

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

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of University of North Texas Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of North Texas Foundation, Inc. as of August 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hankins, Eastup, Deaton, Tonn & Seay

Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

February 28, 2017

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2016 AND 2015

	<u>ASSETS</u>	
	August 31, 2016	August 31, 2015
Cash and cash equivalents	\$ 10,895,688	\$ 13,392,673
Investments	280,651,723	258,474,105
Contributions and other receivables	4,393,091	17,258,927
Prepaid expenses	103	1,095
Real property	42,808	269,360
Other assets	7,500	7,500
Cash value - life insurance policies	513,979	512,137
Assets held under trust and annuity agreements	<u>6,914,534</u>	<u>6,370,781</u>
Total Assets	<u>\$ 303,419,426</u>	<u>\$ 296,286,578</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,460,864	\$ 1,495,345
Agency funds	366,057	149,050
Trust and annuity obligations	2,174,900	2,152,161
Assets held for others	<u>180,356,786</u>	<u>167,796,746</u>
Total Liabilities	<u>184,358,607</u>	<u>171,593,302</u>
Net Assets:		
Unrestricted:		
Board designated for reserves	1,577,403	1,272,517
Fair value of endowments below historical cost	(1,878,274)	(2,801,109)
Undesignated	<u>794,640</u>	<u>2,875,193</u>
Total Unrestricted	493,769	1,346,601
Temporarily restricted	26,565,918	36,509,649
Permanently restricted	<u>92,001,132</u>	<u>86,837,026</u>
Total Net Assets	<u>119,060,819</u>	<u>124,693,276</u>
Total Liabilities and Net Assets	<u>\$ 303,419,426</u>	<u>\$ 296,286,578</u>

See accompanying notes to the financial statements.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Revenues, Gains, and Other Support		
Contributions	\$ 34,691	\$ 4,756,379
Adjustment to prior year contributions receivable	-	(16,167,248)
Investment income	(27,383)	2,485,316
Management fee income	1,513,418	-
Other income	-	98,665
Realized and unrealized gain (loss) on market value of investments	42,203	4,396,416
Actuarial gain (loss) on annuity obligations	-	-
Increase in cash value - life insurance	-	-
	<u>1,562,929</u>	<u>(4,430,472)</u>
 Total Revenues, Gains, And Other Support		
	<u>1,562,929</u>	<u>(4,430,472)</u>
 Net Assets Released from Restrictions	7,493,102	(7,314,704)
Transfers/Changes in Donor Restrictions	<u>(829,370)</u>	<u>1,801,445</u>
Total Net Assets Released From Restrictions/Transfers	<u>6,663,732</u>	<u>(5,513,259)</u>
 Program Services		
Internal management fee	1,089,349	-
Scholarships and awards	1,779,404	-
Expense reimbursements	4,356	-
Services for programs	1,970,356	-
Distributions to UNT	2,595,360	-
Grant to University	220,000	-
Distributions to other Institutions	25,500	-
Life insurance premiums	<u>28,777</u>	<u>-</u>
Total Program Services	<u>7,713,102</u>	<u>-</u>

See accompanying notes to the financial statements.

<u>Permanently Restricted</u>	<u>Year Ended August 31, 2016 Total</u>
\$ 6,266,342	\$ 11,057,412
-	(16,167,248)
-	2,457,933
-	1,513,418
-	98,665
(21,831)	4,416,788
52,681	52,681
<u>17,387</u>	<u>17,387</u>
 <u>6,314,579</u>	 <u>3,447,036</u>
 (178,398)	 -
<u>(972,075)</u>	<u>-</u>
 <u>(1,150,473)</u>	 <u>-</u>
 -	1,089,349
-	1,779,404
-	4,356
-	1,970,356
-	2,595,360
-	220,000
-	25,500
<u>-</u>	<u>28,777</u>
 <u>-</u>	 <u>7,713,102</u>

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Management and General Expenses		
Salaries and benefits	\$ 1,171,182	\$ -
Consulting fees	61,633	-
Professional services	28,827	-
Travel	7,740	-
Administrative and other	26,877	-
Bank and credit card charges	4,646	-
Office and computer equipment	16,989	-
Insurance	26,938	-
Professional development and memberships	17,559	-
Strategic planning	<u>4,000</u>	<u>-</u>
Total Management and General Expenses	<u>1,366,391</u>	<u>-</u>
Total Program Services and Expenses	<u>9,079,493</u>	<u>-</u>
Change in Net Assets	(852,832)	(9,943,731)
Net Assets - Beginning of Year	<u>1,346,601</u>	<u>36,509,649</u>
Net Assets - End of Year	<u>\$ 493,769</u>	<u>\$ 26,565,918</u>

See accompanying notes to the financial statements.

