UNIVERSITY OF NORTH TEXAS SYSTEM

CONSOLIDATED ANNUAL FINANCIAL REPORT

AND INDEPENDENT AUDITORS' REPORT

For the fiscal year ended August 31, 2014

DALLAS, TEXAS

Lee Jackson, Chancellor

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UNIVERSITY OF NORTH TEXAS SYSTEM

ORGANIZATIONAL DATA

August 31, 2014

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 5-31-15)	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

UNT | SYSTEM

VICE CHANCELLOR FOR FINANCE

UNT
UNT | HEALTH SCIENCE CENTER
UNT | DALLAS
UNT | SYSTEM OFFICE

July 31, 2015

Brint Ryan, Chairman, UNT System Board of Regents
Don Potts, Vice Chairman, UNT System Board of Regents
Steve Mitchell, Chairman Audit Committee
Board of Regent Members
University of North Texas System
1901 Main Street
Dallas, Texas 75201

Dear Chairman Ryan, Vice Chairman Potts, Chairman Mitchell
and Board of Regents

We are pleased to submit the audited Consolidated Annual Financial Report (CAFR) of the University of North Texas System (UNTS) for the fiscal year ended August 31, 2014. This report is in compliance with TEX. GOV'T CODE ANN 2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts and Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In fiscal year 2014, the University of North Texas System employed over 10,500 people, educated over 41,000 students, and awarded more than 9,300 degrees. With a total annual economic impact of over $5 billion, the System is a robust contributor to the vitality and growth of the region, and to the prosperity and culture of the state. Rooted in the 125-year history of our flagship institution in Denton, UNTS continues to innovate, to excel, and to serve.

The University of North Texas, renowned for its arts and music programs and built on a history of teacher training, business education, and liberal arts, is expanding its scope with strong programs and research in science and engineering. The UNT Health Science Center at Fort Worth is reorganizing into institutes and academies to educate the next generation of healthcare professionals and provide answers to problems that cross the lines of traditional disciplines. The System's new College of Law – unique in its focus on affordability, quality, and student success – received approval from the accrediting body to merge into the rapidly expanding University of North Texas at Dallas this fall.

During its recently-completed session, the Texas Legislature reaffirmed its commitment to UNTS and its institutions by increasing funding by more than $70 million dollars over the next two years for instruction and operations, infrastructure and capital projects, research, and graduate medical education. Unique strengths of UNT System component institutions are also recognized and funded, including: the UNT Health Science Center's Institute for Patient Safety and Preventable Harm; its forensics program, the most advanced in the country; and the University of North Texas's Texas Academy of Mathematics and Science, an important pipeline for STEM education, and one of the many ways that UNT advances science, math, engineering and technology.

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We are committed to being good stewards of the resources entrusted to us by the State of Texas and by students and their families, and we hold ourselves accountable for the wise and appropriate use of those resources. UNT System's first externally-audited consolidated annual financial report serves as a testament to the work we've done to ensure that our stewardship, accountability, and financial viability are just as strong and important to us as our academic services themselves.

Respectfully,

Janet Waldron
Vice Chancellor for Finance, UNT System

cc: Lee F. Jackson, Chancellor
Dr. Neal Smatresk, President UNT
Dr. Michael Williams, President UNTHSC
Dr. Ron Brown, President UNT Dallas
Bob Brown, VP Finance and Administration, UNT
John Harman, Senior VP and CFO, UNTHSC
Dan Edelman, CFO, VP of Finance and Administration, UNT Dallas
Steve Goodson, Interim Chief Internal Auditor, UNT System
Nancy Footer, Vice Chancellor General Counsel, UNT System

Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Regents
University of North Texas System

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the University of North Texas System (the "System") as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the University of North Texas Foundation, Inc. (the "Foundation"), a discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the System as of August 31, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 8 through 17, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated July 31, 2015, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

GRANT THORNTON LLP

Dallas, Texas
July 31, 2015

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
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 an agency of the State of Texas and is currently comprised of the University of North Texas System Administration ("System Administration"), established 1999, and three academic institutions funded by the Legislature: 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 serves the North Texas area, boosting economic activity in the region by over $5 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 region. 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.

Financial Highlights and Overview of the Financial Statements

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 8, *Adjustments to Net Position*, in the notes to the Consolidated Financial Statements, the beginning net position 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).

In addition, the System consolidated financial report contains the Statement of Financial Position and the Statement of Activities for the University of North Texas Foundation, Inc. (Foundation), a discretely presented component unit. The Foundation is a separate nonprofit organization and 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. The financial statements of the Foundation have been prepared in accordance with GAAP as prescribed by the Financial Accounting Standards Board (FASB).

Financial Highlights

- Assets and deferred outflows of the System exceeded its liabilities at August 31, 2014, resulting in a net position of $796.3 million for the System. Unrestricted net position, which may be used to meet the System's future obligations, was $276.3 million, or 34.7% of total net position at year end.

- Net position increased by $37.8 million in comparison with fiscal year 2013. Contributing factors related to this change include increases in tuition and fees, state appropriations, and the fair market value of investments resulting from favorable market conditions.

- 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. The "Capital Asset and Debt Administration" section of the MD&A provides more details pertaining to this increase.

Overview of the Financial Statements

These statements are prepared applying the following principles and standards:

- Reporting is on the 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 and amortization expense on capital assets is reported as an operating expense on the Statement of Revenues, Expenses, and Changes in Net Position. The historical cost of capital assets and the accumulated depreciation and amortization 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.

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, and net position of the System as of the end of the year. 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 amortization, and capital asset related bond and other debt items. Restricted Net Position is reported for amounts that are subject to constraints that are either externally imposed or imposed by law. Amounts that are permanently held for investment are divided into two categories: 1) Non-Expendable and 2) Expendable. Unrestricted Net Position is available for any lawful purpose of the System.

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

Condensed Comparative Statements of Net Position
As of August 31, 2014 and 2013
(in thousands of dollars)

	2014	2013	% Increase/ (Decrease)
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	-	100.0
Total Assets and Deferred Outflows	**$ 1,644,324**	**$ 1,550,911**	**6.0%**
Liabilities			
Current Liabilities	420,696	324,537	29.6
Noncurrent Liabilities			
Bonded Indebtedness	389,737	417,588	(6.7)
Other Noncurrent Liabilities	37,628	50,329	(25.2)
Total Liabilities	**$ 848,061**	**$ 792,454**	**7.0%**
Net Position			
Net Investment in Capital Assets	429,303	395,278	8.6
Restricted:			
Funds Held as Permanent Investments:			
Non-Expendable	44,639	47,932	(6.9)
Expendable	21,566	12,195	76.8
Other Restricted	24,463	88,232	(72.3)
Total Restricted	90,668	148,359	(38.9)
Unrestricted	276,292	214,821	28.6
Total Net Position	**796,263**	**758,458**	5.0
Total Liabilities and Net Position	**$ 1,644,324**	**$ 1,550,911**	**6.0%**

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

TOTAL ASSETS AND DEFERRED OUTFLOWS

Current Assets

The System's current assets decreased $11.9 million, or 2.5%, in 2014 primarily as a result of the reclassification of UNT's endowment investments out of current restricted assets into noncurrent restricted assets in the current year, offset by increases in accounts receivable and other receivables. The increase in other receivables relates to the restatement of clinical receivables to include receivables for services provided but not yet billed.

Noncurrent Assets

Capital Assets, Net

Net capital assets increased $37.5 million, or 4.2%, in 2014 as a result of an increase in capital and intangible assets. This increase is attributable to a $69.0 million increase in construction in progress in 2014 relating to the ongoing projects for the Student Union, Discovery Park, and Rawlins Hall at UNT and the purchase of $21.6 million of depreciable capital assets during the year, offset by depreciation and amortization expense of $53.9 million.

Other Noncurrent Assets

The System's other noncurrent assets increased by $63 million, or 34.7%, due to an increase in noncurrent investments in 2014. This increase was caused by a reclassification of endowment investments out of current restricted assets into noncurrent restricted assets and an increase in the fair market value of investments.

Deferred Outflows
Deferred outflows, which consist of unamortized losses on refunding of debt, increased $4.8 million, or 100%, in 2014 due to a restatement in the current year to properly record these amounts in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

TOTAL LIABILITIES

Current Liabilities
The System's current liabilities increased $96.2 million, or 29.6%, in 2014 primarily due to increases in accounts payable related to restatements and to the various ongoing construction projects throughout the System. Additionally, commercial paper reported as non-current in 2013 was reclassified to current liabilities, resulting in an increase of $49 million to the current liability balance (see Note 4, *Short and Long Term Debt and Liabilities,* in the notes to the Consolidated Financial Statements).

