are principally generated within the System's physicians' practice plan under contractual arrangements with governmental payors and private insurers.

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**UNIVERSITY OF NORTH TEXAS SYSTEM (794)  
Management's Discussion and Analysis  
For the Year Ended August 31, 2014**

The pie chart below shows operating revenue by major source for the year ended August 31, 2014:



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**UNIVERSITY OF NORTH TEXAS SYSTEM (794)  
Management's Discussion and Analysis  
For the Year Ended August 31, 2014**

**Operating Expenses**

Operating expenses totaled \$862.2 million for the fiscal year ended August 31, 2014, an increase of \$38.5 million, or 4.7%, over 2013. The increase is due primarily to a \$14.5 million increase in Salaries and Wages, a \$9.6 million increase in Payroll Related Costs, and an \$11 million increase in Professional Fees and Services.

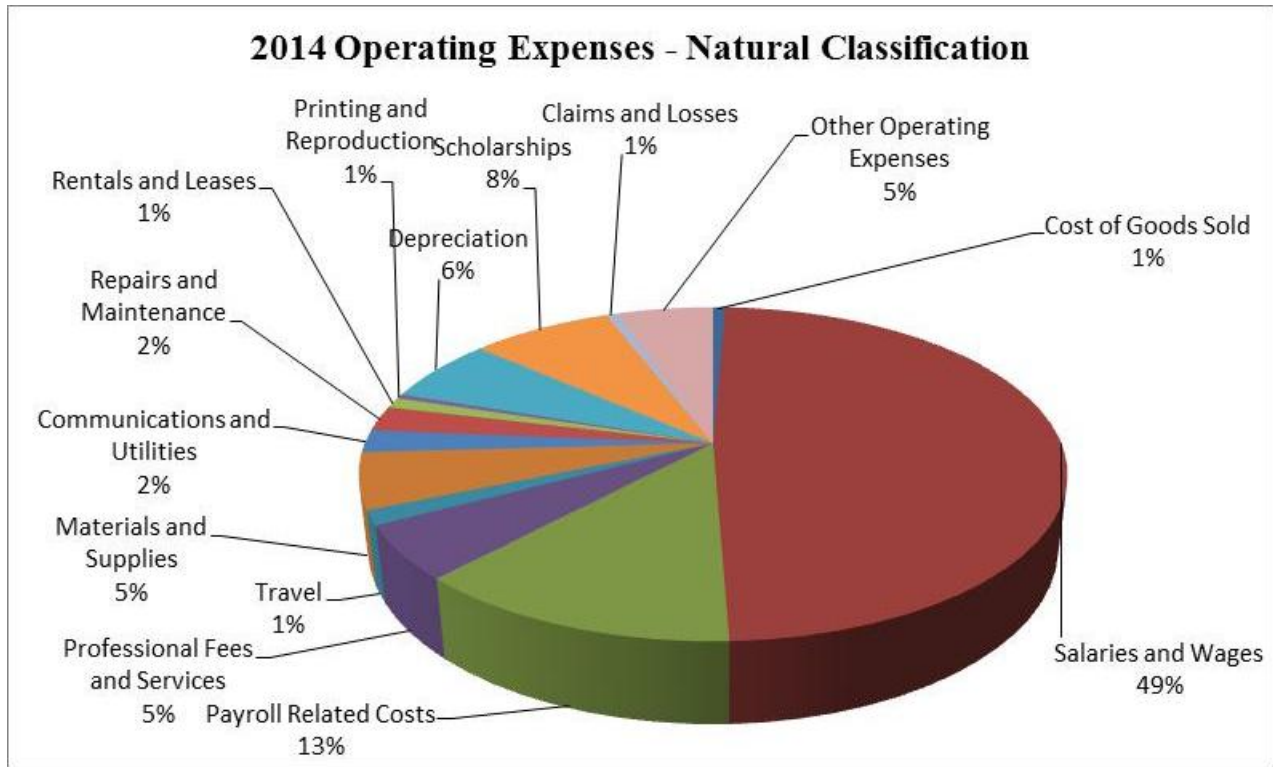
The table and pie chart below show the amount, percentage change, and percentage of total operating expense of each type of operating expense based on natural classification for the year ended August 31, 2014:

<b>Operating Expenses - Natural Classification</b>			
<b>For the Fiscal Years Ended August 31, 2014 and 2013</b>			
<b>(in thousands of dollars)</b>			
<b>Operating Expenses</b>	<b>2014</b>	<b>2013</b>	<b>% Incr/Decr</b>
Cost of Goods Sold	\$ 5,767	\$ 849	579.3%
Salaries and Wages	419,672	405,200	3.6
Payroll Related Costs	108,912	99,629	9.3
Professional Fees and Services	45,155	34,173	32.1
Travel	12,098	11,118	8.8
Materials and Supplies	46,766	49,843	-6.2
Communication and Utilities	18,747	18,364	2.1
Repairs and Maintenance	21,059	21,674	-2.8
Rentals and Leases	8,644	7,793	10.9
Printing and Reproduction	3,838	3,473	10.5
Federal Grant Pass-Through Expense	341	896	-61.9
Interest Expense	-	-	100
State Grant Pass-Through Expense	217	157	38.2
Depreciation and Amortization	53,867	52,057	3.5
Bad Debt Expense	-	4,695	-100
Scholarships	66,325	69,189	-4.1
Claims and Judgments	5,267	-	100
Other Operating Expenses	45,220	44,645	1.3
<b>Total Operating Expenses</b>	<b>\$ 861,895</b>	<b>\$ 823,755</b>	<b>4.6%</b>



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UNIVERSITY OF NORTH TEXAS SYSTEM (794)  
 Management's Discussion and Analysis  
 For the Year Ended August 31, 2014



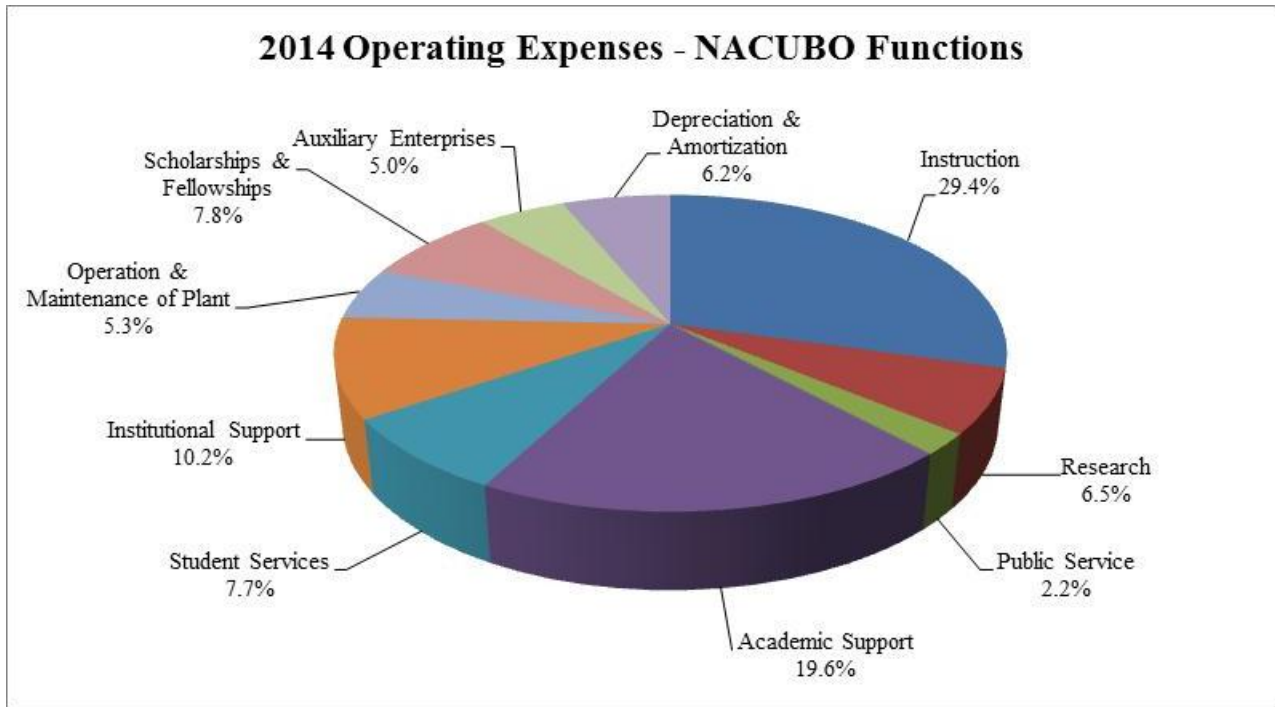
The table and pie chart below show the amount, percentage change, and percentage of total operating expenses of each NACUBO functional (programmatic) operating expense classification of total operating expenses for the year ended August 31, 2014:

**Operating Expenses - NACUBO Functions**  
**For the Fiscal Years Ended August 31, 2014 and 2013**  
 (in thousands of dollars)

Operating Expenses	2014	2013	%
			Incr/Decr
Instruction	\$ 253,667	\$ 241,290	5.1%
Research	56,410	57,911	-2.6
Public Service	18,596	16,124	15.3
Academic Support	169,169	154,479	9.5
Student Services	66,767	62,254	7.2
Institutional Support	87,632	83,759	4.6
Operation and Maintenance of Plant	45,858	45,328	1.2
Scholarships and Fellowships	66,962	66,882	0.1
Auxiliary Enterprises	42,967	43,671	-1.6
Depreciation	53,867	52,057	3.5
<b>Total Operating Expenses</b>	<b>\$ 861,895</b>	<b>\$ 823,755</b>	<b>4.6%</b>

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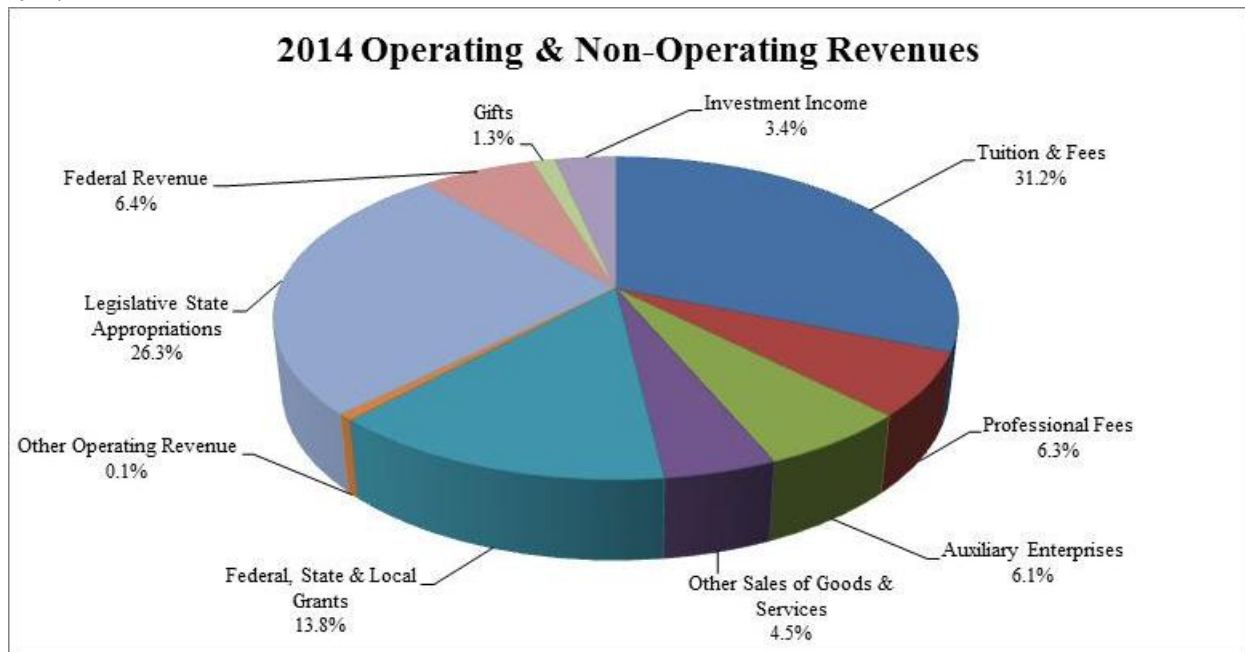
UNIVERSITY OF NORTH TEXAS SYSTEM (794)  
Management's Discussion and Analysis  
For the Year Ended August 31, 2014



**Nonoperating Revenues**

Certain significant recurring revenues are considered nonoperating. The System's primary sources of nonoperating revenues and expenses come from State appropriations, nonexchange sponsored programs, gift contributions for operations, net investment income (loss) excluding the change in fair value of investments, net increase (decrease) in fair value of investments, and interest expense.

The pie chart below shows both operating and nonoperating revenue by major source for the year ended August 31, 2014:



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#### **State Appropriations**

State appropriations increased \$29.3 million, or 14.2% between 2013 and 2014.

#### **Nonexchange Sponsored Programs**

Federal nonexchange sponsored programs is composed of Federal Pell Grant Revenues of \$57.4 million, which reflects an increase of 21.7% from 2013 to 2014.

#### **Net Increase (Decrease) in Fair Value of Investments**

The fair value of the System's investments increased \$17.9 million in 2014 to \$20.9 million, primarily due to the increased fair value of the long term pool and endowments managed by the Foundation.

#### **Nonoperating Expenses**

##### **Interest Expense**

Interest expense on capital asset financings decreased by \$1.9 million from \$19.3 million in 2013 to \$17.3 million in 2014 primarily due to capitalized interest of \$0.7 million in the current year.

##### **Income (Loss) Before Other Revenue, Expenses, and Transfers**

Income before other revenue, expenses, and transfers is the sum of the operating loss plus nonoperating revenues (expenses). It is an indication of recurring revenues and expenses for the System and does not take into account capital and endowment-related additions and transfers. The income before other revenues, expenses, gains or losses totaled a gain of \$15.5 million in 2014, an increase of \$54.2 million over 2013. This increase was largely a result of the \$17.9 million increase in the net change in the fair value of investments, the \$29.3 million increase in legislative appropriations received by the System, and \$8.0 million of revenues from the Medicaid Transformation (1115) Waiver program.

The significant operating loss reported for the current and prior fiscal years on this statement is reflective of GASB Statement No. 35 reporting requirements, which stipulate that revenue from legislative appropriations is to be reported as nonoperating revenue, but the expenditure of these funds must be reported as operating expense.

Included in nonoperating revenue above are legislative appropriations for the current fiscal year totaling \$188.1 million, additional appropriated revenue for state-paid fringe benefits of \$47.3 million, and proceeds from federal non-exchange sponsored programs of \$57.7 million. However, HEAF annual revenue totaling \$36.6 million is reported as a Capital Contribution rather than operating revenue or nonoperating revenue.

#### **Capital Asset and Debt Administration**

The System capital asset additions from acquisitions, donations, and construction during the fiscal year totaled \$92.1 million. More detailed information regarding the System's capital asset activity is provided in Note 2, *Capital Assets*, in the footnotes to the Consolidated Financial Statements.

Bond ratings remained constant in 2014. More detailed information regarding the System's bonded indebtedness is provided in Note 6, *Bonded Indebtedness*, of the accompanying Notes to the Consolidated Financial Statements.

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The following table sets forth the Pledged Revenues under the Revenue Financing System for each of the three most recent fiscal years:

	2012	2013	2014
Available Pledged Revenues (not including Fund Balances) <sup>(1)(3)</sup>	\$389,866,749	\$411,907,506	\$457,345,382
Pledgeable Unappropriated Funds (Funds and Reserve Balances) <sup>(2)(3)</sup>	211,971,787	195,968,898	158,516,034
Total Pledged Revenues <sup>(3)</sup>	\$601,838,536	\$607,876,404	\$615,861,416

<sup>(1)</sup>The Available Pledged Revenues include the gross revenues of the Revenue Financing System, the Student Union Fee, pledged general tuition (which includes general use fees), and investment income or moneys on deposit in the Interest and Sinking Fund and the Reserve Fund.

<sup>(2)</sup>In addition to current year Pledged Revenues, any unappropriated or reserve fund balances remaining at year end are available for payment of the subsequent year's debt service.

<sup>(3)</sup>Available Pledged Revenues and Pledgeable Unappropriated Funds do not include System HEAF Reserves or Health and Loan reserves at the Health Science Center.

**Economic Outlook**

For fiscal year 2014, enrollment increases between Fall 2012 and Fall 2013, coupled with tuition rate increases, approved by the System Board of Regents, generated additional revenue. For UNT, the tuition rate increase was approved to support the System's targeted growth and strategic momentum toward reaching National Research University status. For UNTD, the increase was approved to finance the costs of the costs of program expansion and student support. The increase for HSC was intended to ensure that it could continue to meet student and faculty academic needs, provide the required infrastructure to support an improved academic environment, and ensure the programs could effectively compete with similar programs in Texas.

For fiscal year 2015, UNT's tuition rate increases for its traditional tuition plan and its new fixed-rate tuition plan will generate additional revenue. UNTD's traditional tuition rate increased for Fall 2014, while the rate for its new fixed-rate tuition plan maintained the Fall 2013 rate. 50% of incoming freshmen (4,700 students) in Fall 2014 selected the fixed-rate tuition plan. UNTD's enrollment growth will result in additional revenue. While tuition rates at HSC remained level between 2013 and 2014, increased enrollment will generate additional tuition revenue.