<u>Permanently Restricted</u>	<u>Year Ended August 31, 2016 Total</u>
\$ -	\$ 1,171,182
-	61,633
-	28,827
-	7,740
-	26,877
-	4,646
-	16,989
-	26,938
-	17,559
-	4,000
<u>-</u>	<u>1,366,391</u>
-	9,079,493
5,164,106	(5,632,457)
<u>86,837,026</u>	<u>124,693,276</u>
<u>\$ 92,001,132</u>	<u>\$ 119,060,819</u>

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Revenues, Gains, and Other Support		
Contributions	\$ -	\$ 3,123,354
Adjustment to prior year contributions receivable	-	-
Investment income	(49,413)	2,520,099
Management fee income	1,586,624	-
Other income	-	341,564
Realized and unrealized gain (loss) on market value of investments	-	(10,150,760)
Actuarial gain (loss) on annuity obligations	-	-
Increase in cash value - life insurance	-	-
	<u>1,537,211</u>	<u>(4,165,743)</u>
 Total Revenues, Gains, And Other Support	 <u>1,537,211</u>	 <u>(4,165,743)</u>
 Net Assets Released from Restrictions	 7,308,572	 (7,253,277)
Transfers/Changes in Donor Restrictions	<u>(2,273,408)</u>	<u>1,647,905</u>
	 <u>5,035,164</u>	 <u>(5,605,372)</u>
 Total Net Assets Released From Restrictions/Transfers	 <u>5,035,164</u>	 <u>(5,605,372)</u>
 Program Services		
Internal management fee	1,112,283	-
Scholarships and awards	1,467,374	-
Expense reimbursements	5,643	-
Services for programs	331,911	-
Distributions to UNT	4,290,547	-
Grant to University President	41,110	-
Distributions to other Institutions	29,900	-
Life insurance premiums	29,804	-
	<u>7,308,572</u>	<u>-</u>
 Total Program Services	 <u>7,308,572</u>	 <u>-</u>

See accompanying notes to the financial statements.

<u>Permanently Restricted</u>	<u>Year Ended August 31, 2015 Total</u>
\$ 5,397,285	\$ 8,520,639
-	-
-	2,470,686
-	1,586,624
-	341,564
9,703	(10,141,057)
(253,387)	(253,387)
<u>47,879</u>	<u>47,879</u>
 <u>5,201,480</u>	 <u>2,572,948</u>
 (55,295)	 -
<u>625,503</u>	<u>-</u>
 <u>570,208</u>	 <u>-</u>
 -	 1,112,283
-	1,467,374
-	5,643
-	331,911
-	4,290,547
-	41,110
-	29,900
<u>-</u>	<u>29,804</u>
 <u>-</u>	 <u>7,308,572</u>

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Management and General Expenses		
Salaries and benefits	\$ 943,015	\$ -
Consulting fees	72,074	-
Professional services	37,607	-
Travel	12,036	-
Administrative and other	214,642	-
Bank and credit card charges	6,460	-
Office and computer equipment	37,605	-
Insurance	19,534	-
Professional development and memberships	13,838	-
Strategic planning	<u>7,369</u>	<u>-</u>
Total Management and General Expenses	<u>1,364,180</u>	<u>-</u>
Total Program Services and Expenses	<u>8,672,752</u>	<u>-</u>
Change in Net Assets	(2,100,377)	(9,771,115)
Net Assets - Beginning of Year	<u>3,446,978</u>	<u>46,280,764</u>
Net Assets - End of Year	<u>\$ 1,346,601</u>	<u>\$ 36,509,649</u>

See accompanying notes to the financial statements.