Noncurrent Liabilities
Noncurrent liabilities consist primarily of noncurrent portions of notes and loans; capital lease obligations; revenue bonds payable; and employees' compensable leave. In total, noncurrent liabilities decreased $40.6 million, primarily due to a reclassification of the commercial paper as indicated above. In addition, the System incurred $15 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. Net position increased by $37.8 million, or 5.0%, in 2014.

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 amortization, and a $4.8 million restatement to record deferred outflows of resources for unamortized losses on refunding bonds. These amounts are offset by a $9.1 million increase in notes, loans, and revenue bonds payable.

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 $57.7 million, or 38.9%, primarily due to a reclassification of Higher Education Assistance Funds (HEAF) from restricted to unrestricted net position. While the State has designated this amount to be used for capital purposes, the funds are considered unrestricted as the System is part of the State.

Unrestricted Net Position
Unrestricted net position increased by $61.5 million, or 28.6%, due to an increase of $21.4 million in legislative appropriations revenue; a 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 $38.1 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 and amortization 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 functional (programmatic) categories as defined by National Association of College and University Business Officers (NACUBO).

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:

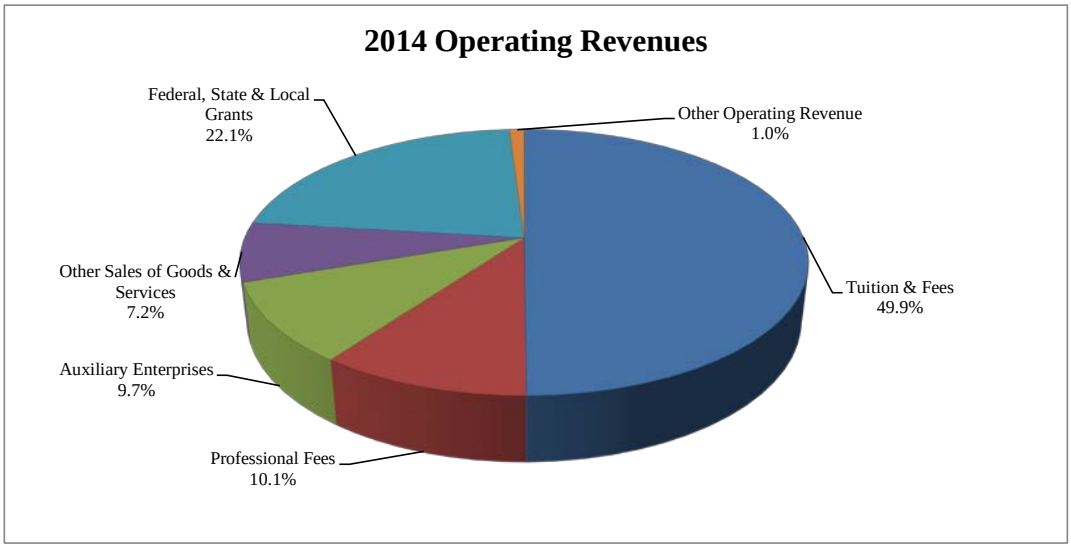
Condensed Comparative Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended August 31, 2014 and 2013
(in thousands of dollars)

	2014	2013	% Increase/ (Decrease)
Total Operating Revenues	$ 560,906	$ 530,008	5.8%
Total Operating Expenses	861,895	823,755	4.6
Operating Income/(Loss)	**(300,989)**	**(293,747)**	**2.5**
Total Nonoperating Revenues/(Expenses)	316,495	255,025	24.1
Income/(Loss) Before Other Revenues, Expenses, Gains, Losses and Transfers	15,506	(38,722)	(140.0)
Other Revenues, Expenses, and Transfers	35,132	33,024	6.4
Change in Net Position	**50,638**	**(5,696)**	**(989.0)**
Net Position, Beginning of Year	758,458	764,154	(0.7)
Restatement	(12,833)	-	100.0
Restated Net Position, Beginning of Year	745,625	764,154	(2.4)
Net Position, End of Year	**$ 796,263**	**$ 758,458**	**5.0%**

OPERATING REVENUES

Operating revenues totaled $560.9 million for the fiscal year ended August 31, 2014, an increase of $30.9 million or 5.8% over 2013. The System's primary sources of operating revenues come from tuition and fees and federal, state, and local grants. Tuition and fees, representing 49.9% of operating revenues, are reflected gross in the financial statements with associated discounts and allowances shown separately. Net tuition and fees increased $15.3 million, or 5.8%, as a result of increased enrollment and increased tuition rates throughout the System. Federal, state, and local grant 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. Federal, state, and local grants include revenues from contracts with the Federal Bureau of Prisons for clinical activities. These revenues were formerly reported as professional fee revenue in 2013 and have been reclassified to federal revenue in 2014. These revenues increased by $23.5 million, or 23.3%, in 2014. A portion of this increase is due to an increase in net patient care revenues, which are principally generated through contractual arrangements with governmental payors and private insurers.

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



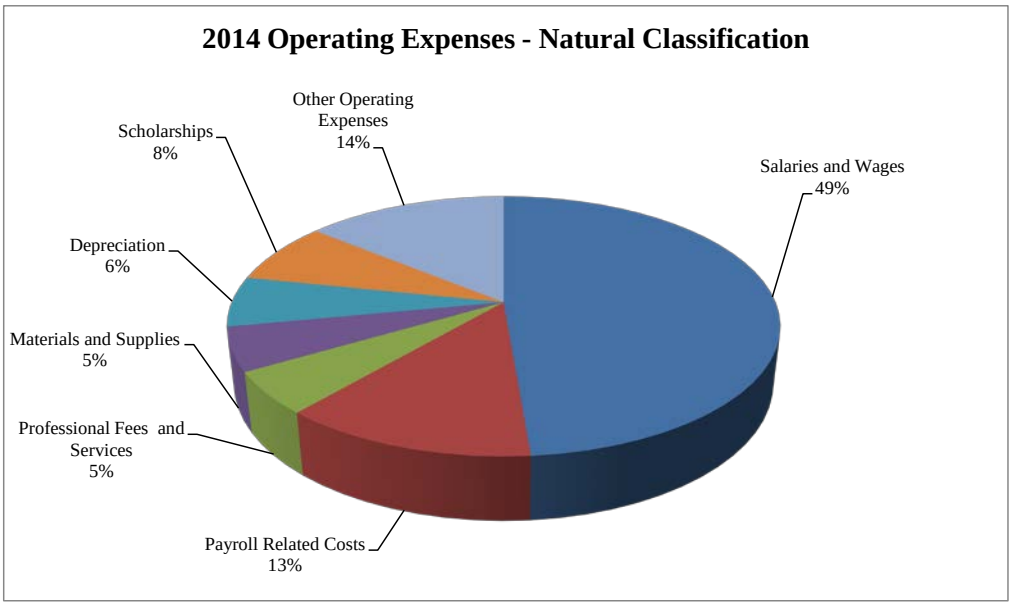
OPERATING EXPENSES

Operating expenses totaled $861.9 million for the fiscal year ended August 31, 2014, an increase of $42.8 million, or 5.2%, over 2013. The increase is due primarily to a $14.5 million increase in salaries and wages and a $9.3 million increase in payroll related costs, driven by an increase in employee-related costs. In addition, professional fees and services increased $11.0 million due primarily to a $6.2 million increase in expenses related to the Federal Bureau of Prisons for clinical activities, in line with an increase in revenue, and a $3.1 million increase in consulting fees for the System's enterprise resource planning upgrade and planned unified controller structure.