Although the System was challenged by an uncertain external environment, campuses continued to experience student growth. HSC was home to 2,243 students at the end of the fiscal year 2014, an increase of 5.2% from fiscal year 2013. Enrollments at UNT and UNTD have also continued to show modest increases. Incremental revenues from enrollment growth and approved tuition increases will continue to be critical in advancing institutional goals. Additionally, UNT engaged external consultants to identify opportunities for increased efficiency and cost savings. These recommendations have been or are in the process of being implemented and are expected to generate significant cash flows that will further sustain ongoing fiscal stability and growth. Since UNTD successfully received accreditation from the Southern Association of Colleges and Schools in June 2013, retroactive to January 2013, it has added a Psychology program and a Child Development and Family Studies program, both of which culminate in Bachelor's degrees, and Master's degree programs in Public Leadership and Educational Leadership. Additional programs currently in development, new community partnerships, and strategic planning efforts are all expected to lead to further increases in enrollment. Furthermore, UNT Dallas College of Law, operating as a professional school of System Administration, has enrolled its inaugural class for the Fall 2014 semester.

Expanding its research enterprise and successfully competing for federal, state, and private grants and contracts continue to be priorities for the System. UNT is currently ranked by the Carnegie Foundation as a High Research Activity University and by the Texas Higher Education Coordinating Board as an Emerging Research University. The System is proactive about being competitive in an increasingly competitive federal funding climate. Federal funding has been declining in terms of constant dollars over the last several years (many funding agencies have single digit percentage proposal review success rates), and where there new funding programs have been established, they have been focused on multi-investigator, inter- and trans-disciplinary research. To address the issues of the current funding environment, UNT is building on the hiring of faculty members with track records of

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### UNIVERSITY OF NORTH TEXAS SYSTEM (794) Management's Discussion and Analysis For the Year Ended August 31, 2014

success in competing for funding as part of its research clusters hiring program and is moving toward forming large Research Institutes of Excellence (initially in three areas of focus, as follows). Over the next ten months, UNT will set up the BioDiscovery Institute, the Logistics Systems Institute, and the Advanced Materials and Manufacturing Processes Institute. The Institutes are being built by members who were hired as part of the successful research cluster hiring program along with productive faculty members who have been at UNT for many years. It is important to note that as a result of the cluster hiring over the past several years, UNT gained three National Academy Members as faculty in 2014.

A major outcome expected from bringing larger groups of faculty members together, including those on the main campus in concert with those at Discovery Park, will be a significant increase in UNT's success in competing for large multi-investigator, interdisciplinary awards at the federal level, as well as increasing the funding of sponsored research from private sector partners. We expect the BioDiscovery Institute to play national and international roles in the broad area of basic understanding of plant processes and materials for development of a sustainable and environmentally friendly bio-based economy. The Logistics Systems Institute will serve as the intellectual hub for research on complex logistics systems and their potential to impact regional economies in a global network. The Advanced Materials and Manufacturing Processes Institute will seek to foster sustainable development, scalability, and advanced manufacturing by a synergy of materials synthesis, metrology and characterization, and computational and "big data" simulation and discovery.

UNT is one of eight Emerging Research Universities designated by the state of Texas. As such, UNT is able to compete for special state funding to build up research programs, endowments, and other efforts that define great research campuses. Funding programs provided by HB51 from the 81st Texas Legislature include the Texas Research Incentive Program, which will match private gifts and scholarships secured by a university, and the National Research University Fund, which rewards a university if it crosses certain thresholds of excellence.

Expanding research infrastructure is a key component to UNT's research growth. In 2013, UNT's new Net Zero Energy Research Laboratory building was completed. Additionally, both a \$6 million electronics/photonics cleanroom facility at Discovery Park and a \$2.2 million consolidation and modernization of UNT's premier materials characterization and analysis facility, the Center for Advanced Research and Technology (CART), were completed. More than \$1 million of the CART renovation was funded by a grant from the National Science Foundation. These construction projects will bring the two facilities (CART and the cleanroom) together into one new shared facility that will be available to all System users as well as the private sector. UNT is establishing user fees for these shared facilities, as well as for additional shared facilities on the main campus in the Life Sciences Complex. UNT has added two greenhouses, and the infrastructure is in place to add six more as externally funded plant sciences research continues to excel. UNT also continues its renovations at Discovery Park in order to create new research space. UNT expects to add an additional 50,000 square feet of renovated space over the next two years in order to provide space for the recently launched Department of Biomedical Engineering. UNT had pursued construction of a new \$98 million Science and Technology Research Building using Tuition Revenue Bonds (TRB); however, the 2013 State Legislature did not approve funding for the TRB program. UNT will again request funding for this building in the 2015 session of the State Legislature.

Expanding the research enterprise and soliciting external funds through grants and contracts continue to be a priority for HSC as well. Research awards reached more than \$42.7 million in fiscal year 2014. HSC research efforts are primarily funded by federal support from the National Institutes of Health (NIH) and other Department of Health and Human Services agencies, considered the gold standard when judging quality of biomedical research. HSC growth in research funding from the NIH dramatically exceeds the overall national average. Last fiscal year alone, faculty submitted grant proposals totaling more than \$230 million.

HSC remains committed to its role in primary care delivery, and has built our patient care network to bring much-needed physician services to the North Texas region. As part of this commitment, HSC participates in the Texas Healthcare Transformation Waiver Program with seven healthcare delivery system redesign projects funded through the Texas Health and Human Services Commission and Centers for Medicare & Medicaid Services. These five-year projects are focused on implementing innovative approaches to discovery and healthcare delivery in managing disease more effectively while enhancing access to care in the region. The program was in its third year and generated \$8.0 million in net revenue during fiscal year 2014.



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Furthermore, UNT Health Patient Services is one of the largest multi-specialty physician groups in Tarrant County with approximately 230 healthcare providers, of which 187 are clinical faculty physician full-time equivalents representing 31 different medical specialties. HSC providers had over 566,000 patient encounters last year in the 29 clinical locations across the county. As a result, UNT Health generated about \$84.1 million in revenue from both its clinical and correctional medicine operations. HSC is focused on the clinical practice, which is expected to expand and generate additional income in future periods.

System Administration has worked for the past several years to centralize key administrative services to increase efficiency and facilitate system-wide cost savings. This allows the System's component institutions to concentrate on carrying out their respective missions. These shared services efforts encompass system and university business services, information technology, and human resources.

The System is committed to increasing its resources from endowed gifts and other contributions through ambitious development efforts. UNT has exceeded the \$200 million goal of its Comprehensive Campaign, and as the institution continues its progress towards achieving National Research University status, these contributions will be a critical supplement to the funding received from the State and a significant factor in supporting student financial need and advancing academic and research programs. The HSC Foundation received fiscal 2014 gifts and pledges of \$6.5 million, which doubled philanthropic performance compared to 2013. Funding of \$1.8 million was secured to launch a Pediatric Mobile Clinic, while \$1.5 million created an endowed professorship in Surgery.

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UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED (794)  
**Statement of Net Position**  
**As of Year Ended August 31, 2014**

	<b>August 31, 2014</b>
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalents	
Cash on Hand	\$ 129,415.10
Cash in Bank	21,735,783.33
Cash in Transit/Reimburse from Treasury	4,075,831.70
Cash in State Treasury	15,883,768.47
Cash Equivalents	161,012,204.00
Restricted:	
Cash and Cash Equivalents	
Cash on Hand	51,284.20
Cash in Bank	16,823,223.85
Cash Equivalents	1,649,812.00
Legislative Appropriations	76,323,990.47
Receivables from:	
Federal	32,182,071.55
Other Intergovernmental	776,644.41
Interest and Dividends	1,439,110.13
Accounts Receivable	72,871,593.33
Gifts, Pledges and Donations	3,351,290.12
Other Receivables	17,085,580.24
Due From Other Agencies	6,485,132.50
Consumable Inventories	523,742.58
Merchandise Inventories	1,915,011.62
Loans and Contracts	1,539,430.20
Other Current Assets	28,381,914.29
<b>Total Current Assets</b>	<b>464,236,834.09</b>
Non-Current Assets	
Restricted:	
Cash and Cash Equivalents	
Investments (Note 3)	85,268,043.02
Loans and Contracts	5,152,726.56
Investments (Note 3)	152,315,937.48
Gifts, Pledges and Donations	1,689,198.79
Capital Assets:	
Non-Depreciable or Non-Amortizable	186,836,271.70
Depreciable or Amortizable, Net	744,056,937.73
<b>Total Non-Current Assets</b>	<b>1,175,319,115.28</b>
<b>Total Assets</b>	<b>1,639,555,949.37</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Unamortized Loss on Refunding Debt	4,768,314.00
<b>Total Deferred Outflows of Resources</b>	<b>4,768,314.00</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,644,324,263.37</b>
<b>LIABILITIES</b>	
Current Liabilities	
Payables From:	
Accounts Payable	\$ 39,896,190.88
Payroll Payable	43,347,386.72
Other Payables	6,717,585.81
Interest	5,772,835.15
Due To Other Agencies	229,844.57
Unearned Revenues	193,887,202.14
Notes and Loans Payable (Note 5)	76,067,000.00
Revenue Bonds Payable (Note 5, 6)	26,375,415.73
Claims and Judgments (Note 5)	5,845,946.84
Employees' Compensable Leave (Note 5)	2,619,848.00
Capital Lease Obligations (Note 5, 8)	118,483.23
Funds Held for Others	17,967,200.63
Other Current Liabilities	376,575.75
<b>Total Current Liabilities</b>	<b>419,221,515.45</b>

See Accompanying Notes to the Consolidated Financial Statements



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Non-Current Liabilities	
Notes and Loans Payable (Note 5)	15,000,000.00
Revenue Bonds Payable (Note 5, 6)	389,737,317.09
Employees' Compensable Leave (Note 5)	20,102,475.12
Capital Lease Obligations (Note 5, 8)	59,984.70
Funds Held for Others	1,474,271.53
Other Non-current Liabilities	2,465,907.01
<b>Total Non-Current Liabilities</b>	<b>428,839,955.45</b>
<b>Total Liabilities</b>	<b>848,061,470.90</b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	429,302,977.66
Restricted for:	
Debt Retirement	19,091.81
Funds Held as Permanent Investments	
Non-Expendable	50,874,222.14
Expendable	7,404,149.72
Other Restricted	22,115,509.91
Unrestricted	286,546,841.23
<b>Total Net Position</b>	<b>796,262,792.47</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,644,324,263.37</b>



# UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

## STATEMENT OF FINANCIAL POSITION

As of August 31, 2014

(unaudited)

	August 31, 2014	Audited August 31, 2013
<b><u>ASSETS:</u></b>		
Cash	\$ 9,494,511	\$ 8,745,272
Investments	287,443,272	252,069,626
Stock (restricted)	-	-
Trust Investments	5,096,164	4,167,588
Annuity Investments	1,478,264	1,307,725
Accounts Receivable	2,423	6,955
Contributions Receivable (net)	17,249,305	17,967,962
Prepaid Expenses	1,941	70,208
Real Estate	297,362	12,860
Trust Property	157,177	110,000
Inventory	7,500	7,500
Cash Value of Life Insurance Policies	468,248	458,065
<b>Total ASSETS</b>	<b>\$ 321,696,167</b>	<b>\$ 284,923,761</b>
<b><u>LIABILITIES:</u></b>		
Accounts Payable	\$ 1,197,991	\$ 1,397,964
Agency Funds	148,907	116,721
Trust and Annuity Obligations	2,171,340	1,996,385
Assets Held for Others	187,384,849	167,454,665
<b>Total LIABILITIES</b>	<b>190,903,087</b>	<b>170,965,735</b>
<b><u>NET ASSETS:</u></b>		
Unrestricted-Undesignated	2,409,400	1,162,929
Unrestricted-Market Loss over Historical Cost	(234,307)	(1,710,325)
Unrestricted Board-Designated	1,271,885	2,110,670
Temporarily Restricted	46,280,764	37,256,800
Permanently Restricted	81,065,338	75,137,952
<b>Total NET ASSETS</b>	<b>130,793,080</b>	<b>113,958,026</b>
<b>Total LIABILITIES &amp; NET ASSETS</b>	<b>\$ 321,696,167</b>	<b>\$ 284,923,761</b>

See accompanying notes to financial statements

**UNIVERSITY OF NORTH TEXAS SYSTEM (794)**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Fiscal Year Ended August 31, 2014**

	<u>August 31,</u> <u>2014</u>
<b>OPERATING REVENUES</b>	
Sales of Goods and Services:	
Tuition and Fees	\$ 364,426,889.56
Discounts and Allowances	(84,646,495.41)
Professional Fees	56,881,870.77
Auxiliary Enterprises	54,350,899.00
Other Sales of Goods and Services	40,269,230.92
Federal Revenue - Operating	68,639,600.39
Federal Pass Through Revenue	5,224,664.34
State Grant Revenue	4,405,340.16
State Grant Pass Through Revenue	25,765,952.08
Other Grants and Contracts - Operating	20,055,874.93
Other Operating Revenues	5,531,880.18
<b>Total Operating Revenues</b>	<b><u>560,905,706.92</u></b>
<b>OPERATING EXPENSES <sup>(1)</sup></b>	
Instruction	253,666,652.57
Research	56,410,372.40
Public Service	18,596,103.66
Academic Support	169,168,658.32
Student Services	66,766,588.43
Institutional Support	87,631,649.05
Operations and Maintenance of Plant	45,858,078.00
Scholarships and Fellowships	66,962,583.25
Auxiliary Enterprises	42,967,115.78
Depreciation and Amortization	53,867,135.71
<b>Total Operating Expenses</b>	<b><u>861,894,937.17</u></b>
<b>Operating Income/(Loss)</b>	<b><u>(300,989,230.25)</u></b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Legislative Appropriations (GR)	188,082,860.00
Additional Appropriations (GR)	46,941,160.52
Federal Revenue	7,962,718.90
Federal Pass Through Revenue	49,779,659.47
Gifts	11,710,405.41
Investment Income	9,789,850.92
Interest Expense and Fiscal Charges	(17,326,955.31)
Gain/(Loss) on Sale of Capital Assets	(834,884.62)
Net Increase (Decrease) in Fair Value of Investments	20,856,989.79
Settlement of Claims	(71,970.21)
Other Nonoperating Revenues	16,148.30
Other Nonoperating Expenses	(411,141.91)
<b>Total Nonoperating Revenues/(Expenses)</b>	<b><u>316,494,841.26</u></b>
<b>Income/(Loss) before Other Revenues, Expenses, and Transfers</b>	<b><u>15,505,611.01</u></b>
<b>OTHER REVENUES, EXPENSES, AND TRANSFERS</b>	
Capital Contributions	1,292,694.05
Capital Appropriations (HEAF)	36,617,741.00
Contributions to Permanent and Term Endowments	233,906.14
Interagency Transfers Capital Assets-Increase	411,032.56
Interagency Transfers Capital Assets-Decrease	(411,032.56)
Transfers-Out (to Other State agencies)	(5,622,399.71)
Legislative Transfers-In	2,700,000.00
Legislative Appropriation Lapses	(90,000.00)
<b>Total Other Revenue, Expenses, and Transfers</b>	<b><u>35,131,941.48</u></b>
<b>CHANGE IN NET POSITION</b>	<b><u>50,637,552.49</u></b>
Net Position, Beginning	758,457,503.26
Restatement	(12,832,263.28)
Net Position, Beginning, as Restated	<u>745,625,239.98</u>
<b>NET POSITION, ENDING</b>	<b><u>\$ 796,262,792.47</u></b>

(1) See Matrix of Operating Expenses Reported by Function.

## UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED (794)

## Note 1: Matrix of Operating Expenses Reported by Function

For the Fiscal Year Ended August 31, 2014

Operating Expenses	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operation and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation	Total Expenditures
Cost of Goods Sold	\$ 20,298.67	\$ 1,829.00	\$ -	\$ 32,616.92	\$ 141,044.29	\$ 704,521.23	\$ 13,236.16	\$ -	\$ 4,853,628.63	\$ -	\$ 5,767,174.90
Salaries and Wages	176,837,263.88	29,371,917.38	9,145,487.56	90,054,872.66	31,831,744.28	49,445,442.02	14,850,930.82	896,612.69	17,238,050.22	-	419,672,321.51
Payroll Related Costs	49,793,166.00	6,471,310.05	2,165,921.23	20,714,537.92	7,154,014.40	11,879,127.61	5,088,743.29	115,135.48	5,529,924.11	-	108,911,880.09
Professional Fees and Services	3,152,717.18	6,582,406.97	3,035,790.02	25,087,559.20	946,498.14	4,802,255.44	681,942.68	74,939.70	790,827.51	-	45,154,936.84
Federal Pass-Through Expenses	5,490.85	336,975.12	(1,454.27)	-	-	-	-	-	-	-	341,011.70
State Pass-through Expenses	-	217,375.67	-	-	-	-	-	-	-	-	217,375.67
Travel	2,433,573.78	1,869,436.96	276,354.88	3,026,375.54	3,472,341.46	794,797.58	84,640.23	8,553.94	131,623.12	-	12,097,697.49
Materials and Supplies	8,842,176.34	6,407,203.58	1,654,646.94	11,484,025.72	6,878,190.31	4,372,803.03	3,398,340.14	50,576.99	3,677,608.64	-	46,765,571.69
Communications and Utilities	668,970.47	55,120.34	89,011.12	1,414,437.08	1,295,944.54	1,014,831.28	9,470,229.84	137.60	4,737,918.42	-	18,746,600.69
Repairs and Maintenance	837,949.80	838,580.43	122,453.42	4,774,798.65	1,087,491.24	4,049,888.58	6,128,041.83	-	3,220,287.23	-	21,059,491.18
Rentals and Leases	1,878,994.52	292,877.58	692,971.84	2,110,711.50	1,410,824.87	1,082,546.48	242,534.01	4,885.04	927,574.68	-	8,643,920.52
Printing and Reproduction	933,857.57	88,601.02	136,923.37	668,990.71	790,317.83	926,287.45	9,661.65	1,236.50	281,815.50	-	3,837,691.60
Depreciation	-	-	-	-	-	-	-	-	-	53,867,135.71	53,867,135.71
Interest	-	-	-	-	-	270.88	84.54	-	-	-	355.42
Scholarships	313,725.53	91,776.72	-	49,619.71	101,170.58	61,982.90	-	65,707,036.36	-	-	66,325,311.80
Claims and Losses	3,159,495.42	25,924.64	8,066.68	764,511.67	246,712.68	672,636.66	382,741.61	-	6,414.72	-	5,266,504.08
Other Operating Expenses	4,788,972.56	3,759,036.94	1,269,930.87	8,985,601.04	11,410,293.81	7,824,257.91	5,506,951.20	103,468.95	1,571,443.00	-	45,219,956.28
<b>Total Operating Expenses</b>	<b>\$ 253,666,652.57</b>	<b>\$ 56,410,372.40</b>	<b>\$ 18,596,103.66</b>	<b>\$ 169,168,658.32</b>	<b>\$ 66,766,588.43</b>	<b>\$ 87,631,649.05</b>	<b>\$ 45,858,078.00</b>	<b>\$ 66,962,583.25</b>	<b>\$ 42,967,115.78</b>	<b>\$ 53,867,135.71</b>	<b>\$ 861,894,937.17</b>



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

**STATEMENT OF ACTIVITIES**

**For the Twelve Months Ended August 31, 2014**

(unaudited)

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	Audited Twelve Months Ended August 31, 2013
<b><u>REVENUES, GAINS AND OTHER SUPPORT:</u></b>					
Gifts	\$ (6,926)	\$ 2,677,788	\$ 3,070,439	5,741,301	8,446,785
Gifts in Kind	-	(2,356)	2,621,944	2,619,588	375,079
Investment Income/(Loss)	24,990	13,028,291	-	13,053,281	6,041,098
Royalty Income	-	4,937	-	4,937	4,898
FMV of Goods Recd and Other	153	237,007	-	237,160	125,346
Actuarial Gain/(Loss) on Annuity/Trust agreements	-	-	208,211	208,211	175,360
Revenue from Life Insurance Policies	-	-	10,183	10,183	22,713
Internal Management Fee Income	1,056,280	-	-	1,056,280	934,967
External Management Fee Income	439,828	-	-	439,828	451,978
Cost Share Income	-	-	-	-	-
<b>Total REVENUES, GAINS AND OTHER SUPPORT</b>	<b>1,514,325</b>	<b>15,945,667</b>	<b>5,910,777</b>	<b>23,370,769</b>	<b>16,578,224</b>
Interfund Transfers	1,476,018	(1,520,205)	44,187	-	-
Release of Donor Restrictions	5,429,076	(5,401,498)	(27,578)	-	-
<b><u>PROGRAM SERVICES:</u></b>					
Scholarships & Awards	1,272,900			1,272,900	1,896,155
Distributions to UNT	2,506,421			2,506,421	5,090,374
Distributions to Other Institutions	32,366			32,366	23,500
Services Purchased	539,983			539,983	2,410,604
Maintenance & Repairs	-			-	-
Expense Reimbursements	9,232			9,232	4,057
Internal Management Fee	1,056,280			1,056,280	934,967
Life Insurance Premiums	11,894			11,894	13,695
<b>Total PROGRAM SERVICES</b>	<b>5,429,076</b>			<b>5,429,076</b>	<b>10,373,352</b>
<b><u>MANAGEMENT &amp; GENERAL EXPENSES:</u></b>					
Payroll & Benefits	822,364			822,364	771,153
Administrative Expense	45,548			45,548	49,492
Travel, Telephone & Internet	11,384			11,384	10,082
Professional Development	13,357			13,357	9,904
Consulting Services	49,790			49,790	27,124
Annual Audit and Tax Preparation	24,000			24,000	21,000
Attorney Fees	17,756			17,756	6
Office & Computer Equipment and Software	6,648			6,648	3,872
Bank Charges & Credit card discount	14,692			14,692	42,785
Insurance - Property & Liability	17,794			17,794	4,381
Uses of Operating Reserves	83,306			83,306	79,449
<b>Total MANAGEMENT &amp; GENERAL EXPENSES</b>	<b>1,106,639</b>			<b>1,106,639</b>	<b>1,019,248</b>
<b>FUND-RAISING EXPENSES:</b>					
Appreciation Events, Plaques, Awards	-			-	-
<b>Total FUND-RAISING EXPENSES</b>	<b>-</b>			<b>-</b>	<b>-</b>
<b>Total SERVICES &amp; EXPENSES</b>	<b>6,535,715</b>			<b>6,535,715</b>	<b>11,392,600</b>
<b>NET CHANGE IN ASSETS</b>	<b>1,883,704</b>	<b>9,023,964</b>	<b>5,927,386</b>	<b>16,835,054</b>	<b>5,185,624</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b>1,563,274</b>	<b>37,256,800</b>	<b>75,137,952</b>	<b>113,958,026</b>	<b>108,772,402</b>
<b>NET ASSETS END OF PERIOD</b>	<b>\$ 3,446,978</b>	<b>\$ 46,280,764</b>	<b>\$ 81,065,338</b>	<b>\$ 130,793,080</b>	<b>\$ 113,958,026</b>

See Accompanying Notes to Financial Statements

UNAUDITED

**UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED (794)**  
**Statement of Cash Flows**  
**For the Year Ended August 31, 2014**

	<b>August 31, 2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Proceeds from Customers	\$ 98,058,135.73
Proceeds from Tuition & Fees	280,639,491.62
Proceeds from Research Grants & Contracts	120,138,532.19
Proceeds from Loan Programs	3,064,346.57
Proceeds from Auxiliaries	53,909,543.93
Proceeds from Other Revenues	14,082,834.42
Payments to Suppliers for Goods and Services	(203,065,455.35)
Payments to Employees	(492,978,723.96)
Payments for Other Expenses	(84,276,605.49)
Net Cash Provided (Used) by Operating Activities	(210,427,900.34)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Proceeds from State Appropriations	201,213,421.22
Proceeds from Gifts	12,760,977.24
Proceeds from Endowments	233,906.14
Proceeds from Transfers from Other Agencies	115,431.93
Proceeds from Transfers from Other Components	7,892,006.67
Proceeds from Legislative Transfers	5,310,000.00
Proceeds from Grant Receipts	57,673,972.37
Proceeds from Other Financing Activities	2,344.51
Payments for Legislative Transfers	(2,700,000.00)
Payments for Transfers to Other Agencies	(5,622,399.71)
Payments for Transfers to Other Components	(7,559,168.72)
Payments for Other Uses	(1,275,578.73)
Net Cash Provided (Used) by Noncapital Financing Activities	268,044,912.92
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Sale of Capital Assets	72,987.09
Proceeds from State Appropriations	36,617,741.00
Proceeds from Debt Issuance	44,510,000.00
Proceeds from Transfers from Other Components	27,795,000.00
Payments for Additions to Capital Assets	(87,624,676.69)
Payments of Principal on Debt Issuance	(32,230,000.00)
Payments for Capital Leases	(119,440.05)
Payments of Interest on Debt Issuance	(20,049,488.94)
Payments for Receivables from Other Components	(27,795,000.00)
Net Cash Provided (Used) by Capital and Related Financing Activities	(58,822,877.59)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sale of Investments	9,256,087.80
Proceeds from Interest and Investment Income	8,638,168.15
Payments to Acquire Investments	(10,915,536.54)
Net Cash Provided (Used) by Investing Activities	6,978,719.41
Net Increase/(Decrease) in Cash and Cash Equivalents	5,772,854.40
Cash and Cash Equivalents, September 1, 2013	219,371,026.59
Restatement to Beginning Cash and Cash Equivalents	(3,782,558.34)
Cash and Cash Equivalents, September 1, 2013, as Restated	215,588,468.25
Cash and Cash Equivalents, August 31, 2014	\$ 221,361,322.65

See Accompanying Notes to the Consolidated Financial Statements



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**UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED (794)**  
**Statement of Cash Flows**  
**For the Year Ended August 31, 2014**

	<b>August 31, 2014</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED)</b>	
<b>BY OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ (300,989,230.25)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used)	
by Operating Activities	
Amortization and Depreciation	53,867,135.71
Bad Debt Expense	
Employee Benefits Paid by State	32,777,735.58
Operating Loss and Cash Flow Categories Classification Differences	
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(23,703,565.70)
(Increase) Decrease in Inventories	(308,116.68)
(Increase) Decrease in Loans & Contracts	2,508,386.83
(Increase) Decrease in Other Assets	(3,747,145.84)
(Increase) Decrease in Prepaid Expenses	935,437.61
Increase (Decrease) in Payables	8,775,429.46
Increase (Decrease) in Due to Other Components	(332,837.78)
Increase (Decrease) in Unearned Revenue	11,133,599.29
Increase (Decrease) in Other Liabilities	8,655,271.43
Total Adjustments	90,561,329.91
Net Cash Provided (Used) by Operating Activities	\$ (210,427,900.34)
 <b>NON CASH TRANSACTIONS</b>	
Net Change in Fair Value of Investments	\$ 20,856,989.79
Donation of Capital Assets	1,109,223.30
Borrowing Under Capital Lease Purchase	294,996.82
Gain (Loss) on Sales/Disposals of Capital Assets	(187,809.25)
Amortization of Bond Premiums	3,217,491.29
Amortization of Deferred Outflows from Refunding Bonds	(618,344.00)
Capital Assets Acquired with Payables	8,952,872.50

*See Accompanying Notes to the Consolidated Financial Statements*

## UNAUDITED

### 794 – THE UNIVERSITY OF NORTH TEXAS SYSTEM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2014

#### **Note 1: Summary of Significant Accounting Policies**

##### **General Introduction**

The University of North Texas System (the “System”) is an agency of the State of Texas (the “State”) and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts’ Reporting Requirements for Annual Financial Reports of State Agencies and Universities and with generally accepted accounting principles (GAAP).

The consolidated financial statements include the University of North Texas System Administration and all institutions of the System. Amounts due between and among institutions, amounts held for institutions by the University of North Texas System Administration and other duplications in reporting are eliminated in consolidating the financial statements.

The System is composed of four components as follows: The University of North Texas System Administration, the University of North Texas, the University of North Texas Health Science Center at Fort Worth, and the University of North Texas at Dallas. The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas State Senate. Three members are appointed every odd-numbered year for six-year terms. In addition, the Governor appoints a nonvoting student Regent for a one-year term.

##### **Basis of Accounting**

The financial statements of the System have been prepared using the economic resources measurement focus and the full accrual basis of accounting. The System reports as a business type activity, as defined by the Governmental Accounting Standards Board (GASB). Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33, Accounting and Financial Reporting for Non-exchange Transactions. The Statement of Revenues, Expenses, and Changes in Net Position is segregated into operating and non-operating sections. Operating activities consist of transactions that are the direct result from the provision of goods and services to customers or directly related to the System’s principal ongoing operations.

#### **Assets, Liabilities, Deferred Outflows of Resources, and Net Position**

##### **ASSETS**

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##### **Cash and cash equivalents**

Short-term highly liquid investments that are both readily convertible to known amounts of cash and having an original maturity of three months or less are considered cash equivalents.

It is the System’s policy to exclude items that meet this definition if they are part of an investment pool, which has an investment horizon of one year or greater. Therefore, highly liquid investments that are part of the Long Term Pool (LTP) are not considered cash and cash equivalents. Additionally, endowments invested in money market accounts are also excluded from cash and cash equivalents as the intent is to invest these funds for more than one year. Cash held in the State treasury is considered cash and cash equivalents. Restricted cash and cash equivalents include cash held in the State treasury and restricted sources of funds used for construction of capital assets as well as funds held for debt service. The System holds bond proceeds in restricted investments to be disbursed to the institutions to support capital projects on a cost reimbursable basis.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2014

**Legislative Appropriations**

The appropriation of revenues by the Texas Legislature (“Legislature”) is in the form of general revenue. The Legislature meets every odd numbered year and approves a two-year budget (biennial) for all State agencies. The general revenue appropriation to the System supports the instruction, research, and operation of the System. Higher Education Assistance Funds (“HEAF funds”) are general revenue appropriations that are designated for capital expenditure. Appropriations also include payments made by the State on behalf of the System for benefits related to salaries funded by State appropriations. There is no assurance that the Legislature will continue its state appropriations to the System in future years; however, the System expects that the Legislature will continue to do so. Capital designated appropriations are funds received from the State designated for the acquisition of certain capital assets and capital projects. As of August 31, 2014, the unexpended amount was \$66,232,543.76.

**Investments**

The System accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income. Fair value is defined as the amount at which an investment could be exchanged in a current transaction between parties, other than in a forced or liquidation sale. Restricted investments include investments restricted by legal or contractual requirements, including those related to donors and constitutional restrictions.

**Accounts Receivable**

Accounts receivable mainly consists of tuition and fee charges to students. Accounts receivable are shown net of an allowance for doubtful accounts, which is approximately \$22.1 million or 7.4% of outstanding student receivables at August 31, 2014. The System has adopted a policy of reserving for student receivables based on collections history over the previous five years.

Gift receivables include amounts pledged to the university by donors, net of allowances. Multiyear gift pledges are reported at the discounted present value. At the beginning of each fiscal year, the System re-establishes the scale of discount rates applicable for present valuing multi-year gift pledges that are received during the new fiscal year. The allowance for gift pledges is approximately \$1.3 million at August 31, 2014.

Intergovernmental receivables include amounts due from state government, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the System’s grants and contracts.

**Other Receivables**

Other receivables is mostly comprised of clinical accounts receivable, which is presented net of allowances for contractual discounts and bad debts. The allowance on clinical receivables was approximately \$13 million as of August 31, 2014.

Clinical accounts receivable are subject to concentrations of patient accounts receivable credit risk. The mix of receivables from patients and third parties as of August 31, 2014 was as follows:

	<u>2014</u>
County Hospital	19.0 %
Medicaid	19.0
Medicare	17.5
Commercial	11.4
Self-pay	10.9
Other	9.6
<b>Total</b>	<u><b>100 %</b></u>

## UNAUDITED

### 794 – THE UNIVERSITY OF NORTH TEXAS SYSTEM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2014

#### **Loans and Contracts**

Current and noncurrent loans and contracts are receivables, net of allowances, related to student loans. The net allowance on loans and contracts at August 31, 2014 is approximately \$4 million.

#### **Restricted Assets**

Restricted assets include monies or other resources restricted by legal or contractual requirements, including those related to sponsored programs, donors, constitutional restrictions, bond covenants, and loan agreements. These assets include proceeds of general obligation and revenue bonds, revenues set aside for statutory or contractual requirements, and assets held in reserve for guaranteed student loan defaults.

#### **Capital and Intangible Assets**

The System follows the State's capitalization policy, which requires capitalization of assets with an initial, individual cost of more than \$5,000 for equipment items, \$100,000 for buildings, building improvements and improvements other than buildings, and \$500,000 for infrastructure items, and an estimated useful life of greater than one year. These assets are capitalized at cost or, if not purchased, at fair value as of the date of acquisition.

Purchases of library books are capitalized. However, routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred. Outlays for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized in accordance with the requirements of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

Depreciation is reported on all exhaustible assets. Inexhaustible assets such as land, works of art and historical treasures are not depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally, 10 to 30 years for buildings, 10 to 45 years for infrastructure, 4 to 15 years for equipment, and 15 years for library books.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires all intangible assets not specifically excluded by scope provisions to be classified as capital assets. The System has computer software that meets the criteria. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets is applied to computer software, as applicable.

#### **DEFERRED OUTFLOWS OF RESOURCES**

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Deferred outflows consist of unamortized losses on refunding of debt. For debt refunding, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows. The gain or loss is amortized, using the straight-line method, over the remaining life of the old debt or the life of the new debt, whichever is shorter, in the Statement of Revenues, Expenses and Changes in Net Position as a component of interest expense.

#### **LIABILITIES**

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##### **Accounts and Other Payables**

Accounts and other payables represent the liability for the value of assets or services received at the Statement of Net Position date for which payment is pending.

##### **Capital Lease Obligations**

Capital lease obligations represent the liability for future lease payments under capital lease contracts. Liabilities are reported separately as either current or non-current in the Statement of Net Position.

## UNAUDITED

### 794 – THE UNIVERSITY OF NORTH TEXAS SYSTEM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2014

#### **Employees' Compensable Leave**

Employees' compensable leave represents the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees, in conformance with State policy and practice. Liabilities are reported separately as either current or non-current in the Statement of Net Position. These obligations generally are paid from the same funding source from which each employee's salary or wage compensation is paid.

#### **Funds Held for Others**

Assets held for others represent funds held by the System as custodial or fiscal agent for students, faculty members, foundations, and others.

#### **Unearned Revenue**

Unearned revenue represents assets received in advance of an exchange taking place in an exchange transaction or assets received prior to eligibility requirements (other than time requirements) being met in a non-exchange transaction. Unearned revenue includes \$180.7 million of tuition revenue related to the semesters that have not been completed as of August 31, 2014. Tuition revenue is recognized based on the number of class days as a percentage of total class days that fall within the fiscal year.

#### **Bonds Payable – Revenue Bonds**

The bonds payable are reported at par value. Bond discounts and premiums are not amortized over the life of the bonds using the interest method. Revenue Bonds Payable is reported separately as either current or non-current in the Statement of Net Position.

#### **Claims and Contingencies**

Claims and contingencies are reported when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. These liabilities include an amount for claims that were incurred but not reported. See Notes 15, *Contingencies and Commitments*, and 17, *Risk Management*, for information on risk management, claims, and judgments.