<u>Permanently Restricted</u>	<u>Year Ended August 31, 2015 Total</u>
\$ -	\$ 943,015
-	72,074
-	37,607
-	12,036
-	214,642
-	6,460
-	37,605
-	19,534
-	13,838
-	7,369
<u>-</u>	<u>1,364,180</u>
-	8,672,752
5,771,688	(6,099,804)
<u>81,065,338</u>	<u>130,793,080</u>
<u>\$ 86,837,026</u>	<u>\$ 124,693,276</u>

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015**

	<u>Year Ended August 31, 2016</u>	<u>Year Ended August 31, 2015</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (5,632,457)	\$ (6,099,804)
Adjustments to reconcile change in net assets to net cash provided by Operating activities:		
Realized and unrealized (gain)/loss on market value of investments	(4,416,788)	10,141,057
(Increase)/Decrease in contributions and other receivables	12,865,836	(7,199)
Actuarial (gain)/loss on annuity obligations	(52,681)	253,387
(Increase) in cash value – life insurance	(17,387)	(43,889)
(Increase)/Decrease in prepaid expense	992	846
Increase/(Decrease) in accounts payable and accrued expenses	(34,481)	297,354
Increase/(Decrease) in agency funds	217,007	143
Increase/(Decrease) in annuity obligations	22,739	(19,179)
Noncash contributions	<u>(623,113)</u>	<u>(1,599,220)</u>
Net Cash Provided (Used) By Operating Activities	<u>2,329,667</u>	<u>2,923,496</u>
Cash Flows From Investing Activities		
Increase/(Decrease) in assets held for others	12,560,700	(19,588,103)
Proceeds from sale of investments	65,112,648	21,214,405
Purchases of investments	<u>(82,500,000)</u>	<u>(7,924,956)</u>
Net Cash Provided (Used) By Investing Activities	<u>(4,826,652)</u>	<u>(6,298,654)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,496,985)	(3,375,158)
Cash and Cash Equivalents- Beginning of Year	<u>13,392,673</u>	<u>16,767,831</u>
Cash and Cash Equivalents- End of Year	<u>\$ 10,895,688</u>	<u>\$ 13,392,673</u>
Supplemental Cash Flow Information:		
Gifts of securities	\$ 623,113	\$ 1,599,220
Interest paid	-	-
Income taxes paid	-	-

See accompanying notes to the financial statements.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – PURPOSE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

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

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

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting.

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 estimated net realizable value. Contributions receivable due in subsequent years are recorded at the present value of their estimated net realizable value, using interest rates applicable to the years in which the promises are received to discount the amounts. An allowance for uncollectible promises to give has been provided based on management's evaluation of contributions receivable at year end.

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

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

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

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

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

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 at the time of purchase of three months or less. At August 31, 2016 and 2015, there was \$1,676,512 and \$5,055,592, respectively, of cash equivalents in the Foundation's investment accounts awaiting investment.

Investments

The Foundation carries investments in marketable securities and other common stocks with readily determinable fair values at their fair values based on quoted prices in active markets (Level 1 measurements) in the statements of financial position. Investments in mutual funds are carried at their fair value based on published per share valuations (Level 2 measurements). Investments in non-publicly traded Real Estate Investment Trust and Hedge Funds of Funds are carried at their fair value as determined using significant unobservable inputs (Level 3 measurements). Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

Real Property

Real property 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.

Other Assets

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

Agency Funds

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

Date of Management's Review

Subsequent events were evaluated through February 28, 2017, which is the date the financial statements were available to be issued.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – INVESTMENTS

Investment securities consisted of the following at August 31, 2016 and 2015:

	August 31, 2016		August 31, 2015	
	Cost	Fair Value	Cost	Fair Value
U.S. and International Stocks and Equity Mutual Funds/Comingled Funds	\$ 145,113,617	\$ 171,915,644	\$ 135,470,026	\$ 153,283,746
U.S. and International Fixed Income Securities and Mutual Funds/Comingled Funds	44,503,153	45,527,410	63,662,437	62,313,508
U.S. Balanced Comingled Fund	16,300,000	16,358,680	-	-
Real Estate Investment Trust and Mutual Funds	7,819,687	8,458,116	6,935,080	5,869,622
Natural Resource Mutual Fund/Global Hard Assets Mutual Fund	16,140,049	13,932,443	20,495,743	17,799,538
Hedge Funds of Funds/ Mutual Fund	<u>21,906,833</u>	<u>24,459,430</u>	<u>21,556,594</u>	<u>19,207,691</u>
	<u>\$ 251,783,339</u>	<u>\$ 280,651,723</u>	<u>\$ 248,119,880</u>	<u>\$ 258,474,105</u>

Investment income consists of interest and dividends on investment securities and is shown net of investment fees and expenses of \$65,173 and \$62,603 for the years ended August 31, 2016 and 2015, respectively.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles requires disclosure of an estimate of fair value of certain financial instruments. The Foundation's significant financial instruments other than investments are cash and cash equivalents, contributions and other receivables, and other short-term assets and liabilities. For these financial instruments, carrying values approximate fair value.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at August 31, 2016 and 2015 are as follows:

	<u>Fair Value</u>	Fair Value Measurements at Reporting Date Using		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
August 31, 2016:				
Securities/Mutual Funds/Comingled Funds	\$ 256,119,661	\$ 166,337,950	\$ 89,781,711	\$ -
Real Estate Investment Trust	72,632	-	-	72,632
Hedge Funds of Funds	<u>24,459,430</u>	<u>-</u>	<u>-</u>	<u>24,459,430</u>
Total	<u>\$ 280,651,723</u>	<u>\$ 166,337,950</u>	<u>\$ 89,781,711</u>	<u>\$ 24,532,062</u>
August 31, 2015:				
Securities/Mutual Funds/Comingled Funds	\$ 247,261,877	\$ 101,026,565	\$ 146,235,312	\$ -
Real Estate Investment Trust	404,820	-	-	404,820
Hedge Funds of Funds	5,630,059	-	-	5,630,059
Comingled Loan Fund	<u>5,177,349</u>	<u>-</u>	<u>-</u>	<u>5,177,349</u>
Total	<u>\$ 258,474,105</u>	<u>\$ 101,026,565</u>	<u>\$ 146,235,312</u>	<u>\$ 11,212,228</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Real Estate Investment Trust</u>	<u>Hedge Funds Mutual Funds</u>	<u>Loan Fund</u>	<u>Total</u>
August 31, 2014	\$ 670,599	\$ 5,477,340	\$ 5,169,871	\$ 11,317,810
Total gains/(losses) (realized/unrealized)	(65,829)	289,226	7,478	230,875
Purchases, issuance, and settlements	<u>(199,950)</u>	<u>(136,507)</u>	<u>-</u>	<u>(336,457)</u>
August 31, 2015	\$ 404,820	\$ 5,630,059	\$ 5,177,349	\$ 11,212,228
Total gains/(losses) (realized/unrealized)	(44,664)	629,371	(95,991)	488,716
Purchases, issuance, and settlements	<u>(287,524)</u>	<u>18,200,000</u>	<u>(5,081,358)</u>	<u>12,831,118</u>
August 31, 2016	<u>\$ 72,632</u>	<u>\$ 24,459,430</u>	<u>\$ -</u>	<u>\$ 24,532,062</u>

The gains and losses for each year are included in the statements of activities under realized and unrealized gain (loss) on market value of investments.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 – FAIR VALUE MEASUREMENTS (continued)

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Fair values for mutual funds valued using level 2 inputs are based on published daily valuations. Fair values for the Real Estate Investment Trust, Hedge Funds of Funds, and Loan Fund are determined by third-party valuations of the investments. There were no changes in valuation methods during fiscal years 2016 or 2015.

NOTE 5 – CONTRIBUTIONS AND OTHER RECEIVABLES

Contributions and other receivables as of August 31, 2016 and August 31, 2015 are as follows:

	August 31, <u>2016</u>	August 31, <u>2015</u>
Contributions receivable in less than one year	\$ 2,514,252	\$ 23,861,550
Contributions receivable in one to five years	2,491,412	1,924,875
Contributions receivable in six to ten years	220,000	291,245
Contributions receivable in over ten years	<u>-</u>	<u>-</u>
Total Contributions Receivables	5,225,664	26,077,670
Less allowance for uncollectible amounts	(522,566)	(8,398,177)
Less discounts to net present value	<u>(312,807)</u>	<u>(423,421)</u>
Net Contributions Receivable	4,390,291	17,256,072
Other amounts receivable	<u>2,800</u>	<u>2,855</u>
Total Contributions and Other Receivables	<u>\$ 4,393,091</u>	<u>\$17,258,927</u>

Contributions receivable in more than one year have been discounted to net present value using an interest rate of eight percent. A significant pledge made in 2011 had stated terms that it was to be paid by December 31, 2015. The pledge payment was not received on that date. The donor verbally renewed the pledge for payment by March 31, 2016. This date also passed without receiving a payment. The pledge no longer meets the criteria of an unconditional promise to give and has been reversed during the year ended August 31, 2016. The reversal is shown in the Statement of Activities as an adjustment to prior year contributions renewable.

