

UNT SYSTEM™



**COMPREHENSIVE ANNUAL FINANCIAL REPORT &
INDEPENDENT AUDITORS' REPORT**
FOR THE YEAR ENDED AUGUST 31, 2018

**UNIVERSITY OF NORTH TEXAS
SYSTEM**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
AND INDEPENDENT AUDITORS' REPORT**

For the fiscal year ended August 31, 2018

DALLAS, TEXAS

Lesa Roe, Chancellor

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UNIVERSITY OF NORTH TEXAS SYSTEM

ORGANIZATIONAL DATA

August 31, 2018

BOARD OF REGENTS

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

Brint Ryan (Term expires 5-22-21) Dallas
A.K. Mago (Term expires 5-22-21) Dallas
Laura Wright (Term expires 5-22-21) Dallas

Mary Denny (Term expires 5-22-23) Aubrey
Milton B. Lee (Term expires 5-22-23) San Antonio
Carlos Munguia (Term expires 5-22-23) University Park

STUDENT REGENT

Amanda Pajares (Term expires 5-31-19) Bartlett

OFFICERS OF THE BOARD

Brint Ryan Chairman
Laura Wright Vice Chairman
Rosemary R. Haggett Secretary

ADMINISTRATIVE OFFICERS

Lesia Roe Chancellor
Gary Rahlfs Vice Chancellor for Finance

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February 14, 2019

Brint Ryan, Chairman, UNT System Board of Regents
Laura Wright, Vice Chairman, UNT System Board of Regents
Glen Whitley, Chairman, Audit Committee
Board of Regent Members
University of North Texas System
1901 Main Street
Dallas, Texas 75201

Dear Chairman Ryan, Vice Chairman Wright, Chairman Whitley
and Board of Regents

We are pleased to submit the audited Comprehensive Annual Financial Report (CAFR) of the University of North Texas System (UNTS) for the fiscal year ended August 31, 2018. 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*.

Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the management and those charged with governance of each UNT System member institution. To the best of our knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the system's financial activities are included. The management's discussion and analysis (MD&A) in the financial section provides an overview of the System's financial activities reported in the comprehensive financial statements.

In fiscal year 2018, the University of North Texas System employed over 9,000 faculty and staff, had combined enrollment of nearly 44,000 students in undergraduate, graduate and professional programs, and awarded more than 10,000 degrees. With a total annual impact of nearly \$5.2 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 128-year history of our flagship institution in Denton, UNTS continues to innovate, excel, and 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 also ranked among the nation's 115 top-tier research universities by the Carnegie Classification. The university has been named one of America's 100 Best College Buys for 22 consecutive years, a ranking based on having a high-achieving freshman class and affordable tuition. *The Princeton Review* continually names UNT as a Best in the West school and *Forbes* has listed UNT as an America's Top College for nine consecutive years. UNT helps power the North Texas region's workforce with well-educated, highly qualified graduates.

UNT Health Science Center at Fort Worth is one of the nation's premier graduate academic medical centers and is composed of five schools that specialize in patient-centered education, research, and health care. UNTHSC is committed to developing collaborative, practice-ready health professionals by emphasizing team-

oriented, evidence-based best practices, quality-improvement approaches and informatics. The university invests \$44 million in annual research expenditures – a figure that has approximately doubled since 2006.

UNT Dallas, the only four-year, public, doctoral-granting comprehensive university in the City of Dallas – the hub of the State’s most densely populated region – offers bachelors, masters, and a juris doctor degree. UNTD enrollment surpassed 3,700 students in the Fall of 2018, over 50% higher than Fall 2015. The UNTD College of Law, a distinctive new school dedicated to providing affordable access to education, maintains annual tuition that is significantly lower than all other law schools, public or private, in Texas.

In 2017, facing a significant budget shortfall due to the downturn in oil and gas industry, the 85th Texas Legislature passed a budget for the 2018-2019 biennium that included \$14.1 billion in funding for higher education, a \$220 million (1.6%) increase over the 2016-2017 biennium. This increase was primarily the result of increases passed in the prior Legislative session, such as increases to the allocations in HEF that some institutions receive, increases in student enrollment, and increased funding for Health Related Institutions. Formula funding for General Academic Institutions was reduced by \$47.7 million from prior biennium levels. Special Items, now known as “Non-formula Support,” were a major topic of discussion and were reduced statewide by \$261.1 million. The session culminated in a two-year appropriations decrease to the System institutions of \$16.7 million from 2016-2017 levels.

The preparation of the System’s externally audited CAFR is overseen by the System Controller team but requires the collective efforts of financial personnel throughout each institution. Without all financial personnel and the hundreds of hours that were spent, this report would not be possible. 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. This financial report serves as a testament to the work we have done to ensure that our stewardship, accountability, and financial viability are just as strong and as important to us as our academic services themselves.