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

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

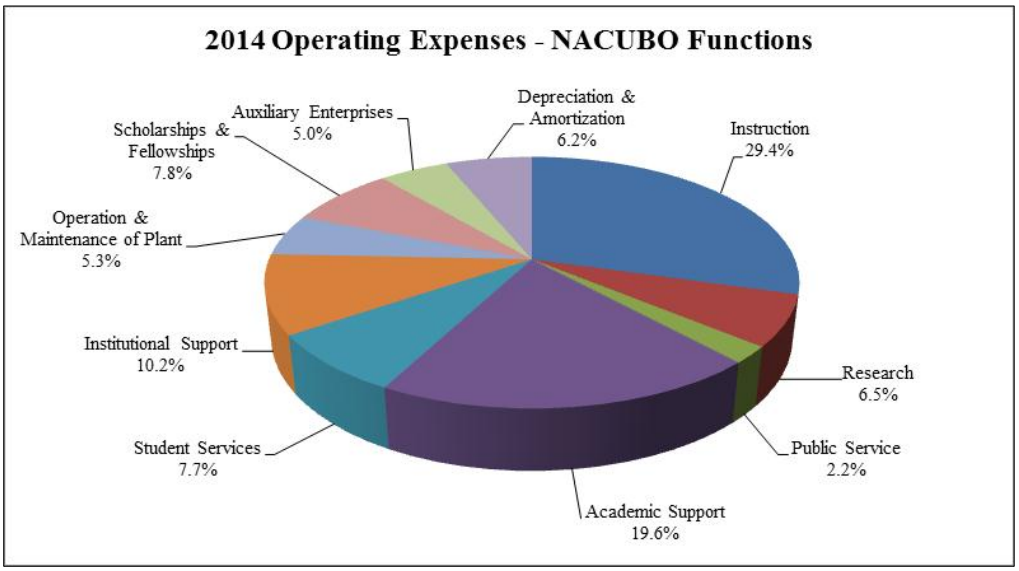
Operating Expenses	2014	2013	% Increase/ (Decrease)
Cost of Goods Sold	$ 5,767	$ 849	579.3%
Salaries and Wages	419,672	405,200	3.6
Payroll Related Costs	108,912	99,629	9.3
Professional Fees and Services	45,155	34,173	32.1
Travel	12,098	11,117	8.8
Materials and Supplies	46,766	49,843	(6.2)
Communication 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)
State Grant Pass-Through Expense	217	157	38.2
Depreciation and Amortization	53,867	52,057	3.5
Scholarships	66,325	69,189	(4.1)
Claims and Judgments	5,267	-	100.0
Other Operating Expenses	45,220	44,645	1.3
Total Operating Expenses	$ 861,895	$ 819,059	5.2%



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

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

Operating Expenses	2014	2013	% Increase/ (Decrease)
Instruction	$ 253,667	$ 241,032	5.2%
Research	56,410	57,927	(2.6)
Public Service	18,596	16,124	15.3
Academic Support	169,169	153,635	10.1
Student Services	66,767	62,421	7.0
Institutional Support	87,632	80,841	8.4
Operation and Maintenance of Plant	45,858	45,328	1.2
Scholarships and Fellowships	66,962	66,942	0.0
Auxiliary Enterprises	42,967	42,751	0.5
Depreciation and Amortization	53,867	52,057	3.5
Total Operating Expenses	$ 861,895	$ 819,059	5.2%



NONOPERATING REVENUES AND EXPENSES

Certain significant recurring revenues and expenses are considered nonoperating. The System's primary nonoperating revenues come from legislative appropriations, additional appropriations, federal grants, and net increases in fair value of investments. The System's primary nonoperating expenses are interest expense and fiscal charges. Legislative appropriations increased $21.4 million, or 12.9% between 2013 and 2014. Federal revenues and federal pass-through revenues increased $10.3 million, or 21.7% between 2013 and 2014. The majority of federal revenues and federal pass-through revenues is composed of Federal Pell grant revenues of $57.4 million. The fair value of the System's investments increased by $20.9 million primarily due to favorable market conditions for the Foundation-managed long-term investment pool. Interest expense and fiscal charges on capital asset financings decreased by $1.9 million from $19.3 million in 2013 to $17.3 million in 2014 primarily due to lower weighted average outstanding debt balances and capitalized interest of $0.7 million in the current year.

OTHER REVENUES, EXPENSES, AND TRANSFERS

Other revenues, expenses, and transfers is comprised of capital and endowment related additions and transfers. There were no significant changes to this balance from the prior year. HEAF funds comprise the majority of the balance. Annual HEAF-related revenue totaling $36.6 million is reported as Capital Contribution rather than as operating revenue or nonoperating revenue.

Capital Asset and Debt Administration

Investments in capital asset additions were $93.0 million in 2014. Major capital projects activity 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) – 7th 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

The System has committed $118.6 million to capital asset additions and improvements, and these projects are in various stages of completion. More detailed information regarding the System's capital additions and commitments is provided in Note 2, *Capital Assets*, and Note 9, *Contingencies and Commitments*, in the notes to the Consolidated Financial Statements.

Revenue Bonds Payable represents the largest portion of the System's liabilities. Current and Non-Current Revenue Bonds Payable decreased $25.5 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, Moody's, Fitch, and S&P, respectively. More detailed information regarding the System's bonded indebtedness is provided in Note 4, *Short and Long Term Debt and Liabilities*, of the accompanying Notes to the Consolidated Financial Statements.

ECONOMIC OUTLOOK

State Funding
Fiscal Year 2015 is the second year of the state's biennial budget cycle. State funding increased 13.5 percent from the previous biennium and will be stable between FY2014 and FY2015. Funding includes support for research and for the creation and growth of new programs, including the College of Pharmacy at HSC. Debt service appropriations for the year total $18.9 million, fully funding debt issued for statutorily authorized construction projects.

Enrollment and Student Charges
Growth in both student headcount and full-time student equivalents across UNT institutions, most significantly at HSC and UNTD, and innovations in tuition rate-setting are expected to drive revenue increases. UNT and UNTD will introduce fixed-rate tuition plans for the first time in fiscal year 2015. These plans will offer new freshmen and transfer students the option of a guaranteed tuition and mandatory fee plan for a fixed timeframe, allowing students and their

families to plan for the cost of a college education, and incentivizing students to complete their degrees in a timely manner. Rate increases in traditional tuition plans have also been approved for UNT and UNTD for fiscal year 2015.

The inaugural class of the UNTD College of Law, operating for the year as a professional school of System Administration before being incorporated into UNTD, will matriculate in fiscal year 2015. The College of Law's first class of 153 students exceeds the expected enrollment by 27.5 percent, reflecting significant interest in its model of affordable law education.

Research

Expanding the research enterprises of UNT and the HSC will continue to be a priority. UNT will launch three institutes in the upcoming year: the Logistics Systems Institute, the BioDiscovery Institute and the Advanced Materials and Manufacturing Processes Institute. Each builds on UNT's existing expertise and is expected to increase UNT's success in competing for large multi-investigator, interdisciplinary awards at the federal level, as well as increase the funding of sponsored research from private sector partners.

Expanding research infrastructure is a key component to UNT's research growth. UNT will build on its excellence in externally funded plant sciences research with additional greenhouses and will continue 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. Efforts are focused on solutions and partnerships for UNT to continue to grow as a research university that is vital to students, industry, and the public.

Expanding the research enterprise and soliciting external funds through grants and contracts continue to be priorities for HSC as well. Although federal funding of scientific projects continues to decline amid increased competition, extramural research awards for fiscal year 2015 are projected to remain stable at $42.7 million. Meanwhile, private sector contracts and research commercialization are being expanded through pre-clinical services, acceleration labs and forensic genetics, which continue to attract entrepreneurial companies for advancements in medicine.

Clinical Practice

HSC is focused on the clinical practice, which is expected to expand and generate additional income in future periods. UNT Health Patient Services is one of the largest multi-specialty physician groups in Tarrant County with approximately 220 healthcare providers, of which 175 are clinical faculty physician full-time equivalents representing 31 different medical specialties. By the end of fiscal year 2015, UNT Health anticipates about $81 million in total revenue.

To further the shared missions of providing medical services and health-related education and research while economizing on resources to benefit the residents of Tarrant County, HSC and JPS Health Network will partner to organize and create the Acclaim Physician Group, Inc., an organization of health care providers that will focus on the clinical practice. Acclaim is expected to be double the size of UNT Health, with additional specialties to serve the needs of the community.

Changing Landscape of Financial Operations

In fiscal year 2015, UNT System will deepen and strengthen its financial operations to bring new rigor to budgeting, accounting, and financial reporting. In addition to realizing a planned unified controller structure, the System's treasury department will be enhanced to include more robust debt and cash management. As part of this transformation, the System will begin to rely more heavily on key financial indicators and ratios for management and governance.