NOTE 6 – UNRESTRICTED NET ASSETS

Unrestricted net assets at August 31, 2016 and 2015 include \$1,577,403 and \$1,272,517 respectively, which has been designated by the Foundation's Board of Directors as a reserve for future operations.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

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

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes at August 31, 2016 and 2015:

	August 31, <u>2016</u>	August 31, <u>2015</u>
Endowments to support various programs, scholarships and other activities of the University of North Texas	\$91,487,153	\$86,324,889
Cash value of life insurance policies that will provide proceeds upon death of insured for endowments	<u>513,979</u>	<u>512,137</u>
Total	<u>\$92,001,132</u>	<u>\$86,837,026</u>

NOTE 9 – LIFE INSURANCE POLICIES

Several endowments have been established which are to be funded or partially funded by life insurance policies for which the Foundation has been named owner and beneficiary. Premium payments made by the Foundation are reimbursed by the donors of the policies. As of August 31, 2016 and 2015, there were a total of 26 and 26 such policies, respectively, with death benefits totaling \$1,972,817 and \$3,434,842 respectively, and cash values totaling \$513,975 and \$512,137 respectively.

NOTE 10 – INCOME TAX STATUS

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

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 – RETIREMENT PLAN

The Foundation sponsors a defined contribution retirement plan covering all full time employees of the Foundation. The Foundation contributes 8.5% of eligible employees' compensation to the plan, and employees are required to contribute a minimum of 6.65% of compensation to the plan. Employees may make voluntary contributions in addition to the required contribution, up to the limits prescribed by the Internal Revenue Code. All employer and employee contributions are fully vested when made. The expense to the Foundation for retirement plan contributions for the year ended August 31, 2016 and 2015 were \$73,062 and \$60,898 respectively.

NOTE 12 – ASSETS HELD UNDER SPLIT INTEREST AGREEMENTS

The Foundation is the Trustee or Co-Trustee of various charitable remainder trusts and administers several gift annuity contracts. The agreements require annuity payments to the income beneficiaries for life, with the remaining assets of the trusts or agreements creating endowments upon the death of the income beneficiary. The annuity obligations are recorded at the present value of the expected future cash payments to the beneficiaries based on published life expectancy tables using a discount rate of six percent.

The assets held under these agreements are included in the statement of financial position at fair value.

NOTE 13 – ASSETS HELD FOR OTHERS

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.

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, 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 calculated on a 20 quarter rolling average unit value. The initial annually renewable agreement was replaced on November 1, 2014 by a new agreement that renews annually and can be terminated by either party upon written notice to the other party.

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 invested in the Foundation's Consolidated Investment Pool are subject to the same investment management and distribution policies as the Foundation's endowments. The initial term of the agreement ended August 31, 2013, with a provision to automatically renew annually thereafter.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – ASSETS HELD FOR OTHERS (continued)

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 and UNT 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. The Foundation does not have ownership of any of the UNTS or UNT assets, therefore, neither the principal nor income generated by these assets, except for management fees paid from these assets, are 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.

Assets held under these arrangements are included in the Statement of Financial Position at fair value, and the Foundation realized net management fee income of \$424,069 and \$474,340 respectively during the year ended August 31, 2016 and 2015, respectively for its services.

A summary of the assets held for others is as follows:

	<u>August 31, 2016</u>	<u>August 31, 2015</u>
Trusts for which beneficiary can be changed	\$ 2,651,998	\$ 2,696,714
UNTS assets managed by Foundation	134,555,295	125,423,568
UNT endowment assets managed by Foundation	<u>43,149,493</u>	<u>39,676,464</u>
Total Assets Held for Others	<u>\$180,356,786</u>	<u>\$167,796,746</u>

NOTE 14 – CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash balances at times in excess of \$250,000 in its depository bank, which are insured by the Federal Deposit Insurance Corporation up to \$250,000. The total amount of checking account deposits with Wells Fargo Bank N.A. as of August 31, 2016 and 2015 was \$994,939 and \$572,175, respectively. In addition to the checking account balances, the Foundation had cash balances of \$5,252,806 and \$3,812,649 at August 31, 2016 and 2015, respectively, invested with Wells Fargo Bank N.A. in a money market account at August 31, 2016 and under a fully collateralized repurchase agreement at August 31, 2015. The Foundation also had \$4,000,000 invested as of August 31, 2015 in a fully collateralized repurchase agreement with Texas Capital Bank.

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 \$2,877,568 and \$5,223,196 at August 31, 2016 and 2015, respectively.