## **NET POSITION**

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#### **Net Investment in Capital Assets**

Net investment in capital assets consists of capital assets, net of accumulated depreciation and unspent bond proceeds reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

#### **Restricted Net Position**

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Restricted nonexpendable net position is subject to externally imposed stipulations that require the amounts be maintained in perpetuity by the System. Such assets include the System's permanent endowment funds.

Restricted expendable net position subject to externally imposed stipulations that can be fulfilled by actions of the System pursuant to those stipulations or that expire with the passage of time.

#### **Unrestricted Net Position**

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified. Because the System is an agency of the State, constraints on the use of resources imposed by the State are not considered external restrictions.

## UNAUDITED

### 794 – THE UNIVERSITY OF NORTH TEXAS SYSTEM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2014

When an expense is incurred that can be paid using either restricted or unrestricted resources, the System addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation. Generally, the System's policy is to first apply the expense towards restricted resources and then towards unrestricted resources.

#### REVENUES AND EXPENSES

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##### **Operating Revenues and Expenses**

Operating revenues include activities such as net student tuition and fees; net sales and services of hospitals; net professional fees for hospital clinical services; net sales and services of auxiliary enterprises; and most federal, state and local grants and contracts. Operating expenses include salaries and wages, payroll related costs, materials and supplies, depreciation, and scholarships and fellowships. In addition, all changes to incurred but not reported liabilities related to insurance programs are reflected as operating.

##### **Professional Fees Revenue**

UNTHSC has agreements with third parties that provide for reimbursement to UNTHSC at amounts different from its established rates. Contractual adjustments under third party reimbursement programs represent the difference between UNTHSC's established rates for services and the amounts reimbursed by third parties. UNTHSC's more significant third parties are the Medicare and Medicaid programs.

Allowances for uncollectible amounts are estimated using historical experience, current trend and policy information, aged account balances, and a collectability analysis. All net patient services revenue in the accompanying Statement of Revenues, Expenses, and Changes in Net Position is net of contractual adjustments totaling approximately \$77.1 million for the year ended August 31, 2014.

Medicare outpatient services are reimbursed on a prospective basis through ambulatory payment classifications, which are based on clinical resources used in performing the procedure. Medicaid outpatient services are paid based on a fee schedule or blended rates.

##### **Scholarship Allowances and Student Aid**

Financial aid to students is reported in the financial statements as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid (student loans, funds provided to students as awarded by third parties and Federal Direct Lending) is accounted for as third party payments (credited to the student's account and reported as revenue as if the student made the payment). All other aid is reflected in the financial statements as operating expense or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. The allowance is computed on an entity-wide basis by allocating cash payments to students, excluding payments for services, using the ratio of total aid to the aid not considered to be third party aid.

##### **Non-operating Revenues and Expenses**

Non-operating revenues include activities such as gifts and contributions, insurance recoveries received in years subsequent to the associated loss, State appropriations, investment income and other revenue sources that are defined as non-operating revenues by GASB. The System's institutions are the named beneficiaries in certain lawsuits, wills, trusts, and insurance policies; however, the System does not recognize these potential refunds, gifts, and contributions until realized. Non-operating expenses include activities such as interest expense on capital asset financings, and other expenses that are defined as non-operating expenses by GASB.

#### USE OF ESTIMATES

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The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported

## UNAUDITED

### 794 – THE UNIVERSITY OF NORTH TEXAS SYSTEM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2014

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### NEW ACCOUNTING PRONOUNCEMENTS

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GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was effective for the System in fiscal year 2014. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of Statement No. 65 did not have a significant effect on the System's net position for the year ended August 31, 2014; however, deferred losses on refunding bonds were reclassified to deferred outflows of resources.

GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, was effective for the System in fiscal year 2014. The objective of this Statement is to improve financial accounting and reporting by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The implementation of Statement No. 66 did not have an effect on the System's net position for the year ended August 31, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*, is effective for the System in fiscal year 2015. The objective of this Statement is to improve financial accounting and reporting by state and local governmental pension plans. This Statement replaces Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The System has not yet evaluated the effect that Statement No. 67 will have on its financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, is effective for the System in fiscal year 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The System has not yet evaluated the effect that Statement No. 68 will have on its financial statements.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, is effective for the System in fiscal year 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. This statement requires the use of carrying values to measure the assets and liabilities in a government merger. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. The System has not yet evaluated the effect that Statement 69 will have on its financial statements.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, is effective for the System in fiscal year 2015. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 2014**

amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The System has not yet evaluated the effect that Statement No. 71 will have on its financial statements.



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AUGUST 31, 2014**

**Note 2: Capital Assets**

A summary of changes in Capital Assets for the year ended August 31, 2014 is presented below:

	Balance 9/1/2013	(1) Adjustments	Reclassification Completed Construction In Progress	Additions	Deletions	Balance 8/31/2014
<b>Non-Depreciable or Non-Amortizable Assets:</b>						
Land and Land Improvements	\$ 70,763,622.23	\$ (376,862.56)	\$ 278,887.37	\$ 1,810,691.07	\$ (5,000.00)	\$ 72,471,338.11
Infrastructure	-	-	-	-	-	-
Construction in Progress	65,011,725.89	7,907,107.40	(52,451,940.47)	68,950,018.88	-	89,416,911.70
Other Tangible Capital Assets	24,363,426.89	-	-	584,595.00	-	24,948,021.89
Land Use Rights	-	-	-	-	-	-
Other Intangible Capital Assets	-	-	-	-	-	-
<b>Total Non-Depreciable or Non-Amortizable Assets:</b>	<b>160,138,775.01</b>	<b>7,530,244.84</b>	<b>(52,173,053.10)</b>	<b>71,345,304.95</b>	<b>(5,000.00)</b>	<b>186,836,271.70</b>
<b>Depreciable Assets:</b>						
Buildings and Building Improvements	840,478,601.65	9,714,208.21	50,591,250.27	3,993,129.44	(1,263,915.40)	903,513,274.17
Infrastructure	60,858,694.51	1,453,501.17	1,254,964.16	724,290.23	-	64,291,450.07
Facilities and Other Improvements	123,545,047.32	(278,895.26)	237,378.67	2,335,050.28	-	125,838,581.01
Furniture and Equipment	133,925,290.16	933,529.70	89,460.00	7,676,254.03	(7,279,127.11)	135,345,406.78
Vehicles, Boats and Aircraft	11,880,804.40	15,082.00	-	654,530.90	(281,348.66)	12,269,068.64
Other Capital Assets	115,661,735.66	(28,737,556.66)	-	5,311,707.12	(827,943.23)	91,407,942.89
<b>Total Depreciable Assets:</b>	<b>1,286,350,173.70</b>	<b>(16,900,130.84)</b>	<b>52,173,053.10</b>	<b>20,694,962.00</b>	<b>(9,652,334.40)</b>	<b>1,332,665,723.56</b>
<b>Less Accumulated Depreciation for:</b>						
Buildings and Building Improvements	(370,997,133.14)	(1,683,311.81)	-	(31,065,289.18)	1,105,526.78	(402,640,207.35)
Infrastructure	(11,505,244.88)	(101,400.14)	-	(2,210,654.46)	-	(13,817,299.48)
Facilities and Other Improvements	(17,268,786.18)	272,300.71	-	(3,609,885.43)	-	(20,606,370.90)
Furniture and Equipment	(88,247,306.05)	(276,206.67)	-	(11,284,368.22)	6,641,271.64	(93,166,609.30)
Vehicles, Boats and Aircraft	(6,499,995.90)	(718.20)	-	(1,006,641.14)	242,589.25	(7,264,765.99)
Other Capital Assets	(59,744,541.39)	11,218,732.74	-	(4,183,084.55)	827,485.77	(51,881,407.43)
<b>Total Accumulated Depreciation</b>	<b>(554,263,007.54)</b>	<b>9,429,396.63</b>	<b>-</b>	<b>(53,359,922.98)</b>	<b>8,816,873.44</b>	<b>(589,376,660.45)</b>
<b>Depreciable Assets, Net</b>	<b>732,087,166.16</b>	<b>(7,470,734.21)</b>	<b>52,173,053.10</b>	<b>(32,664,960.98)</b>	<b>(835,460.96)</b>	<b>743,289,063.11</b>
<b>Amortizable Assets - Intangible:</b>						
Land Use Rights	-	-	-	-	-	-
Computer Software	22,950,607.14	-	-	121,600.00	(279,420.16)	22,792,786.98
Other Intangible Capital Assets	-	-	-	-	-	-
<b>Total Amortizable Assets - Intangibles</b>	<b>22,950,607.14</b>	<b>-</b>	<b>-</b>	<b>121,600.00</b>	<b>(279,420.16)</b>	<b>22,792,786.98</b>
<b>Less Accumulated Amortization for:</b>						
Land Use Rights	-	-	-	-	-	-
Computer Software	(21,797,119.79)	-	-	(507,212.73)	279,420.16	(22,024,912.36)
Other Intangible Capital Assets	-	-	-	-	-	-
<b>Total Accumulated Amortization</b>	<b>(21,797,119.79)</b>	<b>-</b>	<b>-</b>	<b>(507,212.73)</b>	<b>279,420.16</b>	<b>(22,024,912.36)</b>
<b>Amortizable Assets - Intangibles, Net</b>	<b>1,153,487.35</b>	<b>-</b>	<b>-</b>	<b>(385,612.73)</b>	<b>-</b>	<b>767,874.62</b>
<b>Total</b>	<b>\$ 893,379,428.52</b>	<b>\$ 59,510.63</b>	<b>\$ -</b>	<b>\$ 38,294,731.24</b>	<b>\$ (840,460.96)</b>	<b>\$ 930,893,209.43</b>

- (1) The amounts listed in this column include adjustments made in the current year and adjustments to prior year ending balances. See Note 14, *Adjustments to Net Position*, for more information regarding prior year adjustments to capital asset amounts.

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A summary of interest costs related to Capital Assets for the year ended August 31, 2014 is presented below:

	<u>Interest Charged to Expense</u>	<u>Interest Capitalized</u>	<u>Total Interest Cost Incurred</u>
<b>Non-Depreciable or Non-Amortizable Assets:</b>			
Land and Land Improvements	\$ 2,691.02	\$ -	\$ 2,691.02
Construction in Progress	1,939.16	729,544.22	731,483.38
<b>Total Non-Depreciable or Non-Amortizable Assets:</b>	<b>\$ 4,630.18</b>	<b>729,544.22</b>	<b>\$ 734,174.40</b>
<b>Depreciable Assets:</b>			
Buildings and Building Improvements	13,209,478.29	-	13,209,478.29
Infrastructure	1,214,712.50	-	1,214,712.50
Facilities and Other Improvements	3,455,624.50	-	3,455,624.50
Furniture and Equipment	14,835.10	-	14,835.10
Vehicles, Boats and Aircraft	2,073.50	-	2,073.50
<b>Total Depreciable Assets:</b>	<b>\$ 17,896,723.89</b>	<b>-</b>	<b>\$ 17,896,723.89</b>
<b>Depreciable Assets, Net</b>	<b>\$ 17,896,723.89</b>	<b>-</b>	<b>\$ 17,896,723.89</b>
<b>Total Capital Assets, Net:</b>	<b>\$ 17,901,354.07</b>	<b>729,544.22</b>	<b>\$ 18,630,898.29</b>

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**Note 3: Cash, Cash Equivalents, and Investments**

**Deposits of Cash in Bank**

As of August 31, 2014, the carrying amount of cash and cash equivalents was \$38,559,007.18 as presented below.

CASH IN BANK- CARRYING VALUE	\$ 38,559,007.18
Cash in Bank per AFR	<u>38,559,007.18</u>
Proprietary Funds Current Assets Cash in Bank	21,735,783.33
Proprietary Funds Current Assets Restricted Cash in Bank	<u>16,823,223.85</u>
<b>Cash in Bank</b>	<u><u>\$ 38,559,007.18</u></u>

These amounts consist of all cash in local banks. These amounts are included on the Statement of Net Position as Cash in Bank, a portion of the Cash and Cash Equivalents section. Assets classified in cash and cash equivalents include \$162,662,016 that is classified as investments.

As of August 31, 2014, the total bank balance was \$47,103,102.90

**Custodial Credit Risk - Deposits**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System's policy is that all deposits are governed by a bank depository agreement between the System and the respective banking institution. This agreement provides that the System's deposits, to the extent such deposits exceed the maximum insured limit under deposit insurance provided by the Federal Deposit Insurance Corporation, shall at all times be collateralized with government securities.

As of August 31, 2014, the System had no bank balances that were exposed to custodial credit risk.

**Investments**

The Texas Education Code, Section 51.0031 grants authority for a governing board to invest funds under prudent person standards "if a governing board has under its control at least \$25 million in book value of endowment funds."

The System adopted Regulation 8.2000, Investment of System Funds in 2012. Regents Rule 10.100 and this Regulation stipulate that each System component invest in accordance with Regulation 8.2000 and each member institution adopt an endowment investment policy that must be reviewed and approved by the System Board of Regents annually. The System's Regulation authorizes the following types of investments: U.S. Government obligations, U.S. Government Agency obligations, other government obligations, corporate obligations, corporate asset and mortgage backed securities, equity, international obligations, international equity, certificates of deposit, banker's acceptances, money market mutual funds, mutual funds, repurchase agreements, private equity, hedge funds, Real Estate Investment Trusts (REITs), derivatives, energy and real estate.

There were no significant violations of legal provisions during the period.

As outlined in System Regulation 08.2000, the System's authority to invest funds is established in the Public Funds Investment Act (PFIA), Chapter 2256 of the Texas Government Code and Section 51.0031 of the Texas Education Code. Rule 10.100 of the Rules of the Board of Regents of the System and Regulation 08.2000 are promulgated by the Board of Regents in accordance with the PFIA; Section 51.0032 of the Texas Education Code; the Uniform Prudent Investor Act, Chapter 117 of the Texas Property Code; the Uniform Prudent Management of Institutional Funds Act (UPMIFA), Chapter 163 of the Texas Property Code; and the Public Funds Collateral Act (PFCA), Chapter 2257 of the Texas Government Code. Texas Education Code Section 51.0031 requires a governing board to

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adopt a written investment policy and strategy, review the policy and strategy not less than annually, appoint an Investment Officer, and adopt internal controls to safeguard the System’s funds. The PFCA sets the standards for collateralization of public funds in Texas.

As of August 31, 2014, the fair values of investments are presented below.

<b>Investment</b>	<b>Fair Value</b>
U. S. Government Agency Obligations (Ginnie Mae, Fannie Mae, Freddie Mac, Sallie Mae, etc.)	\$ 50.17
Repurchase Agreement	43,115,509.84
Domestic Mutual Funds	17,248,629.27
International Mutual Funds	8,893,310.22
Fixed Income Money Market and Bond Mutual Fund	54,272,701.78
Other Commingled Funds	60,398,322.91
Other Commingled Funds (TexPool)	25,404,758.85
Real Estate	339,943.10
Alternative Investments	3,548,140.24
Externally Managed Investments – Domestic (1)	131,384,785.17
Externally Managed Investments – International (1)	53,312,885.71
Misc (limited partnerships, guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)	2,326,959.23
<b>Total Investments</b>	<b><u>\$ 400,245,996.49</u></b>

(1) Externally managed investments represent the System’s share of the Foundation’s internal investment pool.

**Credit Risk – Investments**

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The System utilizes ratings assigned by Standard and Poor’s for this purpose. The System’s investment policy does not provide specific requirements and limitations regarding investment ratings. According to the authoritative literature from the GASB, unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Section 51.0031 of the Texas Education Code authorizes the System Board of Regents, subject to procedures and restrictions it establishes, to invest System funds in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent person standard described in Article VII, Section 11b, of the Texas Constitution. This standard provides that the System Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment.

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As of August 31, 2014, the System’s credit quality distribution for securities with credit risk exposure was as follows:

Fund Type	GAAP Fund	Investment Type	Standard and Poor's			
			AAA	A	Unrated	Total
05	0001	U.S. Government Agency Obligations	\$ -	\$ -	\$ 50.17	\$ 50.17
05	0001	Repurchase Agreement		43,115,509.84		43,115,509.84
05	0001	Domestic Mutual Funds			17,248,629.27	17,248,629.27
05	0001	International Mutual Funds			8,893,310.22	8,893,310.22
05	0001	Fixed Income Money Market and Bond Mutual Fund	26,342,165.77		27,930,536.01	54,272,701.78
05	0001	Other Commingled Funds	60,398,322.91			60,398,322.91
05	0001	Commingled Funds (TEXPOOL)	25,404,758.85			25,404,758.85
05	0001	Real Estate			339,943.10	339,943.10
05	0001	Alternative Investments			3,548,140.24	3,548,140.24
05	0001	Externally Managed Investments (1)			184,697,670.88	184,697,670.88
05	0001	Miscellaneous			2,326,959.23	2,326,959.23
05	0001	<b>Total</b>	<b>\$ 112,145,247.53</b>	<b>\$43,115,509.84</b>	<b>\$ 244,985,239.12</b>	<b>\$ 400,245,996.49</b>

**Concentration of Credit Risk – Investments**

As of August 31, 2014, the System did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the System’s fixed income investments.

**Custodial Credit Risk - Investments**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. State statutes and the System’s investment regulation do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2014, the System did not have deposits or investments that are exposed to custodial credit risk.

**Interest Rate Risk – Investments**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. As of August 31, 2014, the System investments subject to interest rate risk – commingled funds, repurchase agreements, fixed income money market and bond mutual funds – have an average maturity of less than one year. The System is also exposed to certain redemption risks pertaining to its long-term investments in the Pool. Please see the “Alternative Investments” discussion below for information regarding those redemption risks.

**Foreign Currency Risk – Investments**

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. As of August 31, 2014, the System’s investments were all denominated in U.S. dollars.