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Net Position
As of August 31, 2014

		August 31, 2014
ASSETS		
Current Assets		
Cash and Cash Equivalents	$	211,706,909.51
Restricted Cash and Cash Equivalents		9,654,413.14
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
Total Current Assets		**464,236,834.09**
Non-Current Assets		
Investments		152,315,937.48
Restricted Investments		85,268,043.02
Loans and Contracts		5,152,726.56
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
Total Non-Current Assets		**1,175,319,115.28**
Total Assets		**1,639,555,949.37**
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Loss on Refunding Debt		4,768,314.00
Total Deferred Outflows of Resources		**4,768,314.00**
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$**	**1,644,324,263.37**

See Accompanying Notes to the Consolidated Financial Statements

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Net Position (Continued)
As of August 31, 2014

		August 31, 2014
LIABILITIES		
Current Liabilities		
Accounts Payable	$	39,896,190.88
Payroll Payable		43,347,386.72
Other Payables		6,717,585.81
Accrued Interest		5,772,835.15
Due To Other Agencies		229,844.57
Unearned Revenues		193,887,202.14
Notes and Loans Payable - Commercial Paper		76,067,000.00
Revenue Bonds Payable - Current Portion		26,375,415.73
Claims and Judgments		5,845,946.84
Employees' Compensable Leave - Current Portion		2,619,848.00
Capital Lease Obligations		118,483.23
Funds Held for Others		19,441,472.16
Other Current Liabilities		376,575.75
Total Current Liabilities		**420,695,786.98**
Non-Current Liabilities		
Notes and Loans Payable		15,000,000.00
Revenue Bonds Payable		389,737,317.09
Employees' Compensable Leave		20,102,475.12
Capital Lease Obligations		59,984.70
Other Non-current Liabilities		2,465,907.01
Total Non-Current Liabilities		**427,365,683.92**
Total Liabilities		**848,061,470.90**
NET POSITION		
Net Investment in Capital Assets		429,302,977.48
Restricted for:		
Debt Retirement		19,091.81
Funds Held as Permanent Investments		
Non-Expendable		44,639,280.11
Expendable		21,565,998.50
Other Restricted		24,443,352.64
Unrestricted		276,292,091.93
Total Net Position		**796,262,792.47**
TOTAL LIABILITIES AND NET POSITION	**$**	**1,644,324,263.37**

See Accompanying Notes to the Consolidated Financial Statements

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

Statement of Financial Position

As of August 31, 2014

	August 31, 2014
ASSETS	
Cash and Cash Equivalents	$ 16,767,831
Investments	280,169,952
Contributions and Other Receivables	17,251,728
Prepaid Expenses	1,941
Real Property	297,362
Other Assets	7,500
Cash Value - Life Insurance Policies	468,248
Assets Held Under Trust and Annuity Agreements	6,731,605
Total Assets	**321,696,167**
LIABILITIES	
Accounts Payable and Accrued Expenses	1,197,991
Agency Funds	148,907
Trust and Annuity Obligations	2,171,340
Assets Held for Others	187,384,849
Total Liabilities	**190,903,087**
NET ASSETS	
Unrestricted:	
Board designated for reserves	1,271,885
Fair value of endowments below historical cost	(234,307)
Undesignated	2,409,400
Total Unresricted	3,446,978
Temporarily restricted	46,280,764
Permanently restricted	81,065,338
Total Net Assets	**130,793,080**
TOTAL LIABILITIES & NET ASSETS	**$ 321,696,167**

See Accompanying Notes to the Consolidated Financial Statements

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

	August 31, 2014
OPERATING REVENUES	
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
Total Operating Revenues	**560,905,706.92**
OPERATING EXPENSES	
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
Total Operating Expenses	**861,894,937.17**
Operating Loss	**(300,989,230.25)**
NONOPERATING REVENUES (EXPENSES)	
Legislative Appropriations	188,082,860.00
Additional Appropriations	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)
Loss on Sale of Capital Assets	(834,884.62)
Net Increase in Fair Value of Investments	20,856,989.79
Other Nonoperating Revenues	16,148.30
Other Nonoperating Expenses	(483,112.12)
Total Nonoperating Revenues/(Expenses)	**316,494,841.26**
Income before Other Revenues, Expenses, and Transfers	**15,505,611.01**
OTHER REVENUES, EXPENSES, AND TRANSFERS	
Capital Contributions	1,292,694.05
Capital Appropriations (HEAF)	36,617,741.00
Contributions to Permanent and Term Endowments	233,906.14
Transfers-Out (to Other State agencies)	(5,622,399.71)
Legislative Transfers-In	2,700,000.00
Legislative Appropriation Lapses	(90,000.00)
Total Other Revenue, Expenses, and Transfers	**35,131,941.48**
CHANGE IN NET POSITION	**50,637,552.49**
Net Position, Beginning	758,457,503.26
Restatement	(12,832,263.28)
Net Position, Beginning, as Restated	745,625,239.98
NET POSITION, ENDING	**$ 796,262,792.47**

See Accompanying Notes to the Consolidated Financial Statements

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Statement of Activities
For the Fiscal Year Ended August 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended August 31, 2014 Total
REVENUES, GAINS AND OTHER SUPPORT:				
Contributions	$ -	$ 2,677,788	$ 5,692,383	$ 8,370,171
Investment income	(49,773)	2,250,936	-	2,201,163
Management fee income	1,496,108	-	-	1,496,108
Other income	153	241,944	-	242,097
Realized and unrealized gain on market value of investments	74,763	10,774,999	-	10,849,762
Actuarial gain on annuity obligations	-	-	208,211	208,211
Increase in cash value - life insurance	-	-	10,183	10,183
TOTAL REVENUES, GAINS AND OTHER SUPPORT	**1,521,251**	**15,945,667**	**5,910,777**	**23,377,695**
Net assets released from restrictions	5,429,076	(5,401,498)	(27,578)	-
Transfers/changes in donor restrictions	1,476,018	(1,520,205)	44,187	-
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS	**6,905,094**	**(6,921,703)**	**16,609**	**-**
PROGRAM SERVICES:				
Internal management fee	1,056,280	-	-	1,056,280
Scholarships and awards	1,272,900	-	-	1,272,900
Expense reimbursement	9,232	-	-	9,232
Services for programs	539,983	-	-	539,983
Distributions to UNT	2,506,421	-	-	2,506,421
Grant to University President	61,750	-	-	61,750
Distributions to other Institutions	32,366	-	-	32,366
Life insurance premiums	11,894	-	-	11,894
Total Program Services	**5,490,826**	**-**	**-**	**5,490,826**
MANAGEMENT & GENERAL EXPENSES:				
Salaries and benefits	822,364	-	-	822,364
Consulting fees	49,790	-	-	49,790
Professional services	48,682	-	-	48,682
Travel	9,287	-	-	9,287
Administrative and other	51,613	-	-	51,613
Bank and credit card charges	14,692	-	-	14,692
Office and computer equipment	13,976	-	-	13,976
Insurance	17,794	-	-	17,794
Professional development and memberships	13,357	-	-	13,357
Strategic planning	10,260	-	-	10,260
Total Management & General Expenses	**1,051,815**	**-**	**-**	**1,051,815**
TOTAL PROGRAM SERVICES AND EXPENSES	**6,542,641**	**-**	**-**	**6,542,641**
CHANGE IN NET ASSETS	1,883,704	9,023,964	5,927,386	16,835,054
Net Assets, Beginning of Year	1,563,274	38,044,127	76,271,952	115,879,353
Restatement		787,327	1,134,000	1,921,327
Net Assets, Beginning, as Restated	1,563,274	37,256,800	75,137,952	113,958,026
NET ASSETS END OF PERIOD	**$ 3,446,978**	**$ 46,280,764**	**$ 81,065,338**	**$ 130,793,080**

See Accompanying Notes to the Consolidated Financial Statements

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Cash Flows
For the Year Ended August 31, 2014

	August 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds from Customers	96,564,011.21
Proceeds from Tuition & Fees	280,829,217.06
Proceeds from Research Grants & Contracts	114,942,584.45
Proceeds from Loan Programs	2,508,386.83
Proceeds from Auxiliaries	53,909,543.93
Proceeds from Other Revenues	20,764,478.22
Payments to Suppliers for Goods and Services	(213,090,190.11)
Payments to Employees	(492,388,370.81)
Payments for Other Expenses	(66,948,808.16)
Net Cash Used for Operating Activities	(202,909,147.38)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from State Appropriations	199,510,234.45
Proceeds from Gifts	9,880,336.22
Proceeds from Endowments	233,906.14
Proceeds from Transfers from Other Agencies	170,807.42
Proceeds from Transfers from System Institutions	7,892,006.67
Proceeds from Legislative Transfers	5,310,000.00
Proceeds from Grant Receipts	57,742,378.37
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 System Institutions	(7,892,006.47)
Payments for Other Uses	(499,044.28)
Net Cash Provided by Noncapital Financing Activities	264,028,563.32
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Capital Assets	72,987.09
Proceeds from State Appropriations	34,421,753.74
Proceeds from Debt Issuance	44,510,000.00
Proceeds from Capital Contributions	183,470.75
Payments for Additions to Capital Assets	(87,801,396.44)
Payments of Principal on Debt Issuance	(32,230,000.00)
Payments for Capital Leases	(119,440.05)
Payments of Interest on Debt Issuance	(20,252,692.90)
Net Cash Used for Capital and Related Financing Activities	(61,215,317.81)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sale of Investments	9,152,667.80
Proceeds from Interest and Investment Income	9,683,205.18
Payments to Acquire Investments	(12,967,116.71)
Net Cash Provided by Investing Activities	5,868,756.27
Net Increase 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

Note 1: Summary of Significant Accounting Policies

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 three academic 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 The University of North Texas System Administration ("System Administration"), and three academic institutions as follows: the University of North Texas ("UNT"), the University of North Texas Health Science Center at Fort Worth ("HSC"), and the University of North Texas at Dallas ("UNTD"). 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

The authoritative guidance of the Governmental Accounting Standards Board (GASB) 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.