Respectfully,



Gary Rahlfs
Vice Chancellor for Finance, UNT System

cc: Lesa B. Roe, Chancellor
Dr. Neal Smatresk, President UNT
Dr. Michael Williams, President UNTHSC
Robert Mong, President UNT Dallas
Bob Brown, Senior Vice President for Finance and Administration, UNT
Greg Anderson, Executive Vice President for Finance and Operations, UNTHSC
Jim Main, Executive Vice President of Administration and CFO, UNT Dallas
Tracy Grunig, Chief Audit Executive, UNT System
Nancy Footer, Vice Chancellor and General Counsel, UNT System

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2018, 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 opinions 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 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. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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 System'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.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely-presented component unit of the System as of August 31, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Emphasis of a Matter

As discussed in Note 1 to the financial statements, the System adopted new accounting guidance in 2018 related to the accounting for other post-employment benefits. Our opinion is not modified with respect to this matter.

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 11 through 20, and the Required Supplementary Information on pages 71 through 72 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 information

The Introductory Section is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 14, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Dallas, Texas
February 14, 2019

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UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2018

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 2010.

The System serves the North Texas area, boosting economic activity in the region by over \$5.2 billion annually. The UNT System has a \$1.2 billion annual consolidated budget and employs roughly 10,000 people at its various locations within the robust North Texas Region. In Fall 2017, nearly 44,000 students enrolled in undergraduate, graduate and professional programs at UNT System institutions. 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 (the "MD&A") is to provide an overview of the financial position and activities of the System as of and for the year ended August 31, 2018, with selected comparative information as of and for the year ended August 31, 2017. 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 the MD&A refer to the fiscal years ended August 31.

The System comprehensive 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 comprehensive financial report contains the Statement of Financial Position and the Statement of Activities for the University of North Texas Foundation, Inc. (the "Foundation"), a discretely presented component unit. The Foundation is a separate nonprofit organization, which 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

- Total assets and deferred outflows of resources of the System exceeded its total liabilities and deferred inflows of resources in 2018, resulting in a net position of \$804.7 million. Unrestricted net position, which may be used to meet the System's future obligations, was \$233.2 million, or 29.0% of total net position as of August 31, 2018.
- In 2018, the System concluded the fiscal year with a reduction in net position of \$21.1 million, compared to an \$89.1 million positive change in 2017. The primary cause for the decrease is the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, for other postemployment benefits ("OPEB") that created a restatement of \$100.8 million. The 2018 change in net position before restatements was \$79.7 million, a decrease of \$3.2 million over prior year. This decrease is primarily attributable to an increase in internal scholarship and exemption funding from

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2018

UNT, UNTD and HSC resulting in a \$9.6 million increase to discounts and allowances that nets into tuition and fees.

- The System continues to make significant investments, \$250.8 million in 2018 alone, in numerous capital projects across all institutions to strategically benefit students, faculty, and staff. The System has also committed \$446.8 million to fund, with assistance from State supported debt financing and Higher Education Fund ("HEF") capital appropriations, future capital asset additions and improvements over the next several years. These projects are currently in various stages of completion. The "Capital Asset and Debt Administration" section of the MD&A provides more details pertaining to these strategic investments.

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, net of accumulated depreciation and amortization, is 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, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, 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 of resources, liabilities, deferred inflows of resources 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, capital asset related bonds and other debt items. Restricted Net Position is reported for amounts 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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2018

The following table reflects the Condensed Comparative Statement of Net Position for the System as of August 31, 2018 and 2017:

Condensed Comparative Statement of Net Position			
As of August 31, 2018 and 2017			
(in thousands of dollars)			
	2018	2017	% Increase (Decrease)
Assets and Deferred Outflows of Resources			
Current Assets	\$ 643,213	\$ 733,234	(12.3%)
Non-Current Assets:			
Capital Assets, Net	1,245,030	1,070,890	16.3%
Other Non-Current Assets	341,753	324,759	5.2%
Deferred Outflows of Resources	46,494	43,570	6.7%
Total Assets and Deferred Outflows of Resources	\$ 2,276,490	\$ 2,172,453	4.8%
Liabilities and Deferred Inflows of Resources			
Current Liabilities	\$ 429,499	\$ 435,674	(1.4%)
Non-Current Liabilities:			
Bonded Indebtedness	682,832	731,380	(6.6%)
Other Non-Current Liabilities	296,601	144,960	104.6%
Deferred Inflows of Resources	62,894	34,634	81.6%
Total Liabilities and Deferred Inflows of Resources	\$ 1,471,826	\$ 1,346,648	9.3%
Net Position			
Net Investment in Capital Assets	\$ 438,058	\$ 483,233	(9.3%)
Restricted:			
Funds Held as Permanent Investments:			
Non-Expendable	53,248	47,683	11.7%
Expendable	32,610	26,655	22.3%
Other Restricted	47,593	40,247	18.3%
Total Restricted	\$ 133,451	\$ 114,585	16.5%
Unrestricted	233,155	227,987	2.3%
Total Net Position	\$ 804,664	\$ 825,805	(2.6%)
Total Liabilities and Net Position	\$ 2,276,490	\$ 2,172,453	4.8%

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 \$90.0 million, or 12.3%, in 2018 primarily as a result of a \$21.9 million increase in legislative appropriation receivables and a \$112.4 million decrease in cash, cash equivalents and short-term investments from spending bond proceeds obtained in 2017.