**Internal Investment Pool**

Certain investments of the System are managed by the University of North Texas Foundation’s (the “Foundation”) in its internal long term investment pool (the “Pool”). The Pool is invested with external investment managers who invest in equity and fixed income funds both domestic and international. The Foundation’s investment policy allows for the asset allocation to be maintained within the following tactical ranges: 50-70% Growth Assets (US and international equities), 20-40% Risk Reduction Assets (US and global fixed income funds and cash), and 5-15% Inflation Protection Assets (Real Assets). The Foundation’s Investment Committee is responsible for monitoring and rebalancing to the strategic target allocation ranges, and within the tactical ranges, has discretionary authority for setting, monitoring, and making reallocations to the portfolio’s specific underlying assets. The financial statements of the Foundation may be found on the Foundation’s website and inquiries may be directed to the Foundation via [endow.unt.edu](http://endow.unt.edu).

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As of August 31, 2014, the System's investments in the Pool consisted of the following investment types:

<b>Investment</b>	<b>Fair Value</b>
Common Stock	\$ 12,208,620.44
Equity	140,633,258.92
Hedge Funds	63,723,211.47
Fixed Income Money Market and Bond Mutual Fund	68,666,795.97
Other Commingled Funds (1)	2,485,610.77
<b>Total Investments</b>	<b><u><u>\$ 287,717,497.57</u></u></b>

(1) Bank deposits of 274,225.57 are included in Other Commingled Funds. This amount is reported as cash in the Foundation's financial statements.

The System's unitized portion of the Pool's investments as of August 31, 2014 is \$184,697,670.88. As of August 31, 2014, the System's investments in the Pool consisted of the following long-term investment types:

**Common stock**

Common stocks are units of ownership in a publicly held corporation. Shareholders typically have rights to vote and to receive dividends. Claims of common stock holders are subordinate to claims of creditors, bond holders, and preferred stock holders.

**Equity/Stock Mutual Funds**

Equity/Stock Mutual Funds are mutual funds that invest primarily in stocks, although at times they might hold some fixed-income and money market securities.

**Hedge Funds**

Hedge funds are broadly defined as pooled funds that are not registered with the SEC; are typically available only to institutional investors or individuals with a high net worth; and use advanced trading strategies such as leverage, derivatives, short selling, and arbitrage. See "Alternative Investments" discussion below for more information on hedge funds.

**Fixed Income/Bond Mutual Funds (longer term; registered with the SEC)**

Fixed income/bond mutual funds are mutual funds that, by policy, invest in the fixed-income sector.

As of August 31, 2014, the System's investments in the Pool consisted of the following short-term investment types:

**Fixed Income Money Market and Bond Mutual Fund**

Money Market Mutual Funds (registered with the SEC)

Money market mutual funds are open-end mutual funds (registered with the SEC) that must comply with the SEC's "Rule 2a-7," which imposes certain restrictions, such as a requirement that the fund's board must attempt to maintain a stable net asset value (NAV) per share or stable price per share, limits on the maximum maturity of any individual security in the fund's portfolio and on the maximum weighted average portfolio maturity and weighted average portfolio life. Money market funds typically attempt to maintain an NAV or a price of \$1.00 per share. (Institutions should report the "market value" of their money market fund investments based on the fund's share price.)

**Other Commingled Funds**

Short-Term Mutual Funds Other than Money Market Mutual Funds (registered with the SEC)

Short-term mutual funds other than money market mutual funds are mutual funds that specialize in short-term debt instruments, but which do not meet the strict criteria required to be called "money market" mutual funds. (If not

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reported as fixed income mutual funds in the section for Debt and Similar Investments > 1 Year Maturity, institutions should report non-money market, short-term fixed income mutual funds in the section for Short-Term Investments and Deposits.)

The Pool's investments are not rated by Standard & Poor's. As of August 31, 2014, the Pool did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the Pool's investments. The Pool did not have investments exposed to custodial credit risk. The Pool's investments subject to interest rate risk – commingled funds and fixed income money market and bond mutual funds – have an average maturity of less than one year; however, the Pool is exposed to certain redemption risks pertaining to its alternative investments. Please see the "Alternative Investments" discussion below for information regarding those redemption risks. The Pool is not subject to foreign currency risk, as its international investments are all denominated in U.S. dollars.

**Alternative Investments**

Hedge funds within the Pool are invested with external investment managers who invest in equity and fixed income funds both domestic and international. These investment managers may invest both long and short in securities and may utilize leverage in their portfolios. They may also utilize credit default swaps and total return swaps as part of their investment strategies. The funds invested may be subject to a lock-up restriction of one or more years before the investment may be withdrawn from the manager without significant penalty. There are certain risks associated with these investments, some of which include investment manager risk, market risk and liquidity risk, as well as the risk of utilizing leverage in the portfolios. When credit default swaps or total return swaps are used, there is additional risk of counterparty non-performance and unanticipated movements in the fair value of the underlying securities. As of August 31, 2014, the Pool's investment in hedge funds was \$63,723,211.47, which represents 22% of the Pool's total investments.

As of August 31, 2014, the following redemption terms that pertain to the long-term alternative investments susceptible to liquidation restrictions are outlined in the table below.

<u>Market Value</u>	<u>Redemption Limitations</u>
\$ 5,927,396.09	Monthly redemption available beginning October 31, 2014
5,339,939.00	25% redemption available on a quarterly basis; full redemption available at calendar year-end with 100 days notice.
5,169,871.00	Full redemption available on a quarterly basis with 60 days notice
670,599.58	Full redemption in progress through a liquidation plan ending in calendar year 2015
137,400.70	Full redemption in progress through a liquidation plan ending in calendar year 2015
<u><u>\$ 17,245,206.37</u></u>	<b>Total</b>

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**Note 4: Short-Term Debt**

**Commercial Paper**

The System increased the commercial paper program in fiscal year 2009. According to the Master Resolution establishing the UNT System Revenue Financing System Commercial Paper Program, the issuance of commercial paper notes may not exceed, in aggregate, the principal amount of \$100,000,000 of which \$25,000,000 may be used as taxable notes. Outstanding commercial paper proceeds may be used for the purpose of financing project costs of eligible projects and to refinance, renew, or refund commercial paper notes, prior encumbered obligations, and parity obligations, including interest. Commercial paper notes may not be issued to refinance or refund prior encumbered obligations or parity bonds without the approval of the Board of Regents. The System considers all commercial paper to be short-term debt. The commercial paper activity for the System as of the year ended August 31, 2014 is as follows:

	<u>August 31, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Other Adjustments (1)</u>	<u>August 31, 2014</u>
Commercial Paper	\$ -	\$ 29,510,000.00	\$ 9,965,000.00	\$ 56,522,000.00	\$ 76,067,000.00

(1) This amount has been reclassified from long-term liabilities

University of North Texas System Revenue Financing System Commercial Paper Notes, Series A in the amount of \$29,510,000 were issued during the fiscal year to finance various capital projects, and notes in the amount of \$9,965,000 matured. The outstanding balance at August 31, 2014, is \$76,067,000 with interest rates ranging from .03% to .50% and an average interest rate of .21% for the outstanding issues. Interest rates are determined by the investor and broker in the arrangement, where the investor dictates the maturity. Average commercial paper maturity for the year ended August 31, 2014 was approximately 45 days. The System will provide liquidity support for \$100,000,000 in commercial paper notes by utilizing available funds of the System in lieu of or in addition to bank liquidity support. The maximum maturity for commercial paper is 270 days. In practice, the System rolls, pays off, and/or issues new commercial paper at each maturity. Commercial paper will continue to be used as interim funding until long-term bonds are approved and issued or gifts are received to retire the commercial paper debt.

UNTS adheres to the requirements of the federal Securities Act of 1933, which precludes proceeds from commercial paper issues to be used for financing fixed assets, such as plant and equipment, on a permanent basis. UNTS, working with Bond Counsel and its financial advisor, routinely determines alternative long term funding to ensure that commercial paper is used as interim financing and will be paid off after completion of construction or equipment acquisition.



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**NOTE 5: Long-Term Liabilities**

**Changes in Long-Term Liabilities**

During the year ended August 31, 2014, the following changes occurred in long-term liabilities:

	8/31/2013 Original Balance	8/31/2013 As Restated (1)	Additions	Reductions	Other Adjustments (2)	August 31, 2014	Amounts Due Within One Year	Amounts Due Thereafter
<b>Bonds Payable:</b>								
Revenue Bonds Payable	\$ 414,180,000.62	\$ 414,180,000.00	\$ -	\$ 22,265,000.00	\$ -	\$ 391,915,000.00	\$ 23,395,000.00	\$ 368,520,000.00
Unamortized Net Premiums	27,396,037.46	27,415,223.60	-	3,217,491.29	-	24,197,732.82	2,980,415.73	21,217,317.09
<b>Total Bonds Payable</b>	<b>441,576,038.08</b>	<b>441,595,223.60</b>	<b>-</b>	<b>25,482,491.29</b>	<b>-</b>	<b>416,112,732.82</b>	<b>26,375,415.73</b>	<b>389,737,317.09</b>
Commercial Paper	56,522,000.00	56,522,000.00	-	-	(56,522,000.00)	-	-	-
Loans Payable	-	-	15,000,000.00	-	-	15,000,000.00	-	15,000,000.00
<b>Total Notes and Loans Payable</b>	<b>56,522,000.00</b>	<b>56,522,000.00</b>	<b>15,000,000.00</b>	<b>-</b>	<b>(56,522,000.00)</b>	<b>15,000,000.00</b>	<b>-</b>	<b>15,000,000.00</b>
Capital Lease Obligations	2,911.15	2,911.15	294,996.83	119,440.05	-	178,467.93	118,483.23	59,984.70
Claims & Judgments	1,214,520.01	1,214,520.01	5,845,946.84	1,214,520.01	-	5,845,946.84	5,845,946.84	-
Compensable Leave	20,485,115.07	21,531,376.71	2,116,418.80	925,472.39	-	22,722,323.12	2,619,848.00	20,102,475.12
<b>Total Long-Term Liabilities</b>	<b>\$ 519,800,584.31</b>	<b>\$ 519,651,511.46</b>	<b>\$ 17,411,415.63</b>	<b>\$ 26,527,403.73</b>	<b>\$ (56,522,000.00)</b>	<b>\$ 454,013,523.87</b>	<b>\$ 29,113,746.96</b>	<b>\$ 424,899,776.91</b>

- (1) See Note 14, *Adjustments to Net Position*, for more information on restatement of fiscal year 2013 balances.
- (2) This amount has been reclassified to short-term liabilities. See Note 4, *Short Term Debt* for more information regarding commercial paper.

**Revenue Bonds Payable**

The principal and interest expense for the next five years and beyond are below for bonds issued and outstanding. The debt service requirements for Revenue Bonds are as follows:

Year	Principal	Interest	Total
2015	\$23,395,000.00	\$19,021,270.00	\$42,416,270.00
2016	23,470,000.00	17,934,722.50	41,404,723.00
2017	24,615,000.00	16,774,472.50	41,389,473.00
2018	23,375,000.00	15,632,835.00	39,007,835.00
2019	24,475,000.00	14,540,920.00	39,015,920.00
2020-2024	108,110,000.00	55,877,217.50	163,987,218.00
2025-2029	78,570,000.00	32,535,957.50	111,105,958.00
2030-2034	49,370,000.00	16,014,937.50	65,384,938.00
2035-2039	30,940,000.00	5,607,350.00	36,547,350.00
2040	5,595,000.00	279,750.00	5,874,750.00
<b>Total</b>	<b>\$391,915,000.00</b>	<b>\$194,219,432.50</b>	<b>\$586,134,435.00</b>

Total interest expense and fiscal charges for the year ended August 31, 2014 was \$20,655,646.82. Interest expense of \$729,544.22 associated with financing projects during the construction phase was capitalized during the year ended August 31, 2014. Interest expense also includes \$2,599,147.29 for the amortization of premiums and deferred losses on refundings for the year ended August 31, 2014. The remaining amount of \$17,326,955.31 in 2014 was reported as interest expense and fiscal charges.

**Notes & Loans Payable**

On June 18, 2014, the System entered into a Private Placement Bond Purchase arrangement for installment deliveries of bonds (Authorized Installments) up to \$120 million that matures in 2016. Draw requests are submitted to the Bond Purchaser and the System's bond counsel, and the Bond Purchaser's obligation to purchase each

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Authorized Installment is conditioned upon fulfillment of specified conditions, which include that all of the opinions, letter, certificates, instruments and other documents described in the Private Placement Bond Purchase Agreement are deemed to be in compliance with the provisions set forth therein and that they are in form and substance satisfactory to the Bond Purchaser and Bond Counsel. Such provisions include the requirement for the System to maintain a Debt-to-Capitalization Ratio of sixty percent (60%) or less.

As of August 31, 2014, the System arranged for \$15 million in Authorized Installment deliveries, and made interest payments of \$10,701.63. The bonds are secured by a pledge on the System's pledged revenues. Principal is not due until maturity on June 30, 2016.

#### **Capital Lease Obligations**

See Note 8, *Leases*, for more information on lease obligations.

#### **Claims and Judgments**

As of August 31, 2014, there are two outstanding material claims for which a liability accrual has been recognized. According to authoritative GASB guidance, liabilities should be recognized when the possibility of loss is probable and the amount of loss is reasonably estimable. See Note 15, *Contingencies and Commitments*, for more information on the claims and judgments against the System.

#### **Employees' Compensable Leave**

According to the *Texas Human Resources Management Statutes Inventory* provided by the State Auditor's Office, State agency employees, who have accrued six months of continuous state employment, are entitled to be paid for the accrued balance of the employee's vacation leave as of the date of separation, if the employee is not reemployed by a state agency or institution of higher education in a position which accrues vacation leave during the 30-day period immediately following the date of separation from State employment.

Substantially all full-time System employees earn annual leave from eight to twenty-one hours per month depending upon the respective employee's years of State employment. State law permits employees to carry accrued leave forward from one fiscal year to another fiscal year with a maximum number of hours up to 532 for those employees with 35 or more years of State service. Eligible part-time employees' annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of continuous State service who terminate their employment are entitled to payment for all accumulated annual leave. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to personal or family illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid to an employee's estate is one-half of the employee's accumulated sick leave or 336 hours, whichever is less. Eligible part-time employees' sick leave accrual rate is proportional to the number of hours they are appointed to work. This obligation is generally paid from the same funding source(s) as the employee's salary or wage compensation.

Expenditures for accumulated annual leave balances are recognized in the period paid or taken. Both an expense and a liability are recorded as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

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**Note 6: Bonded Indebtedness**

At August 31, 2014, the System had outstanding bonds of \$391,915,000.00. Revenue Financing System (RFS) debt is secured by and payable from Pledged Revenues as defined in the Master Resolution establishing the Revenue Financing System. Pledged Revenues consist of all lawfully available revenues, funds and balances, with certain exceptions, pledged to secure revenue-supported indebtedness issued under the Master Resolution as set forth by the State of Texas.

General information related to bonds outstanding as of August 31, 2014, is summarized in the following table.

Bond	Purpose	Issue Date	Interest Rate	Amount Issued	Total Principal Outstanding as of 8/31/14
RFS Refunding Bonds, Series 2003A	To provide funds for the purposes of refunding portions of Consolidated University Revenue Bonds Series 1994, Health Science Center Tuition Revenue Bonds Series 1994, Consolidated University Revenue Bonds Series 1996, Revenue Financing System Tuition Revenue Bonds Series 1999, and Revenue Financing System Tuition Revenue Bonds Series 2002, and for paying costs of bond issuance	9/1/2003	5.3750% - 5.5000%	\$ 6,185,000.00	\$ 6,185,000.00
RFS Refunding and Improvement Bonds, Series 2005	To provide funds for the purposes of advance refunding a portion (\$37.7 million par value) of the Board's outstanding bonds, for refunding a portion of the Board's outstanding commercial paper notes, for constructing and equipping a student wellness and career center, for paying a portion of accrued interest, and for paying certain costs of bond issuance	10/1/2005	3.2500% - 5.2500%	76,795,000.00	38,700,000.00
RFS Bonds, Series 2007	To provide funds for the purposes of refunding a portion of the Board's outstanding commercial paper notes, for constructing and equipping two residence halls, for paying a portion of accrued interest, and for paying certain costs of bond issuance	1/1/2007	4.0000% - 5.0000%	56,050,000.00	48,260,000.00
RFS Bonds, Series 2009	To provide funds for the purposes of refunding a portion (\$18.175 million par value) of the Board's outstanding commercial paper notes; constructing and equipping a Public Health Education Building; paying a portion of the interest accruing on the bonds; and paying certain costs of issuing the bonds	2/19/2009	3.0000% - 5.2500%	38,650,000.00	28,560,000.00
RFS Bonds, Series 2009A	To provide funds for the purposes of constructing and equipping the Business Leadership Building, for constructing and equipping Apogee Stadium for paying a portion of accrued interest and for paying certain costs of bond issuance	12/2/2009	3.0000% - 5.0000%	159,310,000.00	138,585,000.00
RFS Refunding Bonds, Series 2009B	To provide funds for the purposes of refunding outstanding Consolidated University Revenue Bonds Series 1994, Revenue Financing System Bonds Series 1999A, and Revenue Financing System Bonds Series 2001 and for paying costs of bond issuance	12/2/2009	3.0000% - 4.7500%	15,800,000.00	10,885,000.00
RFS Refunding Bonds, Series 2010	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2001, Revenue Financing System Bonds Series 2002, and Revenue Financing System Bonds Series 2002A	7/23/2010	3.0000% - 5.0000%	57,625,000.00	46,850,000.00
RFS Refunding and Improvement Bonds, Series 2012A	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2003A, for refunding a portion of the Board's outstanding commercial paper notes and for purchasing, constructing, improving, renovating, enlarging and equipping property, buildings, structures, facilities, roads, or infrastructure related to the UNT ESCO project and UNT Woodhill Square acquisition	6/1/2012	2.0000% - 5.0000%	75,890,000.00	69,300,000.00
RFS Refunding Bonds, Taxable Series 2012B	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2003B	6/1/2012	0.5500% - 3.2000%	4,820,000.00	4,590,000.00
<b>Total</b>				<b>\$ 491,125,000.00</b>	<b>\$ 391,915,000.00</b>

**Funds Available for Debt Service**

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, makes a basic distinction between sales of receivables and future revenues, on the one hand, and the pledging of receivables or future revenues to repay a borrowing (a collateralized borrowing), on the other.