The University of North Texas Foundation, Inc. (the "Foundation") is reported as a discrete component unit. It 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.

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 information is important to obtain a full understanding of the System's financial position and resources.

The notes to the Foundation's financial statements are included in Note 16; however, complete audited financial statements of the Foundation can be obtained from https://endow.unt.edu.

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 $25,765,952.08 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.

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 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 Nonexchange 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

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 Foundation-managed long-term investment pool 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 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 its institutions to support capital projects.

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. 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 appropriations to the System in future years; however, the System expects that the Legislature will continue to do so.

Higher Education Assistance Funds ("HEAF funds") are general revenue appropriations that are designated by the State for the acquisition of certain capital assets and capital projects. As of August 31, 2014, the total legislative appropriations receivable was $76,323,990.47, of which the unexpended amount of HEAF funds was $66,232,543.76.

Receivables
Federal receivables include Federal grants and education scholarships. Intergovernmental receivables include amounts due from the State government or private sources in connection with reimbursement of allowable expenditures made pursuant to the System's grants and contracts.

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

Gift receivables include amounts pledged to the System by donors and are presented net of an allowance for doubtful accounts of $1.3 million. 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.

Other Receivables
Other receivables is mostly comprised of clinical accounts receivable, which is presented net of allowances for contractual discounts and bad debts. The bad debt 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:

	2014
County Hospital	19.0 %
Medicaid	22.5
Medicare	20.4
Commercial	10.9
Self-pay	17.5
Other	9.7
Total	**100 %**

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

Other Current Assets
Other current assets include prepaid scholarship expenses that pertain to the Fall term of the following fiscal year and other prepaid items.

Restricted Assets
Restricted assets include monies or other resources restricted by legal or contractual requirements, including those related to sponsored programs, donors, revenue bonds, and student loan programs.

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 Net Increase (Decrease) in Fair Value of Investments. 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.

Capital 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. 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 and amortization is reported on all exhaustible assets. Inexhaustible assets such as land, works of art, library books included in the permanent collection, 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 not included in the permanent collection.

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.

Amortization is reported on intangible assets. Amortization is computed using the straight-line method over five to six years.

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows consist of unamortized losses on refunding of debt. For debt refundings, 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

Accounts, Payroll, 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. Payroll payable includes accrued salary, wages, and benefits.

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. As of August 31, 2014, the total unearned revenue was $193.9 million, of which includes $180.7 million of tuition revenue related to semesters that have not been completed as of August 31, 2014. Tuition revenue for each semester is recognized based on the number of semester class days that fall within the fiscal year as a percentage of total semester class days.

Bonds Payable – Revenue Bonds
The bonds payable are reported at par value, increased by the net unamortized bond discount and premium. Bond discounts and premiums are 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 Judgements
Claims and judgements 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 9, *Contingencies and Commitments*, and 10, *Risk Management*, for information on risk management, claims, and judgments.

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.

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.

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.

NET POSITION

Net Investment in Capital Assets
Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization 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 is 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.

Restricted other net position is subject to externally imposed stipulations on assets other than endowment funds. Such assets include externally restricted loan, scholarship, and grant funds.

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.

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

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 primarily include salaries and wages, payroll related costs, materials and supplies, depreciation and amortization, 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
Professional fees revenue primarily includes net patient service revenue. HSC has agreements with third parties that provide for reimbursement to HSC at amounts different from its established rates. Contractual adjustments under third party reimbursement programs represent the difference between HSC's established rates for services and the amounts reimbursed by third parties. HSC'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. Net patient services revenue in the accompanying Statement of Revenues, Expenses, and Changes in Net Position is shown net of allowance for uncollectible amounts and 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, State appropriations, investment income and other revenue sources that do not meet the definition of operating revenue as defined in this note. The System's institutions are the named beneficiaries in certain lawsuits, wills, trusts, and insurance policies. The System does not recognize these potential refunds, gifts, and contributions until realized. Non-operating expenses include activities such as interest expense, and other expenses that do not meet the definition of operating expenses as defined in this note.

Use of Estimates

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 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

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. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, are effective for the System in fiscal year 2015. The primary objective of Statement No. 68 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 provisions of Statement No. 71 are required to be applied simultaneously with the provisions of Statement No. 68. The objective of Statement No. 71 is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to 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. Although management has not yet finalized its determination of the effect of these statements, the impact is expected to be significant as the System will reflect a previously unrecorded liability (estimated to be $143.5 million as of August 31, 2015).

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 No. 69 will have on its financial statements.

GASB Statement No. 72, *Fair Value Measurement and Application*, is effective for the System in fiscal year 2016. The objective of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The System has not yet evaluated the effect that Statement No. 72 will have on its financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, is effective for the System in fiscal year 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB 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 all postemployment benefits (pensions and OPEB) 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. 75 will have on its financial statements.

Note 2: Capital Assets

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

	Balance 8/31/2013 As Restated (1)	Reclassification Completed Construction In Progress	Additions	Deletions	Balance 8/31/2014
Non-Depreciable or Non-Amortizable Assets:					
Land and Land Improvements	$ 70,386,759.67	$ 278,887.37	$ 1,810,691.07	$ (5,000.00)	$ 72,471,338.11
Construction in Progress	72,952,451.04	(52,451,940.47)	68,950,018.88	(33,617.75)	89,416,911.70
Other Tangible Capital Assets	24,363,426.89	-	584,595.00	-	24,948,021.89
Total Non-Depreciable or Non-Amortizable Assets:	**167,702,637.60**	**(52,173,053.10)**	**71,345,304.95**	**(38,617.75)**	**186,836,271.70**
Depreciable Assets:					
Buildings and Building Improvements	850,676,518.84	50,591,250.27	3,993,129.44	(1,747,624.38)	903,513,274.17
Infrastructure	62,312,195.68	1,254,964.16	724,290.23	-	64,291,450.07
Facilities and Other Improvements	123,266,152.06	237,378.67	2,335,050.28	-	125,838,581.01
Furniture and Equipment	133,994,491.75	89,460.00	8,540,582.14	(7,279,127.11)	135,345,406.78
Vehicles, Boats and Aircraft	11,880,804.40	-	669,612.90	(281,348.66)	12,269,068.64
Other Capital Assets	87,120,171.70	-	5,311,707.12	(1,023,935.93)	91,407,942.89
Total Depreciable Assets:	**1,269,250,334.43**	**52,173,053.10**	**21,574,372.11**	**(10,332,036.08)**	**1,332,665,723.56**
Less Accumulated Depreciation for:					
Buildings and Building Improvements	(372,776,874.71)	-	(31,065,289.18)	1,201,956.54	(402,640,207.35)
Infrastructure	(11,606,645.02)	-	(2,210,654.46)	-	(13,817,299.48)
Facilities and Other Improvements	(16,996,485.47)	-	(3,609,885.43)	-	(20,606,370.90)
Furniture and Equipment	(88,250,199.74)	-	(11,284,368.22)	6,367,958.66	(93,166,609.30)
Vehicles, Boats and Aircraft	(6,499,995.90)	-	(1,006,641.14)	241,871.05	(7,264,765.99)
Other Capital Assets	(48,722,305.33)	-	(4,183,084.55)	1,023,982.45	(51,881,407.43)
Total Accumulated Depreciation	**(544,852,506.17)**	**-**	**(53,359,922.98)**	**8,835,768.70**	**(589,376,660.45)**
Depreciable Assets, Net	**724,397,828.26**	**52,173,053.10**	**(31,785,550.87)**	**(1,496,267.38)**	**743,289,063.11**
Amortizable Assets - Intangible:					
Computer Software	22,950,607.14	-	121,600.00	(279,420.16)	22,792,786.98
Total Amortizable Assets - Intangibles	**22,950,607.14**	**-**	**121,600.00**	**(279,420.16)**	**22,792,786.98**
Less Accumulated Amortization for:					
Computer Software	(21,797,119.79)	-	(507,212.73)	279,420.16	(22,024,912.36)
Total Accumulated Amortization	**(21,797,119.79)**	**-**	**(507,212.73)**	**279,420.16**	**(22,024,912.36)**
Amortizable Assets - Intangibles, Net	**1,153,487.35**	**-**	**(385,612.73)**	**-**	**767,874.62**
Total	**$ 893,253,953.21**	**$ -**	**$ 39,174,141.35**	**$ (1,534,885.13)**	**$ 930,893,209.43**

(1) The amounts listed in this column are restated balances, which include adjustments to prior year ending balances. See Note 8, *Adjustments to Net Position*, for more information regarding restatements of capital asset and accumulated depreciation amounts.

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, and the bank reported a balance of $47,103,102.90. The carrying amount consists of all cash in local banks and is included on the Statement of Net Position as a portion of cash and cash equivalents. Assets classified as cash and cash equivalents include $162,662,016 that is invested in cash equivalents. The remainder of the cash and cash equivalent balance of $20,140,299.48 is comprised of cash on hand, cash in transit or reimbursement from the Treasury, and cash in the State Treasury.

Custodial Credit Risk

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

Each institution of the System adopts an endowment investment policy that must be reviewed and approved by the System Board of Regents annually. The policy 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.

The System's cash management objective is to retain appropriate liquidity to meet daily operating demands while seeking higher yield on cash reserves through an appropriately diversified long-term investment portfolio. The System obtained permission from the Attorney General's office for the Board of Regents of the System to invest funds under its control that are held and managed by the System's institutions under Subsection 51.0031(c) of the Education Code. As such, all System Funds subject to Board of Regents control, System endowment funds, and HSC medical professional liability self-insurance plan funds shall be invested pursuant to a Prudent Person Standard. All other System funds shall be deposited in an approved depository bank, invested pursuant to the Public Funds Investment Act in authorized investments such as FDIC insured money market funds and approved local government investment pools, or deposited in the State Treasury. 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.

As of August 31, 2014, the fair values of investments are presented below. Included in this amount is $162,662,016 classified as cash equivalents.

Investment	Fair Value
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 (1)	184,697,670.88
Misc (limited partnerships, guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)	2,326,959.23
Total Investments	**$ 400,245,996.49**

(1) Externally managed investments represent the System's share of the Foundation-managed long-term investment pool. See the "Internal Investment Pool" section of this note for more information.

Fair values of investments that are not managed by the Foundation are primarily based on market valuations provided by external managers. For fair value information with respect to System funds invested in the Foundation-managed long-term investment pool, see Note 16.D. *Fair Value Measurement*.

Credit Risk

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.

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

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

Concentration of Credit Risk

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. The System's investment regulation does not provide specific requirements and limitations regarding concentration of credit.

Custodial Credit Risk
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
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 investments in the Foundation-managed long-term investment pool. Please see the "Alternative Investments" discussion below for information regarding those redemption risks.

Foreign Currency Risk
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. The System's investment policy does not provide specific requirements and limitations regarding investments in foreign currency.

Internal Investment Pool

Certain investments of the System are managed by 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. Complete audited financial statements of the Foundation can be obtained from https://endow.unt.edu/. The notes to the Foundation's financial statements are included in Note 16.

As of August 31, 2014, total investments in the Pool, including the System portion, consisted of the following investment types:

Investment	**Fair Value**
Common Stock	$ 12,208,620.44
Equity Mutual Funds	140,633,258.92
Alternative Investments	63,723,211.47
Fixed Income Money Market and Bond Mutual Fund	61,393,475.97
Other Commingled Funds	2,211,385.20
Total Investments	**$280,169,952.00**

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 publicly held corporations. 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
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.

Alternative Investments
Alternative investments consist of hedge funds, real estate, private equity, and other pooled funds that are not registered with the SEC. See "Alternative Investments – Risks and Redemption Limitations" discussion below for more information on risks and redemption restrictions pertaining to alternative investments.

Fixed Income Money Market and Bond Mutual Fund
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 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.

Other Commingled Funds
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.

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's alternative investments are subject to certain redemption limitations. Please see the "Alternative Investments" discussion below for information regarding those redemption limitations. The Pool is not subject to foreign currency risk, as its international investments are all denominated in U.S. dollars.

Alternative Investments – Risks and Redemption Limitations
Alternative investments 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 alternative assets was $63,723,211.47, which represents 22% of the Pool's total investments. Of this total, $17,245,206.37, or 6% of the Pool's total investments, is subject to redemption limitations.

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.

Market Value	Redemption Limitations
$ 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
$ 17,245,206.37	**Total**

Note 4: Short- and Long-Term Debt and Liabilities

Commercial Paper

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.

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 during 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.

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 As Restated (1)	Additions	Reductions	8/31/2014	Amounts Due Within One Year	Amounts Due Thereafter
Revenue Bonds Payable	$ 414,180,000.00	$ -	$ 22,265,000.00	$ 391,915,000.00	$ 23,395,000.00	$ 368,520,000.00
Unamortized Net Premiums	27,415,223.60	-	3,217,491.29	24,197,732.82	2,980,415.73	21,217,317.09
Total Bonds Payable	**441,595,223.60**	**-**	**25,482,491.29**	**416,112,732.82**	**26,375,415.73**	**389,737,317.09**
Loans Payable	-	15,000,000.00	-	15,000,000.00	-	15,000,000.00
Capital Lease Obligations	2,911.15	294,996.83	119,440.05	178,467.93	118,483.23	59,984.70
Claims & Judgments	1,214,520.01	5,845,946.84	1,214,520.01	5,845,946.84	5,845,946.84	-
Compensable Leave	21,531,376.71	2,116,418.80	925,472.39	22,722,323.12	2,619,848.00	20,102,475.12
Total Long-Term Liabilities	**$ 464,344,031.47**	**$ 23,257,362.47**	**$ 27,741,923.74**	**$ 459,859,470.71**	**$ 34,959,693.80**	**$ 424,899,776.91**

(1) See Note 8, *Adjustments to Net Position*, for more information on restatement of fiscal year 2013 balances.

Revenue Bonds Payable
At August 31, 2014, the System had principal outstanding related to 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 2003, 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
			Total	$ 491,125,000.00	$ 391,915,000.00

As of August 31, 2014, all refunded bonds have been paid off by funds held in escrow.

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	$41,404,722.50
2017	24,615,000.00	16,774,472.50	$41,389,472.50
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	$163,987,217.50
2025-2029	78,570,000.00	32,535,957.50	$111,105,957.50
2030-2034	49,370,000.00	16,014,937.50	$65,384,937.50
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
Total	**$391,915,000.00**	**$194,219,432.50**	**$586,134,432.50**

Total interest and fiscal charges incurred for the year ended August 31, 2014 was $20,655,646.82. Of this total, the System capitalized $729,544.22 associated with financing projects during the construction phase. In addition, the System recorded $2,599,147.29 as a reduction to this balance relating to the amortization of premiums and deferred outflows of resources resulting from losses on bond refundings. The remaining amount of $17,326,955.31 was reported as interest expense and fiscal charges for the year ended August 31, 2014.

Revenues Pledged for Debt Service

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 and Fund Balance	$615,861,416.01
Current Year Principal and Interest Paid	$42,248,545.00

Notes & Loans Payable

On June 18, 2014, the System entered into a Private Placement Bond Purchase arrangement with J.P. Morgan 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 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 total interest payments of $10,701.63. The bonds are secured by the System's pledged revenues. Principal is not due until maturity on June 30, 2016. Interest is variable rate. It is calculated using a formula rate of 67% of the one month

LIBOR rate on the reset date plus .48%. The variable interest rate at August 31, 2014 was .58%. Interest is reset monthly.

Capital Lease Obligations
See Note 5, *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 9, *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.

Note 5: 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. The lease terms typically range from 12 to 60 months, where some lease terms contain optional renewals. 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:

Fiscal Year	Lease Payments
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
Total Minimum Future Payments	**$ 6,556,804.70**

The System has also leased buildings, land, and other capital assets to outside parties under various operating leases. The cost, carrying value and accumulated depreciation of these leased assets as of August 31, 2014 were as follows:

Assets Leased		**2014**
Buildings:		
Cost	$	41,775,784.93
Less: Accumulated Depreciation		(16,601,377.08)
Carrying Value of Buildings		25,174,407.85
Parking Garage		
Cost		10,655,156.80
Less: Accumulated Depreciation		(4,830,063.74)
Carrying Value of Parking Garage		5,825,093.06
Total Carrying Value	**$**	**30,999,500.91**

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:

Fiscal Year	**Lease Income**
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
Total Minimum Future Lease Rentals	**$ 1,348,961.71**

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 where lease terms contain bargain purchase options. 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. Amortization of the leased assets is included in depreciation expense. 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:

Assets Under Capital Lease	**2014**
Furniture and Equipment	$ 577,979.15
Less: Accumulated Depreciation	(288,989.40)
Total	**$ 288,989.75**

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:

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

Note 6: 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:

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

TRS currently 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.