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Total pledged revenues consist of available pledged revenues, which include the gross revenues of the Revenue Financing System, the Student Union Fee, pledged general tuition (which includes general use fees), and investment income or moneys on deposit in the Interest and Sinking Fund, and in the Reserve Fund. In addition to current year pledged revenues, any unappropriated or reserve fund balances remaining at year-end are available for payment of the subsequent year's debt service. System HEAF reserves and Health and Loan Reserves at HSC cannot be included in Total Pledged Revenues. The following table provides the pledged future revenue information for the System's revenue bonds.

Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	\$586,134,432.50
Term of Commitment Year Ending 8/31	2040
Percentage of Pledged Revenue	100%
Current Year Pledged Revenue	\$615,861,416.01
Current Year Principal and Interest Paid	\$42,248,545.00

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**Note 8: Leases**

**Operating Leases**

The System has entered into various operating leases for buildings, equipment, vehicles and land. Rental expenses for operating leases were \$2,213,023.39 in 2014. Future minimum lease rental payments under noncancelable operating leases having an initial term in excess of one year as of August 31, 2014 were as follows:

<b>Fiscal Year</b>	<b>Lease Payments</b>
2015	\$ 2,209,775.08
2016	1,613,558.50
2017	609,354.28
2018	249,118.04
2019	62,499.96
2020 and beyond	1,812,498.84
<b>Total Minimum Future Payments</b>	<b>\$ 6,556,804.70</b>

The System has also leased buildings, land, and other capital assets to outside parties under various operating leases. There were no contingent rentals for the period ended August 31, 2014. Minimum future lease rental income under noncancelable operating leases as of August 31, 2014, was as follows:

<b>Fiscal Year</b>	<b>Lease Income</b>
2015	\$ 565,746.61
2016	307,354.29
2017	235,567.15
2018	135,946.40
2019	73,187.26
2020 and beyond	31,160.00
<b>Total Minimum Future Lease Rentals</b>	<b>\$ 1,348,961.71</b>

**Capital Leases**

Leases that are purchases in substance are reported as capital lease obligations. The capital assets are recorded at the full value of the lease payments. The System entered into long-term leases for financing the purchase of certain capital assets. Such leases are classified as capital leases for accounting purposes and are recorded at the present value of the future minimum lease payments at the inception of the lease. A summary of original capitalized costs of all such property under lease in addition to the accumulated depreciation as of Aug. 31, 2014, is presented below:

<b>Assets Under Capital Lease</b>	<b>2014</b>
Furniture and Equipment	\$ 577,979.15
Less: Accumulated Depreciation	(288,989.40)
<b>Total</b>	<b>\$ 288,989.75</b>

Capital lease obligations are due in quarterly installments through 2016. The following is a schedule of the future minimum lease payments for leased property and the present value of the net minimum lease payments at August 31, 2014:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>
2015	\$ 118,483.23	\$ 12,880.77
2016	59,984.70	5,697.30
<b>Total Minimum Lease Payments</b>	<b>\$ 178,467.93</b>	<b>\$ 18,578.07</b>

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**Note 9: Pension Plans**

**Teacher Retirement System (TRS)**

The State has joint contributory retirement plans for the majority of its employees. One of the primary plans in which the System participates is a cost-sharing multi-employer defined benefit pension plan administered by the TRS. TRS is primarily funded through State and employee contributions. Depending upon the source of funding for a participant's salary, the System may be required to make contributions in lieu of the State.

All System personnel employed in a TRS-eligible position on a half time or greater basis that is projected to last for 4½ months or more are eligible for membership in the TRS retirement plan. 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 and members who are not vested in TRS on August 31, 2014, must be age 62 to retire 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.

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 6.4 percent of gross earnings for 2014. Depending upon the source of funding for the employee's compensation, the State or the System contributes a percentage of participant salaries totaling 6.8 percent of annual compensation for 2014. The System's contributions to TRS for the year ended August 31, 2014, was as follows:

<b>TRS Participation</b>	
Member Contributions	\$ 14,239,601.83
State On-Behalf Contributions	5,553,330.11
Employer Contributions	9,549,496.16
<b>Total</b>	<b>\$ 29,342,428.10</b>

TRS does not separately account for each of its component government agencies because TRS itself bears sole responsibility for retirement commitments beyond contributions fixed by the State Legislature. Further information regarding actuarial assumptions and conclusions, together with audited financial statements are included in TRS's annual financial report, which may be found on the TRS website at [www.trs.state.tx.us](http://www.trs.state.tx.us).

**Optional Retirement Program (ORP)**

The State has also established an optional retirement program for institutions of higher education. Participation in ORP is in lieu of participation in the TRS and is available to certain eligible employees. 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. The 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 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.

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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 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. The contributions made by participants (6.65 percent of annual compensation) and the employer (6.6 percent state base rate for 2014 plus any local supplement for a maximum 8.50 percent of annual compensation) for the fiscal year ended August 31, 2014, is provided in the following table:

<b>ORP Participation</b>	
Member Contributions	\$ 9,311,738.34
Employer Contributions	10,088,532.59
<b>Total</b>	<b>\$ 19,400,270.93</b>

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**Note 12: Interagency Activity and Transactions**

The System experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interagency balances will occur within one year from the date of the financial statement. There were no balances in interagency receivable and payable at August 31, 2014.



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**Note 14 Adjustments to Net Position**

Subsequent to the filing of the 2013 financial statements, the System identified a number of errors as noted below. These errors were corrected by restating the beginning net position as follows:

	<u>Total</u>
<b>Net Position at August 31, 2013 as previously reported</b>	\$ 758,457,503.26
Capital asset adjustments	(7,461,034.52)
Contingencies and claims adjustments	(1,261,128.01)
Debt-related adjustments	5,271,119.57
Adjustments for payroll-related items	(7,668,856.91)
Revenue-related adjustments	3,533,330.54
Vendor payable-related adjustments	<u>(5,245,693.95)</u>
<b>Total Restatement</b>	<u><u>(12,832,263.28)</u></u>
<b>Net Position at August 31, 2013 as restated</b>	<u><u>\$ 745,625,239.98</u></u>

**Adjustments for capital assets**

Capitalized interest on capital assets constructed with proceeds of tax exempt debt was not previously capitalized as required by GAAP. In addition, certain library subscriptions, with useful lives of less than one year – and therefore do not meet the policy for capitalization – should not have been capitalized.

**Adjustments for contingencies and claims**

These adjustments were made to record a liability for the medical malpractice self-insurance program and to increase payables related to student insurance.

**Adjustments for debt related items**

The System changed its amortization method for premiums from straight line method to the effective interest method and recorded deferred outflow of resources for losses on debt refunding.

**Adjustments for payroll related items**

The System corrected reconciling items related to accounting errors in cash, clearing, compensated absences, and other payroll accrual accounts.

**Adjustments for revenue related items**

These adjustments represent tuition and fees related to the Fall 2013 semester revenue for services rendered in fiscal year 2013 based on the number of class days as a percentage of total class days occurring in the fiscal year. The System also increased its estimated allowance for doubtful accounts for student receivables and wrote-off miscellaneous receivables. In addition, accounting errors in clinical receivable, grant receivables, prison contract receivables, and appropriation entries were corrected.

**Adjustments for vendor payable related items**

These adjustments were made to record liabilities incurred for goods or services received in fiscal year 2013 and not paid until fiscal year 2014.

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**Discretely Presented Component Unit**

<b>Net Position at August 31, 2013 as previously reported</b>	\$	115,879,353
Adjustments to accounts receivable		(69,121.00)
Adjustments to prepaid expenses		69,094.00
Gift revenue-related adjustments		<u>(1,921,300.00)</u>
<b>Total Restatement</b>		<u><u>(1,921,327.00)</u></u>
<b>Net Position at August 31, 2013 as restated</b>	<b>\$</b>	<b><u><u>113,958,026</u></u></b>

**Adjustments for gift-revenue**

These adjustments were made to correct overstated contribution receivable and gift revenue balances due to certain donations being misclassified as new gifts rather than as receipt of pledges.

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#### **Note 15: Contingencies and Commitments**

The System is involved in several pending and threatened legal actions. Unless otherwise disclosed in this note, the range of potential loss from all such claims and actions, as estimated by the System's legal counsel and management, should not materially affect the System's financial position.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by such agencies, principally the United States Government. Any disallowed claims may constitute a liability of the System. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the System expects any such amounts to be immaterial.

#### **Contingencies**

##### **Proportional Benefits**

In the fall of 2013, the System Office of Internal Audit began an investigation of the University of North Texas' method of obtaining payment of state-funded benefits associated with certain salaries paid by local funds, as opposed to state appropriations. The Office of Internal Audit determined that the University of North Texas received excess state benefits during the period September 1, 2003, through April 30, 2014. The State Auditor concurred in a report dated September 23, 2014, finding that UNT received excess benefits in the amount of \$75.6 million during the period in question. Since this time, System and UNT management have further refined the excess benefits calculation, determining that the total amount of excess benefits received is \$69.3 million. Discussions with State officials regarding the method and amount of repayment are ongoing and expected to continue during the 84th Regular Session of the Texas Legislature beginning in January 2015. Incurrence of a loss is probable and the amount of loss for the System is estimated to be within a range of \$4.7 million to \$69.3 million. No best estimate of loss within this range can be determined at this time. Thus, as of August 31, 2014, an estimated loss in the amount of \$4.7 million has been accrued as a liability for this loss contingency.

##### **Medicaid Immunization Program**

The System Office of General Counsel is currently conducting a healthcare compliance investigation regarding billing under a Medicaid immunization program that resulted in duplicate Medicaid payments for the administration of vaccinations. Claims and payments were examined for the entire period that the University of North Texas Health Science Center (UNTHSC) has been billing under the program – 2005-2014 – and it has been determined that the amount of \$1,116,243 will be voluntarily refunded to Medicaid. By making this voluntary refund, UNTHSC does not assert it submitted improper bills or false or fraudulent claims. Rather, UNTHSC is making a refund in compliance with Medicaid requirements and procedures. Incurrence of a loss is probable, the amount of loss is estimated to be \$1,116,243, and this amount has been accrued as a liability for this loss contingency.

While conducting the Medicaid immunization compliance investigation, an additional question was raised regarding whether certain medical record documentation was sufficient to support billing for the professional fee in connection with the vaccination program. It was determined that further sampling should be conducted to review UNTHSC claims from May 2012 through August 2014, which is the limited time period entries in the electronic medical records system potentially creates a documentation question. Incurrence of a loss is reasonably possible. The amount of loss for the System would be within a range of \$0 to \$2,455,874, and no best estimate of loss within this range can be determined at this time.

##### **UPL Audit**

The U.S. Dept. of Health and Human Services, Office of Inspector General (OIG) conducted an audit of the Texas Upper Payment Limits (UPL) program and the methodology Texas Health and Human Services Commission (HHSC) used for calculating reimbursements to Texas medical schools' clinical practices under the UPL program. In completing this audit, the OIG recommended to the federal Centers for Medicare & Medicaid Services (CMS) that UNTHSC refund a federal share of UPL payments in the total amount of \$746,461. This amount is attributable to two separate issues: (1) billing for which OIG did not have documentation of the providers' eligibility; and (2) the methodology used to calculate reimbursements to UNTHSC under the UPL program. Texas HHSC and UNTHSC have responded to each of these issues as explained below.

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As part of its response to the OIG audit, Texas HHSC, with UNTHSC's concurrence, agreed that any fees paid for services performed by ineligible providers should be refunded and Texas HHSC and UNTHSC will work together to determine what amounts are attributable to eligible providers or to ineligible providers. Incurrence of a loss is reasonably possible. The amount of loss for the System would be within a range of \$0 to \$261,738, and no best estimate of loss within this range can be determined at this time.

As part of its response to the OIG audit, Texas HHSC, with UNTHSC's concurrence, disagreed with the OIG finding related to methodology and asserted that reimbursements were calculated in accordance with the methodology approved by CMS at the time the billing was submitted. Texas HHSC and UNTHSC will work with CMS to resolve the issue. Incurrence of a loss is reasonably possible. The amount of loss for the System would be within a range of \$0 to \$521,345, and no best estimate of loss within this range can be determined at this time.

**Commitments**

The System continues to implement capital improvements to upgrade facilities. Approximately \$118.6 million in capital commitments have been entered into for the construction and renovation of various facilities. These projects are in various stages of completion.

The University of North Texas enters into contracts with other universities related to future football games that involve commitments of payments to be made on a future date. As of the year ended August 31, 2014, the System has entered into game guarantee commitments of \$1,035,000.

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**Note 16: Subsequent Events**

On September 2, 2014, the System drew an additional \$6.5 million from its private bond purchase arrangement. See Note 5, *Long-Term Liabilities*, for more information about the private bond purchase agreement. Proceeds from the debt were used toward construction and renovation of the Union building as well as Rawlins Hall, UNT's newest honors residential hall.

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**Note 17: Risk Management**

The System is exposed to a variety of civil claims resulting from the performance of its duties. It is System policy to periodically assess the proper combination of commercial insurance and retention of risk to cover losses to which it may be exposed.

The System assumes substantially all risks associated with torts; theft, damage or destruction of assets; business interruption; errors or omissions; and job-related illness or injuries to employees arising out of the performance of the System's mission; as well as Acts of God/natural perils. Financial risks are transferred through contracts or agreements; or financed through commercial insurance or self-insurance plans. Financial exposure from lawsuits for damages and injunctive relief related to torts (excluding employment and civil rights claims) and contracts, is reduced by the function of sovereign and Eleventh Amendment immunities. In addition, state and federal law impose financial exposure limits on certain state-law claims made against individual employees and officials, and on personal injury and the more commonly filed employment related lawsuits. Currently the System does not carry system-wide commercial general liability insurance for any of its components; commercial general liability policies are purchased only on an as-needed basis to address unique exposures. The System is not involved in any risk pools with other government entities.

Liabilities are reported when it is both probable that a loss has occurred and the amount of that loss can be reasonably estimated.

The System has various insurance and self-insurance arrangements to manage risks of loss that are within the scope of GASB 10. There are no claims pending or significant non-accrued liabilities, except as stated in Note 15, *Contingencies and Commitments*.

**Contingencies, Commitments, and Self-Insurance Arrangements**

The System is involved in several pending and threatened legal actions. Unless otherwise disclosed in this note, the range of potential loss from all such claims and actions, as estimated by the System's legal counsel and management, should not materially affect the System's financial position. Further, there are no claims pending or significant non-accrued liabilities, except as stated in Note 15, *Contingencies and Commitments*. Any disallowed claims may constitute a liability of the System. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the System expects any such amounts to be immaterial. Moreover, as shown below, the System manages a medical malpractice self-insurance plan for its physicians. The following Contingencies and Incurred-But-Not-Reported (IBNR) activity was determined for the year ended August 31, 2014:

	<u>August 31, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>August 31, 2014</u>
Incurred But Not Reported Self-Insurance Claims (HSC)	\$ -	949,306.00	(31,260.00)	\$ 918,046.00
Contingent Liabilities	\$ -	5,845,946.84	-	\$ 5,845,946.84

**Medical Professional Liability Self-Insurance Plan**

UNTHSC manages a medical malpractice self-insurance plan for its physicians. As of August 31, 2014, UNTHSC had sufficient self-insurance reserves for known claims against its health care professionals. Medical professional liability coverage is purchased for allied health care professionals and medical students with entity coverage, which provides a maximum per incident of \$1,000,000 and an aggregate limit of \$3,000,000 with no deductible.

**Student-Athlete Accident Medical Self-Insurance Plan**

The National Collegiate Athletic Association (NCAA) requires its member institutions to certify coverage for medical expenses resulting from injuries sustained by student-athletes and certain prospective student-athletes while participating in qualifying NCAA-sanctioned activities. The University of North Texas finances this plan to an

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actuarially determined attachment point and purchases commercial insurance for claims in excess of the attachment point. The attachment point for fiscal year 2014 was \$305,000.

As of August 31, 2014, claims paid out were not material.

#### **Incurred But Not Reported Self-Insurance Claims**

The System self-insures some physical injury and property damage claims that are not financed through commercial insurance, or that are below the retention amounts for claims covered by commercial insurance. The System and its component institutions, as agencies of the State of Texas, are protected from risk of loss arising from these tort claims by sovereign immunity, except as such claims are permitted under the Texas Tort Claims Act. In addition to limiting the type of personal injury and damage claims that can be brought against the System, the Texas Tort Claims Act limits the loss that can result from claims that can be made to \$250,000 for each person; \$500,000 for each single occurrence of bodily injury or death; and \$100,000 for each single occurrence of damage or destruction of property.

For the year ended August 31, 2014, claims against the System were below the liability limits established by the Texas Tort Claims Act, and thus immaterial.

#### **Commercial Insurance Arrangements**

##### **Directors and Officers/Employment Practices Liability**

Directors and Officers (D&O)/Employment Practices Liability (EPL) coverage insures all System and component institution employees and volunteers including coverage for the entity. The policy provides for a maximum limit of \$5,100,000 with a \$100,000 deductible per insured individual for EPL and \$50,000 deductible per insured individual for D&O, a \$50,000 deductible for the entity, and a \$25,000 deductible for volunteers.