Optional Retirement Program (ORP)

The State also has established the Optional Retirement Program (ORP) 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.

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:

ORP Participation		
Member Contributions	$	9,311,738.34
Employer Contributions		10,088,532.59
Total	**$**	**19,400,270.93**

Note 7: Employees Retirement System (ERS)

The Employee Retirement System (ERS) provides healthcare and survivor benefits for both active and retired employees. The Board of Trustees of the Employees Retirement System of Texas is the administrator of the ERS, which is considered to be a single employer defined benefit healthcare plan. UNTS employees that work at least 20 hours but less than 35 hours per week are eligible for partial health benefits under ERS. UNTS employees that work 35 or more hours are eligible for full health benefits under ERS. Benefits vest after five years of credited service. Employees may retire at age 65 with 10 years of service or any combination of age plus 10 years of service that is equal to or greater than 80.

The premium provisions are determined by the Texas Legislature and require monthly contributions by the State, UNTS and UNTS employees. Contributions to ERS for the year ended August 31, 2014 was as follows:

ERS Participation		
Member Contributions	$	18,356,455.94
State On-Behalf Contributions		27,778,235.50
Employer Contributions		27,911,724.37
Total	**$**	**74,046,415.81**

Additional information can be obtained from the separately issued ERS *Comprehensive Annual Financial Report* at http://www.ers.state.tx.us/home.aspx.

Note 8: 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:

	Total
Net Position at August 31, 2013 as previously reported	$ 758,457,503.26
Adjustments for capital assets	(7,461,034.52)
Adjustments for contingencies and claims	(1,261,128.01)
Adjustments for debt related items	5,271,119.57
Adjustments for payroll related items	(7,668,856.91)
Adjustments for revenue related items	3,533,330.54
Adjustments for vendor payable related items	(5,245,693.95)
Total Restatements	**(12,832,263.28)**
Net Position at August 31, 2013 as restated	**$ 745,625,239.98**

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 did 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 the straight line method to the effective interest method and recorded deferred outflow of resources for unamortized 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 other uncollectible receivables. In addition, accounting errors in clinical receivables, grant receivables, prison contract receivables, and appropriation entries were also 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.

Note 9: 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, UNT System Internal Audit began an investigation of obtaining payment of state-funded benefits associated with certain salaries at the System which were funded by local funds, as opposed to state appropriations. The investigation determined that the System received excess state benefits during the period September 1, 2003 through April 30, 2012. The System provided the results of the UNT System Internal Audit analysis to the Texas State Comptroller and the State Auditor in May of 2014. During the fiscal year ended August 31, 2014, incurrence of a loss in the amount of $4.7 million, representing fiscal years 2012, 2013, and 2014, was considered probable and this amount was accrued as a liability for this loss contingency in the System's financial statements for that fiscal year. The System voluntarily repaid $4.7 million to the Texas State Comptroller on February 11, 2015.

Subsequent to the fiscal year end on August 31, 2014, and prior to this financial report being completed, the FY16-17 General Appropriations Act for the State of Texas (the "Appropriations Act") was enacted. The Appropriations Act requires each institution of higher education to conduct, no later than August 31, 2016, an internal audit of benefits proportional by fund for fiscal years 2012, 2013, and 2014 using a methodology approved by the State Auditor's Office and submit a reimbursement payment to the Texas State Comptroller as a result of receiving excess benefits within two years from the conclusion of the institution's audit. The Appropriations Act further provides that if an institution has previously conducted an internal audit of benefits proportional by fund for fiscal years 2012, 2013, and 2014 using a methodology acceptable to the State Auditor, the State Auditor may waive the requirement of an additional audit. On July 23, 2015, the System received written notification from the State Auditor's Office confirming their position that the combined work, including the State Auditor's Office investigative report released in September 2014, and the work performed by the UNT System Internal Audit, in conjunction with an external consulting firm, has satisfied the intent of the benefit proportionality internal audit requirement in the Article III rider for the fiscal years 2012, 2013, and 2014, and therefore the State Auditor's Office waived the requirement for the System to conduct an additional internal audit related to these fiscal years. Based on these events, management believes that the System's $4.7 million repayment made on February 11, 2015, satisfies the repayment requirements.

Medicaid Immunization Program
The System Office of General Counsel conducted a healthcare compliance investigation regarding billing under a Medicaid immunization program. Claims and payments were examined for the entire period that HSC billed under the program – 2005-2014. The Office of General Counsel determined that duplicate Medicaid payments for the administration of vaccinations were received by HSC. During the fiscal year ending August 31, 2014, incurrence of a loss in the amount of $1,116,243 was considered probable and this amount was accrued as a liability for this loss contingency in UNT System's financial statements for that fiscal year. Upon processing all charges, the amount of $1,128,102 was voluntarily refunded to or recouped by Medicaid or Medicaid payors. By making this voluntary refund, HSC does not admit it submitted improper bills or false or fraudulent claims. Rather, HSC made a refund in compliance with Medicaid requirements and procedures. Incurrence of additional loss is remote.

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 HSC claims from May 2012 through August 2014, which is the limited time period entries in the electronic medical records system potentially created 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, so no amount has been accrued for.

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 HSC 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 HSC under the UPL program. HHSC and HSC have responded to each of these issues as explained below.

As part of its response to the OIG audit, HHSC, with HSC's concurrence, agreed that any fees paid for services performed by ineligible providers should be refunded. CMS has accepted the OIG's determination of amounts attributable to ineligible providers, and HHSC has requested that HSC refund the overpayment amount. Incurrence of a loss is probable. The amount of loss for the System will be $261,738.

As part of its response to the OIG audit, HHSC, with HSC'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. HHSC and HSC 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 $484,723, 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 or was outstanding as of year-end for the construction and renovation of various facilities. These projects are in various stages of completion.

Note 10: 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 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 the institutions; 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 Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues.* There are no claims pending or significant non-accrued liabilities, except as stated in Note 9, *Contingencies and Commitments.* The System did not have any losses or settlements that exceeded insurance policy limits within the last three years

Self-Insurance Arrangements

Medical Professional Liability Self-Insurance Plan
HSC manages a medical malpractice self-insurance plan for its physicians. As of August 31, 2014, HSC 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.
The following contingencies and Incurred-But-Not-Reported (IBNR) activity was determined for the year ended August 31, 2014:

	8/31/2013 As Restated	Additions	Reductions	August 31, 2014
Incurred But Not Reported Self-Insurance Claims (HSC) (1)	$ 632,520.00	316,786.00	(31,260.00)	$ 918,046.00

(1) The estimated claims payable for Medical Malpractice IBNR includes estimates of allocated loss adjustment expenses.

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 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.

For the year ended 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, as an agency of the State of Texas, is 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 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.

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 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 has only one appropriated fund type. The System 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.

Note 11: Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2014, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses	Instruction	Research	Public Service	Academic Support	Student Services
Cost of Goods Sold	$ 20,298.67	$ 1,829.00	$ -	$ 32,616.92	$ 141,044.29
Salaries and Wages	176,837,263.88	29,371,917.38	9,145,487.56	90,054,872.66	31,831,744.28
Payroll Related Costs	49,793,166.00	6,471,310.05	2,165,921.23	20,714,537.92	7,154,014.40
Professional Fees and Services	3,152,717.18	6,582,406.97	3,035,790.02	25,087,559.20	946,498.14
Federal Pass-Through Expenses	5,490.85	336,975.12	(1,454.27)	-	-
State Pass-through Expenses	-	217,375.67	-	-	-
Travel	2,433,573.78	1,869,436.96	276,354.88	3,026,375.54	3,472,341.46
Materials and Supplies	8,842,176.34	6,407,203.58	1,654,646.94	11,484,025.72	6,878,190.31
Communications and Utilities	668,970.47	55,120.34	89,011.12	1,414,437.08	1,295,944.54
Repairs and Maintenance	837,949.80	838,580.43	122,453.42	4,774,798.65	1,087,491.24
Rentals and Leases	1,878,994.52	292,877.58	692,971.84	2,110,711.50	1,410,824.87
Printing and Reproduction	933,857.57	88,601.02	136,923.37	668,990.71	790,317.83
Depreciation and Amortization	-	-	-	-	-
Scholarships	313,725.53	91,776.72	-	49,619.71	101,170.58
Claims and Losses	3,159,495.42	25,924.64	8,066.68	764,511.67	246,712.68
Other Operating Expenses	4,788,972.56	3,759,036.94	1,269,930.87	8,985,601.04	11,410,293.81
Total Operating Expenses	**$ 253,666,652.57**	**$ 56,410,372.40**	**$ 18,596,103.66**	**$ 169,168,658.32**	**$ 66,766,588.43**

Note 11: Matrix of Operating Expenses Reported by Function (Continued)