##### **Automobile**

The Texas Motor Vehicle Safety Responsibility Act requires that vehicles operated on a state highway be insured for minimum limits of liability in the amount of \$30,000/\$60,000 bodily injury and \$25,000 property damage. In addition, System has chosen to carry liability insurance on its licensed vehicles in the amount of \$1,000,000 combined single limit for bodily injury and property damage.

##### **Medical Professional Liability**

UNT has medical professional liability coverage for professionals at the Student Health and Wellness Center, Athletic Training and Rehabilitation Center, and Kristin Famer Autism Center. Professionals can be classified as physicians, nurses, nurse practitioners, physician assistants, pharmacists, and athletic trainers. There is a maximum per incident limit of \$250,000 and an aggregate of \$500,000 with a \$5,000 deductible.

##### **Property**

The System carries property insurance to finance loss arising from damage to or destruction of capital assets, including business interruption, which protects against loss resulting from disruption to revenue streams. At the close of the fiscal year all premium payments had been made and an insurance policy was in effect that carried a \$1,000,000,000 shared limit through the State of Texas state-wide property insurance program.

A property claim was filed in fiscal year 2014 for hail damage to most buildings at the University of North Texas, including the Discovery Park campus. Currently, the estimated loss is \$6,900,000 to \$9,000,000, all of which is covered under the policy.

##### **Workers' Compensation**

The System is required by State law to participate in the State of Texas workers' compensation insurance program administered through the State Office of Risk Management. This program covers risks of loss resulting from job-related illness or injuries to employees when in the course and scope of their work responsibilities. Following a work-related illness or injury, employees enter into a Return-to-Work program, if necessary, thus reducing indemnity payments for loss compensation.

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### 794 – THE UNIVERSITY OF NORTH TEXAS SYSTEM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2014

Separate workers' compensation policies are purchased to cover out-of-state employees as required by the laws of the state in which an employee works. As of August 31, 2014, the System maintains one policy for an out-of-state employee.

#### **Unemployment Compensation**

The State of Texas provides coverage for unemployment benefits from appropriations made to other state agencies for System employees. The current General Appropriations Act provides that the System components must reimburse General Revenue Fund – Consolidated, from System appropriations, one-half of the unemployment benefits for former and current employees. The Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each appropriated fund type. The System Administration component has only one appropriated fund type. The System components must reimburse the General Revenue Fund 100 percent of the cost for unemployment compensation for any employees paid from funds held in local bank accounts and local funds held in the state treasury.

Unemployment compensation is on a pay-as-you-go basis through the State of Texas, with the exception of locally funded enterprises that have fund expenses and set-aside amounts based on a percentage of payroll amounts. No material outstanding claims are pending at August 31, 2014.

The System maintains reserves for unemployment compensation and workers' compensation payments made for all claims and settlements not eligible for state funding. There were no material outstanding claims pending as of August 31, 2014. Health benefits are provided through the various state contracts administered by the Employee Retirement System (ERS).

#### **Miscellaneous**

Other lines of insurance purchased include: contractual bonuses, camp and day care accident/medical, commercial crime, fine arts, inland marine, foreign liability, global medical, kidnap and extortion, specialized general liability and property insurance for the Elm Fork Education Center, and student intern professional liability.



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### 794 – THE UNIVERSITY OF NORTH TEXAS SYSTEM NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AUGUST 31, 2014

#### **Note 19: The Financial Reporting Entity**

The System is composed of four components as follows: the University of North Texas System Administration, the University of North Texas, the University of North Texas Health Science Center at Fort Worth, and the University of North Texas at Dallas. The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas State Senate. Three members are appointed every odd-numbered year for six-year terms. In addition, the Governor appoints a nonvoting student Regent for a one-year term.

#### **Assets Held By Affiliated Organizations**

GASB authoritative guidance provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government, the System. This guidance states that a legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The System has defined significance as 3% of its net position. As of August 31, 2014, only the University of North Texas Foundation met the criteria for inclusion in the System's financial statements.

#### **Discretely Presented Component Unit**

##### **University of North Texas Foundation**

The University of North Texas Foundation, Inc. (the "Foundation") is reported as a discrete component unit. The Foundation is a separate nonprofit organization that is organized for various purposes, including transferring or using all or any part of the corpus or income for the benefit of the University of North Texas. Such uses are made in accordance with the general or specific purposes stipulated by the donors, grantors or testators, or in the absence of such stipulations, for such uses as may be determined by the Board of Directors of the Foundation; furthermore, the Foundation promptly distributes all net income in excess of operating requirements to promote the educational advancement of the University of North Texas. The governing board is self-perpetuating, comprised of elected members separate from the System's Board of Regents. The direction and management of the affairs of the Foundation and the control and disposition of its assets are vested in the Board of Directors of the Foundation. The System has no liability with regard to the Foundation, its operations or liabilities. The majority of endowments supporting University scholarships and other System programs are owned by the Foundation; therefore, including the Foundation's financial reports is important to obtain a full understanding of the System's financial position and resources.

The Foundation is an essential component of the University of North Texas program for university advancement and for the development of private sources of funding for capital acquisition, operations, endowments, and other purposes relating to the mission of the University of North Texas.

In August of 2003, the University of North Texas entered into an agreement with the Foundation, to better define the relationship between the two entities and to comply with the statutory requirements of Chapters 2255 and 2260 of the Texas Government Code. The 2003 agreement provided that the development leadership for the University would be provided by the Foundation's Chief Executive Officer.

An amended agreement was approved by the System Foundation Board of Directors in their June 2009 meeting, and subsequently approved by the System Board of Regents in August 2009. Under the amended agreement, the University's Vice President for Advancement will serve as the Foundation's Director of Development and will

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AUGUST 31, 2014**

oversee, coordinate and exercise decision making authority over the fundraising activities of both the University of North Texas and the Foundation. In this dual position, the University of North Texas Vice President for Advancement/Foundation's Director of Development (VPA/FDD) shall have no decision making authority in regard to governance of the Foundation or expenditure of funds by the Foundation. The person VPA/FDD will be an employee of the University of North Texas, and compensation for the position is the sole obligation of the University of North Texas. In consideration of this amended agreement, the University of North Texas has consistently reported the Foundation as a discrete component unit in the System's financial statements.

**Related Parties**

Through the normal course of operations, the System both receives funds from and provides funds to other State agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2014, related to pass-through grants were \$25,765,952.09 and \$217,375.67 respectively.

Other related-party transactions identified in the financial statements include Due From/To Other Agencies, State Appropriations, Capital Appropriations and Transfers From/To Other State Agencies.

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AUGUST 31, 2014

**Note 22: Donor Restricted Endowments**

The System's spending policy for unitized endowments reflects an objective to distribute as much total return as is consistent with overall investment objectives while protecting the real value of the endowment principal. An endowment is excluded from target distribution until the endowment has been established for one year.

The target distribution of spendable income to each unit of the endowment fund will be between 3 and 6 percent of the moving average market value of a unit of the endowment fund for the preceding 12 quarters. Unless otherwise determined by the Finance Committee of the Board of Regents, the target annual distribution rate shall be 4 percent of the average unit market value. Distribution shall be made quarterly, as soon as practicable, after the last calendar day of November, February, May and August. This distribution amount shall be recalculated each quarter based on a 12-quarter rolling average. If, at any point of distribution, the fair market value of the endowment is below the corpus of the endowment, the distribution shall be determined on a sliding scale basis. The distribution is made in accordance with the Texas Uniform Prudent Management of Institutional Funds Act. The quarterly distribution is based on an endowment management model developed by the American Institute of Certified Public Accountants.

The amount of net appreciation on the System's donor-restricted endowments that was available for distribution and expenditure during the fiscal year was \$1,459,995.01. These distributions had been made as of the end of the fiscal year; therefore, none of this appreciation amount is reflected in the Net Position section. However, at UNTHSC, net appreciation for authorization for expenditure was \$303,797 at August 31, 2014. UNTHSC credits all investment earnings to corresponding operation accounts of the endowments unless directed otherwise by the donor. Currently, only one endowment requires a portion of earnings to be returned to the corpus. Spending authority of the operations accounts is limited to the present available balance. This authority cannot be exceeded based on future projections.

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**Note 24: Disaggregation of Receivable and Payable Balances**

Net other receivables at August 31, 2014 are detailed by type as follows:

<u>Net Other Receivables</u>	<u>2014</u>
Related to patient accounts	\$ 15,559,674.00
Related to payroll	1,044,078.02
Related to rent	481,828.22
<b>Total</b>	<b>\$ 17,085,580.24</b>

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**Note 28: Deferred Outflows of Resources and Deferred Inflows of Resources**

In fiscal 2014, the System reported deferred outflows of resources of \$4,768,314 in connection with its deferred loss on refunding of long-term debt as presented in the table below.

	<b>Fiscal Year 2014</b>
<b>Deferred Loss on Debt Refunding</b>	<b>Deferred Outflows of Resources</b>
University of North Texas Health Science Center	\$ 1,294,569.00
University of North Texas	3,473,745.00
<b>Total</b>	<b>\$ 4,768,314.00</b>

For the deferred loss debt refunding, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and reported as deferred outflows or deferred inflows. The gain or loss is amortized, using the straight line method, over the remaining life of the old debt or the life of the new debt, whichever is shorter, in the statement of revenues, expenses and changes in net position as a component of interest expense.

**NOTES TO THE  
FINANCIAL STATEMENTS**

**of the**

**UNIVERSITY OF NORTH TEXAS  
FOUNDATION, INC**

**DENTON, TEXAS**

**For the fiscal years ended August 31, 2014 and 2013**

## NOTE 1 – PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Purpose

The University of North Texas Foundation, Inc. (Foundation) is a not-for-profit organization established for the purpose of providing financial support to the University of North Texas. This purpose is accomplished by the Foundation's receipt and management of donations (cash and non-cash) from individuals and organizations.

The Foundation is a not-for-profit 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.

### 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 for un-collectible promises is provided, based on management's evaluation of contributions receivable at the end of each quarter.

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.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial 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.

### Cash and Cash Equivalents

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

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

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 for the Foundation's pro-rata share of the investments are included in the change in net assets in the accompanying Statement of Activities

Real Estate

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

Trust Property

Trust Property consists of property that is held in a Charitable Remainder Trust. Periodically the property is appraised and the property is carried at the most current appraised value.

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 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:

	August 31, 2014		Audited August 31, 2013	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Equities	\$ 120,890,626	\$ 152,515,697	\$ 117,805,333	\$ 132,178,944
Bonds	59,581,840	60,843,565	58,927,497	58,647,750
Alternatives	55,668,215	63,723,212	52,646,271	53,542,503
Cash & equivalents	7,266,539	7,266,539	5,764,939	5,764,939
DFA	<u>2,425,274</u>	<u>3,094,259</u>	<u>2,392,222</u>	<u>2,935,490</u>
	<u>\$ 245,832,494</u>	<u>\$ 287,443,272</u>	<u>\$ 237,536,262</u>	<u>\$ 252,069,626</u>

Investment Income consists of interest and dividends earned, realized gains and losses plus changes in unrealized appreciation and depreciation.



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**NOTE 3 – CONTRIBUTIONS AND OTHER RECEIVABLES**

Contributions and other receivables were as follows:

	<u>August 31, 2014</u>	<u>Audited August 31, 2013</u>
Contributions Receivable in less than one year	\$ 1,781,869	\$ 2,143,013
Contributions Receivable in one to five years	23,644,108	24,142,677
Contributions Receivable in six to ten years	410,850	192,750
Contributions Receivable in over ten years	<u>55,000</u>	<u>1,525</u>
Total Contributions Receivable	25,891,827	26,479,965
Less discounts to net present value (8% discount rate)	(2,630,602)	(4,054,228)
Less Allowance for uncollectible pledges (10% of discounted pledge receivables – plus specific reserves)	<u>(6,011,920)</u>	<u>(4,457,775)</u>
Net Contributions Receivable	17,249,305	17,967,962
Other amounts receivable	<u>1,941</u>	<u>6,955</u>
Total Contributions and Other Receivables	<u>\$ 17,278,550</u>	<u>\$ 17,974,917</u>

**NOTE 4 – 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 include income from endowment funds that is available for distribution upon satisfaction of the specific program restriction stated in the endowment agreement.

**NOTE 5 – PERMANENTLY RESTRICTED NET ASSETS**

Net assets were permanently restricted for the following purposes:

	<u>August 31, 2014</u>	<u>Audited August 31, 2013</u>
Endowments and other permanently restricted funds to support various programs, scholarships, and other activities of the University of North Texas	\$ 80,597,090	\$ 74,679,887
Cash value of life insurance policies that will provide proceeds, upon the death of the insured, for endowments	<u>468,248</u>	<u>458,065</u>
Total	<u>\$ 81,065,338</u>	<u>\$ 75,137,952</u>

**NOTE 6 – REAL PROPERTY**

Real property donated to the Foundation is recorded at fair value at the date of the donation. Real property consists of the following at August 31, 2014:

	<u>Fair Value Recorded</u>	<u>Fair Value Current</u>
Klammer Real Estate Gift	\$ 185,179	Estimated Sales Price
Mineral Rights	12,860	Not Determined
Minahan Estate Property	<u>99,323</u>	Comparative Estimate
Total	\$ 297,362	

**NOTE 7 – 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. Donors of the policies reimburse premium payments made by the Foundation. As of the end of the period, there were a total of 22 such policies with death benefits totaling \$1,697,722 and cash values totaling \$468,248.

**NOTE 8 – INCOME TAX STATUS**

The Foundation has received a letter of determination from the Internal Revenue Service advising that it qualifies as a not-for-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 9 – 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 eligible 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 year to date expense for the current year is \$54,020.

**NOTE 10 – ASSETS HELD UNDER SPLIT INTEREST AGREEMENTS**

The Foundation is the Trustee or Co-Trustee of various charitable remainder trusts and administers numerous 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.

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 six percent.

**NOTE 11 – ASSETS HELD FOR OTHERS**

The Foundation holds and invests certain funds in trust on behalf of the University of North Texas System (UNTS). Pursuant to an investment agreement dated March 15, 2012 and amended and restated on August 16, 2012, certain UNTS long-term assets have been placed with the Foundation and invested in the Foundation's Consolidated Investment Pool. The UNTS investment funds are subject to the same investment management policy as the Foundation's investments, but receive monthly distributions of interest, dividends, and realized gains/losses. The initial term of the agreement ended February 28, 2013, with a provision to automatically renew annually thereafter.

The Foundation also holds and invests certain funds in trust on behalf of the University of North Texas (UNT). Pursuant to an investment management agreement dated August 24, 2012, certain UNT endowment assets have been placed with the Foundation and invested in the Foundation's Consolidated Investment Pool or the Foundation's DFA Short-Term Government fund. The UNT endowment funds residing in the Foundation's Consolidated Investment Pool are subject to the same investment management and distribution policies as the Foundation's investments. The initial term of the agreement ended August 31, 2013, with a provision to automatically renew annually thereafter.

UNTS and UNT are independent of the Foundation in all respects. UNTS and UNT are not subsidiaries or affiliates of the Foundation and are not directly or indirectly controlled by the Foundation. The Board of Regents of UNTS makes all decisions regarding the business and affairs of UNTS and UNT, and their long-term assets and endowment assets managed by the Foundation are the exclusive property of UNTS and UNT respectively. Since the Foundation does not have ownership of any of the UNTS or UNT assets, neither the principal nor income generated by these assets is included in the amount of net assets of the Foundation.

Also, 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 assets held for others.

	<u>August 31, 2014</u>	<u>August 31, 2013</u>
UNTS long-term assets managed by Foundation	\$ 140,443,804	\$ 127,746,896
UNT endowment assets managed by Foundation	44,253,072	37,637,195
Trusts for which beneficiary can be changed	<u>2,687,973</u>	<u>2,070,574</u>
Assets Held for Others	<u>\$ 187,384,849</u>	<u>\$ 167,454,665</u>

The assets held under these agreements are included in the Statement of Financial Position at fair value.

**NOTE 12 – DEFERRED GIFTS**

The Foundation has been advised by many donors of bequests and other deferred gifts to the Foundation and/or the University to be made in the future. The total of such deferred gifts of which the Foundation has been informed was approximately \$103.9 million (unaudited) at August 31, 2014.

These gifts do not meet the requirements of unconditional promises to give; therefore they are not recorded in the financial statements of the Foundation.

**NOTE 13 – CONCENTRATIONS OF CREDIT RISK**

The Foundation maintains cash balances in excess of \$100,000 in banks, which are insured by Federal Deposit Insurance Corporation up to \$250,000. The total amount of checking account deposits with Wells Fargo Bank as of August 31, 2014 was \$122,332. In addition to the checking account balance, the Foundation had cash balances of \$4,955,259 at August 31, 2014 invested with Wells Fargo Bank under a sweep agreement collateralized by Treasury-backed money market funds.

The Foundation also maintains short-term cash investments in money-market mutual funds, which are not insured. The amount held in money market mutual funds was \$4,167,604 at August 31, 2014.

**UNIVERSITY OF NORTH TEXAS SYSTEM (794)**  
**Notes to Schedule 1A - Combined Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended August 31, 2014**

**Note 1: Nonmonetary Assistance**

N/A

**Note 2: Reconciliation**

Below is a reconciliation of the total of federal pass-through and federal expenditures as reported on the Schedule of Federal Financial Assistance to the total of Federal revenues and federal grant pass-through revenues as reported in the general-purpose financial statements. Generally, federal funds are not earned until expended; therefore, federal revenues equal federal expenditures for the reporting period.

Federal Revenues - per Statement of Changes in Revenues, Expenses and Net Position	
Federal Grants and Contracts - Operating	\$ 68,704,741.38
Federal Grants and Contracts - Nonoperating	49,779,659.47
Federal Pass-Through Grants from Other State Agencies/Universities - Operating	<u>5,224,664.34</u>
Total Federal Revenues per Statement of Revenues, Expenses, and Changes in Net Position	<u>\$ 123,709,065.19</u>
Reconciling Items:	
New Loans Processed:	
University's Practice Plan Federal Revenue Contracts	\$ (19,328,005.09)
Federal Work Study	(121,805.64)
New Loans Processed:	
Disadvantaged Student Loans	88,830.00
Federal Perkins Loan Program	904,547.00
Federal Direct Student Loans	<u>230,617,439.00</u>
Total Pass - Through and Expenditures per Federal Schedule	<u>\$ 335,870,070.46</u>

**Note 3a: Student Loans Processed & Administrative Costs Recovered**

Federal Grantor/ CFDA Number/Program Name	New Loans Processed	Admin. Costs Recovered	Total Loans Processed & Adm. Costs Recovered	Ending Balances of Previous Year's Loans
<i>U.S. Department of Health and Human Services</i>				
93.342 Health Professions Student Loans, including Primary Care Loans/Loans for Disadvantaged Students	\$ 88,830.00	\$ -	\$ 88,830.00	\$ 3,417,170.05
<i>Total U.S. Department of Health and Human Services</i>	<u>\$ 88,830.00</u>	<u>\$ -</u>	<u>\$ 88,830.00</u>	<u>\$ 3,417,170.05</u>
<i>U.S. Department of Education</i>				
84.038 Federal Perkins Loan Program	\$ 904,547.00	\$ 132,659.00	\$ 1,037,206.00	\$ 2,895,156.10
84.268 Federal Direct Student Loans	<u>230,617,439.00</u>	<u>-</u>	<u>230,617,439.00</u>	<u>-</u>
<i>Total U.S. Department of Education</i>	<u>231,521,986.00</u>	<u>132,659.00</u>	<u>231,654,645.00</u>	<u>2,895,156.10</u>
<b>TOTAL LOANS AND RECOVERIES</b>	<u>\$ 231,610,816.00</u>	<u>\$ 132,659.00</u>	<u>\$ 231,743,475.00</u>	<u>\$ 6,312,326.15</u>

The University of North Texas' general ledger reporting, billing and receiving, and some aspects of collections of the Perkins Loan program are outsourced to Campus Partners. Promissory note generation, final collection efforts, forbearance and deferment decisions are performed by UNT Financial Aid.

**Note 3b: Federally Funded Loans Processed and Administrative Cost Recovered**

N/A

**Note 4: Depository Libraries for Government Publications**

The University of North Texas System participates as a depository library in the Government Printing Office's Depository Libraries for Government Publications Program, CFDA #40.001. The university is the legal custodian of governmental publications, which remain the property of the federal government. The publications are not assigned a value by the Government Printing Office.

**Note 5: Unemployment Insurance Funds**

N/A (Agency 320 only)

**Note 6: Rebates from the Special Supplemental Food Program for Women, Infant and Children (WIC)**

N/A (Agency 537 only)

**Note 7: Deferred Federal Revenue**

The University of North Texas System does not have any Federal Deferred Revenue to report.

**Note 8: Supplemental Nutrition Assistance Program (SNAP)**

N/A

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**UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED (794)**  
**Schedule 1B - Schedule of State Grant Pass-Throughs From/To State Agencies**  
**For the Fiscal Year Ended August 31, 2014**

**Pass-Through From State Agencies:**  
**To University of North Texas (794)**

Cancer Prevention and Research Institute of Texas (Agency 542)	
RP130597--High-Impact/High-Risk Research Awards	\$ 66,981.22
PP110061--Health Behavior Change Through Public and Professional Education and Training	798.10
PP110190--Evidence-Based Cancer Prevention Services	397,466.94
PP120213--Evidence-Based Cancer Prevention Services	287,917.73
PP130074--Evidence-Based Cancer Prevention Services	7,698.87
Texas A&M AgriLife Extension Service (555)	
Quail Education and Research Initiative	53,769.14
Texas Education Agency (Agency 701)	
Available School Fund - Per Capita	94,617.00
Foundation School Program (FSP) - Formula	2,262,105.00
University of Texas System (Agency 720)	
Joint Admission Medical Program (JAMP)	214,011.94
Texas A&M Engineering Experiment Station (712)	
Nuclear Power Institute - TSTC	12,050.00
Texas Woman's University (Agency 731)	
Outreach & Success	20,000.00
Texas Tech University (Agency 733)	
CPRIT Beam Scanning Radar for Tumor Tracking in Lung Cancer Radiotherapy	38,228.83
Texas Higher Education Coordinating Board (Agency 781)	
Minority Health Research and Education	143,106.65
Texas Grant Program	17,790,000.00
Engineering Recruitment Program	12,500.00
GME Expansion HB1025	260,000.00
College Work Study Program	233,602.99
College Readiness Initiative	94,379.28
Top 10% Scholarships	1,298,000.00
Work Study Mentorship Program	136,032.75
Outreach and Success	24,750.00
Armed Services Scholarships	149,846.75
Hazlewood Exemption HB1025	1,871,712.00
Allied Health Pathway: A Minority Male Initiative	60,501.45
Family Practice hb 1025	102,048.00
Texas Commission on the Arts (Agency 813)	
Arts Create	8,000.00
Parks and Wildlife Department (802)	
447273 HEG Clay County Habitat Corridor	125,827.45
Total Pass-Through from State Agencies	
(Statement of Revenues, Expenses, and Changes in Net Position)	<u><u>\$ 25,765,952.09</u></u>

**Pass-through To State Agencies:**

Texas A&M University - Kingsville (Agency 732)	
Ozone Near Non-Attainment	97,868.65
University of North Texas Health Science Center at Fort Worth (Agency 763)	
Allied Health Pathway: A Minority Male Initiative	60,501.45
University of Texas Southwestern Medical Center (729)	
RS0015 Child Health and Human Development Extramural Research	59,005.57
Total Pass-Through to State Agencies	<u><u>\$ 217,375.67</u></u>

UNAUDITED

UNIVERSITY OF NORTH TEXAS SYSTEM (794)  
 Schedule 2A - Combined Miscellaneous Bond Information  
 For the Fiscal Year Ended August 31, 2014

Description of Issue	Bonds Issued to Date	Range of Interest Rates	Terms of Variable Interest Rate	Scheduled Maturities		First Call Date
				First Year	Last Year	
RFS Refunding Bonds, Series 2003A	\$ 6,185,000.00	5.3750% - 5.5000%	N/A	2003	2017	4/15/2013
RFS Refunding and Improvement Bonds, Series 2005	76,795,000.00	3.2500% - 5.2500%	N/A	2006	2025	4/15/2015
RFS Bonds, Series 2007	56,050,000.00	4.0000% - 5.0000%	N/A	2008	2036	4/15/2016
RFS Bonds, Series 2009	38,650,000.00	3.0000% - 5.2500%	N/A	2009	2028	4/15/2018
RFS Bonds, Series 2009A	159,310,000.00	3.0000% - 5.0000%	N/A	2010	2040	4/15/2019
RFS Refunding Bonds, Series 2009B	15,800,000.00	3.0000% - 4.7500%	N/A	2010	2019	N/A
RFS Refunding Bonds, Series 2010	57,625,000.00	3.0000% - 5.0000%	N/A	2011	2024	4/15/2020
RFS Refunding and Improvement Bonds, Series 2012A	75,890,000.00	2.0000% - 5.0000%	N/A	2013	2034	4/15/2022
RFS Refunding Bonds, Taxable Series 2012B	4,820,000.00	0.5500% - 3.2000%	N/A	2013	2034	4/15/2022
<b>Total</b>	<b>\$ 491,125,000.00</b>					

**RFS - Revenue Financing System**

UNIVERSITY OF NORTH TEXAS SYSTEM (794)  
Schedule 2B - Combined Changes in Bonded Indebtedness  
For the Fiscal Year Ended August 31, 2014

Description of Issue	Bonds Outstanding 09/01/13	Bonds Matured or Retired	Bonds Outstanding 08/31/14	Unamortized Premium	Unamortized Gain/(Loss) on Refunding	Net Bonds Outstanding 08/31/14	Amounts Due Within One Year
RFS Refunding Bonds, Series 2003A	\$ 6,185,000.00	\$ -	\$ 6,185,000.00	\$ -	\$ -	\$ 6,185,000.00	\$ 1,810,000.00
RFS Refunding and Improvement Bonds, Series 2005	44,170,000.00	5,470,000.00	38,700,000.00	922,522.87	(873,963.00)	38,748,559.87	5,387,155.20
RFS Bonds, Series 2007	49,505,000.00	1,245,000.00	48,260,000.00	1,165,517.00	-	49,425,517.00	1,387,213.00
RFS Bonds, Series 2009	30,020,000.00	1,460,000.00	28,560,000.00	-	-	28,560,000.00	1,510,000.00
RFS Bonds, Series 2009A	142,555,000.00	3,970,000.00	138,585,000.00	7,522,285.64	-	146,107,285.64	4,812,603.33
RFS Refunding Bonds, Series 2009B	12,215,000.00	1,330,000.00	10,885,000.00	387,643.39	(246,159.00)	11,026,484.39	2,130,872.34
RFS Refunding Bonds, Series 2010	52,010,000.00	5,160,000.00	46,850,000.00	4,063,187.92	(2,919,782.00)	47,993,405.92	4,392,349.86
RFS Refunding and Improvement Bonds, Series 2012A	72,780,000.00	3,480,000.00	69,300,000.00	10,136,576.00	(568,143.00)	78,868,433.00	4,765,222.00
RFS Refunding Bonds, Taxable Series 2012B	4,740,000.00	150,000.00	4,590,000.00	-	(160,267.00)	4,429,733.00	180,000.00
<b>Total</b>	<b>\$ 414,180,000.00</b>	<b>\$ 22,265,000.00</b>	<b>\$ 391,915,000.00</b>	<b>\$ 24,197,732.82</b>	<b>\$ (4,768,314.00)</b>	<b>\$ 411,344,418.82</b>	<b>\$ 26,375,415.73</b>

Net Bonds Payable per Statement of Net Position	\$ 416,112,732.82
Deferred Outflows of Resources from Refunding per Statement of Net Position	(4,768,314.00)
<b>Net Bonds Outstanding per Schedule 2B</b>	<b>\$ 411,344,418.82</b>





**UNAUDITED**

**UNIVERSITY OF NORTH TEXAS SYSTEM (794)**  
**Schedule 2C - Combined Debt Service Requirements**  
**For the Fiscal Year Ended August 31, 2014**

<u>Description of Issue</u>	<u>Year</u>	<u>Principal</u>	<u>Interest*</u>
<b>Revenue Bonds</b>			
RFS Refunding Bonds, Series 2003A	2015	\$ 1,810,000.00	\$ 337,912.50
	2016	2,130,000.00	240,625.00
	2017	2,245,000.00	123,475.00
		<u>6,185,000.00</u>	<u>702,012.50</u>
RFS Refunding and Improvement Bonds, Series 2005	2015	5,190,000.00	1,919,512.50
	2016	4,170,000.00	1,685,962.50
	2017	4,390,000.00	1,467,037.50
	2018	4,610,000.00	1,236,562.50
	2019	4,850,000.00	994,537.50
	2020-2024	12,600,000.00	2,512,962.50
	2025	<u>2,890,000.00</u>	<u>130,050.00</u>
	<u>38,700,000.00</u>	<u>9,946,625.00</u>	
RFS Bonds, Series 2007	2015	1,300,000.00	2,280,162.50
	2016	1,355,000.00	2,221,662.50
	2017	1,420,000.00	2,160,687.50
	2018	1,470,000.00	2,103,887.50
	2019	1,535,000.00	2,045,087.50
	2020-2024	8,850,000.00	9,046,637.50
	2025-2029	11,280,000.00	6,616,500.00
	2030-2034	14,345,000.00	3,545,200.00
	2035-2036	<u>6,705,000.00</u>	<u>455,850.00</u>
	<u>48,260,000.00</u>	<u>30,475,675.00</u>	
RFS Bonds, Series 2009	2015	1,510,000.00	1,379,687.50
	2016	1,555,000.00	1,334,387.50
	2017	1,635,000.00	1,256,637.50
	2018	1,685,000.00	1,203,500.00
	2019	1,745,000.00	1,144,525.00
	2020-2024	10,195,000.00	4,249,212.50
	2025-2028	<u>10,235,000.00</u>	<u>1,316,925.00</u>
	<u>28,560,000.00</u>	<u>11,884,875.00</u>	

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**UNAUDITED**

<u>Description of Issue</u>	<u>Year</u>	<u>Principal</u>	<u>Interest*</u>
<b>Revenue Bonds</b>			
RFS Bonds, Series 2009A	2015	\$ 4,160,000.00	\$ 6,929,250.00
	2016	4,375,000.00	6,721,250.00
	2017	4,585,000.00	6,502,500.00
	2018	4,815,000.00	6,273,250.00
	2019	5,055,000.00	6,032,500.00
	2020-2024	29,325,000.00	26,109,500.00
	2025-2029	37,455,000.00	18,005,250.00
	2030-2034	18,985,000.00	10,398,000.00
	2035-2039	24,235,000.00	5,151,500.00
	2040	<u>5,595,000.00</u>	<u>279,750.00</u>
		<u>138,585,000.00</u>	<u>92,402,750.00</u>
RFS Refunding Bonds, Series 2009B	2015	2,005,000.00	453,025.00
	2016	2,090,000.00	372,825.00
	2017	2,175,000.00	289,225.00
	2018	2,265,000.00	202,225.00
	2019	<u>2,350,000.00</u>	<u>111,625.00</u>
		<u>10,885,000.00</u>	<u>1,428,925.00</u>
RFS Refunding Bonds, Series 2010	2015	3,660,000.00	2,189,050.00
	2016	3,855,000.00	2,006,050.00
	2017	4,045,000.00	1,813,300.00
	2018	4,200,000.00	1,651,500.00
	2019	4,420,000.00	1,441,500.00
	2020-2024	<u>26,670,000.00</u>	<u>3,272,200.00</u>
		<u>46,850,000.00</u>	<u>12,373,600.00</u>
RFS Refunding and Improvement Bonds, Series 2012A	2015	3,580,000.00	3,383,525.00
	2016	3,765,000.00	3,204,525.00
	2017	3,940,000.00	3,016,275.00
	2018	4,145,000.00	2,819,275.00
	2019	4,330,000.00	2,632,025.00
	2020-2024	19,445,000.00	10,067,325.00
	2025-2029	15,510,000.00	6,033,175.00
	2030-2034	<u>14,585,000.00</u>	<u>1,890,500.00</u>
		<u>69,300,000.00</u>	<u>33,046,625.00</u>

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UNAUDITED

<u>Description of Issue</u>	<u>Year</u>	<u>Principal</u>	<u>Interest*</u>
<b>Revenue Bonds</b>			
RFS Refunding Bonds, Taxable Series 2012B	2015	\$ 180,000.00	\$ 149,145.00
	2016	175,000.00	147,435.00
	2017	180,000.00	145,335.00
	2018	185,000.00	142,635.00
	2019	190,000.00	139,120.00
	2020-2024	1,025,000.00	619,380.00
	2025-2029	1,200,000.00	434,057.50
	2030-2034	1,455,000.00	181,237.50
		<u>4,590,000.00</u>	<u>1,958,345.00</u>
<b>Total</b>		<b><u><u>\$ 391,915,000.00</u></u></b>	<b><u><u>\$ 194,219,432.50</u></u></b>

*Concluded*

\* In accordance with the State Comptroller's reporting requirements, the interest amounts on this schedule represent interest expense per the bond amortization schedules rather than interest on a full accrual basis.

UNAUDITED

UNIVERSITY OF NORTH TEXAS SYSTEM (794)  
 Schedule 2D - Combined Analysis of Funds Available for Debt Service  
 For the Fiscal Year Ended August 31, 2014

Description of Issue	Pledged and Other Sources and Related Expenditures for FY 2014			
	Total Pledged and Other Sources	Operating Expenses/ Expenditures & Capital Outlay	Debt Service	
			Principal	Interest *
RFS Bonds Series '03A, '05, '07, '09, '09A '09B, '10, '12A & '12B	\$ 615,861,416.01	\$ 759,885.11	\$ 22,265,000.00	\$ 19,983,545.00
<b>Total</b>	<b>\$ 615,861,416.01</b>	<b>\$ 759,885.11</b>	<b>\$ 22,265,000.00</b>	<b>\$ 19,983,545.00</b>

\* In accordance with State Comptroller reporting requirements, the interest amounts on this schedule represent interest expense per the bond amortization schedules rather than interest on a full accrual basis.

Pledged revenues for the RFS Parity Obligations include all revenues, funds and balances lawfully available and derived from or attributable to any participant of the Revenue Financing System, subject to the lien on the pledged revenues securing Prior Encumbered Obligations.

UNAUDITED

UNIVERSITY OF NORTH TEXAS SYSTEM (794)  
Schedule 3 - Reconciliation of Cash in State Treasury  
For the Fiscal Year Ended August 31, 2014

<u>Cash in State Treasury</u>	<u>Unrestricted</u>	<u>Current Year Total</u>
Local Revenue Fund 0258	\$ 7,608,704.93	\$ 7,608,704.93
Local Revenue Fund 0280	5,202,126.85	5,202,126.85
Local Revenue Fund 0292	2,460,044.27	2,460,044.27
Local Revenue Fund 0819	612,892.42	612,892.42
<b>Total Cash in State Treasury (Statement of Net Position)</b>	<b>\$ 15,883,768.47</b>	<b>\$ 15,883,768.47</b>