Institutional Support	Operation and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenditures
$ 704,521.23	$ 13,236.16	$ -	$ 4,853,628.63	$ -	$ 5,767,174.90
49,445,442.02	14,850,930.82	896,612.69	17,238,050.22	-	419,672,321.51
11,879,127.61	5,088,743.29	115,135.48	5,529,924.11	-	108,911,880.09
4,802,255.44	681,942.68	74,939.70	790,827.51	-	45,154,936.84
-	-	-	-	-	341,011.70
-	-	-	-	-	217,375.67
794,797.58	84,640.23	8,553.94	131,623.12	-	12,097,697.49
4,372,803.03	3,398,340.14	50,576.99	3,677,608.64	-	46,765,571.69
1,014,831.28	9,470,229.84	137.60	4,737,918.42	-	18,746,600.69
4,049,888.58	6,128,041.83	-	3,220,287.23	-	21,059,491.18
1,082,546.48	242,534.01	4,885.04	927,574.68	-	8,643,920.52
926,287.45	9,661.65	1,236.50	281,815.50	-	3,837,691.60
-	-	-	-	53,867,135.71	53,867,135.71
61,982.90	-	65,707,036.36	-	-	66,325,311.80
672,636.66	382,741.61	-	6,414.72	-	5,266,504.08
7,824,528.79	5,507,035.74	103,468.95	1,571,443.00	-	45,220,311.70
$ 87,631,649.05	**$ 45,858,078.00**	**$ 66,962,583.25**	**$ 42,967,115.78**	**$ 53,867,135.71**	**$ 861,894,937.17**

Note 12: 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 AICPA.

Endowment Types		Amount of Net Appreciation	Reported in Net Position
True Endowments - Corpus	$	44,639,280.11	Restricted Nonexpendable
True Endowments - Appreciation		14,390,655.51	Restricted Expendable
Restricted Quasi-Endowments		7,175,342.99	Restricted Expendable
Unrestricted Quasi-Endowments		22,937,953.69	Unrestricted
	$	**89,143,232.30**	

The amount of net appreciation on the System's donor-restricted endowments managed by the Foundation 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. In addition, at HSC, net appreciation for authorization for expenditure was $303,797 at August 31, 2014. HSC 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.

Note 13: Other Receivables

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

Net Other Receivables		2014
Related to patient accounts	$	15,559,674.00
Related to payroll		1,044,078.02
Related to rent		481,828.22
Total	**$**	**17,085,580.24**

Note 14: Deferred Outflows of Resources

In fiscal 2014, the System started reporting as deferred outflows of resources the loss on refunding of long-term debt. For the loss on 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.

Note 15: Subsequent Events

Subsequent events were evaluated through July 31, 2015. The System drew $6.5 million, $30 million, $15 million, and $15 million from its private bond purchase arrangement on September 2, 2014, January 2, 2015, May 1, 2015, and July 2, 2015, respectively. See Note 4, *Short- and Long-Term Debt and 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. In addition, on April 30, 2015, the System issued $38,265,000 in Refunding Bonds, Series 2015, which refunded the remaining principal on both the Series 2003A and Series 2005 bonds.

Note 16: Foundation Footnotes

The following footnotes are excerpted from the Foundation's audited financial statements for the year ended August 31, 2014.

16.A. Purpose and Summary of Significant Accounting Policies

1. Purpose
The 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.

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

3. 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.

4. 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.

5. 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, 2014 there was $7,273,320 of cash equivalents in the Foundation's investment accounts awaiting investment.

6. 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 Fund 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 statement of activities

7. 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.

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

9. 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.

10. Date of Management's Review
Subsequent events were evaluated through February 10, 2015, which is the date the financial statements were available to be issued.

16.B. Investments

Investment securities consisted of the following at August 31, 2014:

	August 31, 2014	
	Cost	Fair Value
U.S. and International Stocks and Equity Mutual Funds	$120,953,761	$152,843,338
U.S. and International Fixed Income Securities and Mutual Funds	61,937,198	63,603,402
Real Estate Investment Trust and Mutual Funds	6,404,972	6,269,780
Natural Resource Exchange Traded Fund/Global Hard Assets Mutual Fund	17,478,565	23,032,042
Hedge Fund of Funds/Loan Fund/ Mutual Funds	31,784,678	34,421,390
	$238,559,174	$280,169,952

Investment income consists of interest and dividends on investment securities and is shown net of investment fees and expenses of $63,599 for the year ended August 31, 2014.

16.C. 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.

16.D. Fair Value Measurements

Fair values of assets measured on a recurring basis at August 31, 2014 are as follows:

		Fair Value Measurements at August 31, 2014 Using		
	Fair Value at August 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities/Mutual Funds	$ 268,852,142	$ 12,491,087	$ 256,361,055	$ -
Real Estate Investment Trust	670,599	-	-	670,599
Hedge Fund of Funds	5,477,340	-	-	5,477,340
Loan Funds	5,169,871	-	-	5,169,871
Total	$ 280,169,952	$ 12,491,087	$ 256,361,055	$ 11,317,810

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

	Real Estate Investment Trust	Hedge Funds Mutual Funds	Loan Fund	Total
August 31, 2013	$ 625,646	$ 8,288,236	$ -	$ 8,913,882
Total gains/(losses) (realized/unrealized)	44,953	483,509	169,871	698,333
Purchases, issuance, and settlements	-	(3,294,405)	5,000,000	1,705,595
August 31, 2014	$ 670,599	$ 5,477,340	$ 5,169,871	$ 11,317,810

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.

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 year 2014.

16.E. Contributions and Other Receivables

Contributions and other receivables as of August 31, 2014 are as follows:

	August 31, 2014
Contributions receivable in less than one year	$ 1,781,869
Contributions receivable in one to five years	23,644,108
Contributions receivable in six to ten years	410,850
Contributions receivable in over ten years	55,000
Total Contributions Receivables	25,891,827
Less allowance for uncollectible amounts	(6,011,920)
Less discounts to net present value	(2,630,602)
Net Contributions Receivable	17,249,305
Other amounts receivable	2,423
Total Contributions and Other Receivables	$ 17,251,728

Contributions receivable in more than one year have been discounted to net present value using an interest rate of eight percent. Contributions receivable in one to five years include one promise to give of $22,000,000 from Mr. Charn Uswachoke. The contribution is expected to be collected by December 31, 2015, and has been recorded at a net present value of $19,853,046.

16.F. – Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes at August 31, 2014:

	August 31, 2014
Endowments to support various programs, scholarships and other activities of the University of North Texas	$ 80,597,090
Cash value of life insurance policies that will provide proceeds upon death of insured for endowments	468,248
Total	$ 81,065,338

16.G. 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, 2014, there were a total of 24 such policies, with death benefits totaling $1,687,240 and cash values totaling $468,248.

16.H. – 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.

16.I. 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.

16.J. 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-managed long-term 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-managed long-term investment pool or the Foundation's DFA Short-Term Government fund. The UNT endowment funds invested in the Foundation-managed long-term 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 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 are included in the amount of net assets of the Foundation.

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 $439,828 during the year ended August 31, 2014 for its services.

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

	August 31, 2014
Trusts for which beneficiary can be changed	$ 2,687,973
UNTS assets managed by Foundation	140,443,804
UNT endowment assets managed by Foundation	44,253,072
Total Assets Held for Others	$ 187,384,849

16.K. Concentrations of Credit Risk

The Foundation maintains cash balances at times in excess of $250,000 in its depository bank, which are insured by Federal Deposit Insurance Corporation up to $250,000. The Foundation's depository bank, Wells Fargo Bank N.A., has pledged government backed securities with a par value of $6,637,194 at August 31, 2014 to secure Foundation deposits in excess of $250,000. The pledged securities are held by a third-party safekeeping bank under a pledged collateral agreement. The market value of the pledged securities at August 31, 2014 was $6,760,806. The total amount of checking account deposits with Wells Fargo Bank N.A. as of August 31, 2014 was $472,332. In addition to the checking account balances, the Foundation had cash balances of $4,605,259 at August 31, 2014 invested with Wells Fargo Bank N.A. under a fully collateralized repurchase agreement.

The Foundation also maintains short-term cash investments in money-market mutual funds, which are not insured. The amount held in money market mutual funds was $11,715,150 at August 31, 2014.

16.L. Adjustments to Net Assets

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

Net Assets at August 31, 2013 as previously reported	$	115,879,353
Adjustments to accounts receivable		(69,121)
Adjustments to prepaid expenses		69,094
Gift revenue-related adjustments		(1,921,300)
Total Restatement		(1,921,327)
Net Assets at August 31, 2013 as restated	**$**	**113,958,026**

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.