Non-Current Assets: Net Capital Assets

Net capital assets increased \$174.1 million, or 16.3%, in 2018 as a result of an increase in capital and intangible assets. This increase was primarily attributable to approximately \$250.8 million of capital improvements offset by depreciation and amortization expense of \$73.2 million. Major capital improvements included \$10.1 million for the Track and Field Stadium and Sport Field, \$41.8 million for the UNT College of Visual Arts & Design Building, \$25.7 million for the new UNT Residence Hall, \$63.8 million for the HSC Interdisciplinary Research and Education Building, \$23.9 million for the UNT Dallas Student Learning and Success Center, \$21.5 million for renovating the Dallas Municipal Building, \$20.7 million in equipment, vehicle and library purchases, \$1.0 million for capitalized software costs, and other additions to depreciable capital assets.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2018

Other Non-Current Assets

The System's other non-current assets increased by \$17.0 million, or 5.2%, primarily due to a \$15.8 million increase in investments resulting from increases in long-term investment pool over the prior year. Additionally, restricted investments increased by \$1.6 million due to new investments from growth in permanent endowment contributions.

Deferred Outflows of Resources

Deferred outflows of resources increased \$2.9 million, or 6.7%, in 2018, primarily due to the recognition of deferred outflows of resources related to the implementation of GASB 75 for OPEB.

Total Liabilities and Deferred Inflows

Current Liabilities

The System's current liabilities decreased \$6.2 million, or 1.4%, in 2018 primarily due to a decrease of \$22.2 million in short-term commercial paper, comprised of additions of \$58.3 million offset by a decrease of \$80.6 million that was reclassified to long-term notes and loans payable for commercial paper refunded into bonds subsequent to August 31, 2018. Further, there was a \$1.1 million increase in current revenue bonds payable. Unearned revenue increased \$13.2 million, or 5.6%, primarily related to increased tuition and fees associated with student enrollment and increases in tuition and fee rates. Payroll payables also increased \$6.9 million, or 19.7%, from increases in general payroll owed at year-end and payments owed for benefits payable to other entities.

Non-Current Liabilities

Non-current liabilities consist primarily of non-current portions of notes and loans payable, revenue bonds payable, net pension and other postemployment benefits liability, employees' compensable leave payable, and capital lease obligations. In total, non-current liabilities increased \$103.1 million, or 11.8%, primarily due to an \$80.5 million increase in notes and loans payable from the reclassification of commercial paper liability from short-term debt to long-term liability. Further, the State implemented GASB 75 for OPEB in fiscal year 2018, increasing the liability by \$86.0 million. The increase was offset by a \$48.5 million decrease in revenue bonds payable associated with amortization of existing revenue bonds. In addition, there was a decrease of \$12.6 million to net pension liability related to positive performance of actual investment returns as compared to the expected return for the Teacher Retirement System of Texas ("TRS") Plan for the measurement period ended August 31, 2017.

Deferred Inflows of Resources

Deferred inflows of resources increased \$28.3 million, or 81.6%, in 2018 primarily due to deferred inflows of resources related to the implementation of GASB 75 for OPEB, \$19.1 million, and pension obligations, \$9.3 million. Both OPEB and pensions have a netting requirement to net deferred outflows and inflows of resources across measurement periods arising from the difference between projected and actual investment return.

Total Net Position

Total net position represents the residual interest in the System's total assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position decreased by \$21.1 million, or 2.6%, in 2018.

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 \$45.2 million, or 9.3%, decrease in net investment in capital assets in 2018 primarily resulted from an increase of \$250.8 million of capital additions, reduced by \$73.2 million of depreciation and amortization expense. The net increase was offset by transfers related to notes and bonds payable, capital lease obligations, and deferred outflows and inflows of resources related to unamortized gains and losses on refunded bonds.

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 increased by \$18.9 million, or 16.5%, in 2018

UNIVERSITY OF NORTH TEXAS SYSTEM
Management’s Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2018

primarily due to continued positive growth from fair market value of restricted investments, investment income, and fundraising efforts resulting in an increase in restricted contributions across the System.

Unrestricted Net Position

Unrestricted net position increased by \$5.2 million, or 2.3%, primarily due to the implementation of GASB 75 for OPEB resulting in a \$100.8 million net restatement that reduced the overall positive change to net position. The HEF appropriation retained funds increased \$16.9 million over the prior year along with unrestricted debt service increasing \$81.1 million due to transfers that impacted net investment in capital assets.

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 2018, 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 the System relies on for operations include state appropriations, gifts, grants and investment income which are required by GASB Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended, 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 the 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 years ended August 31, 2018 and 2017:

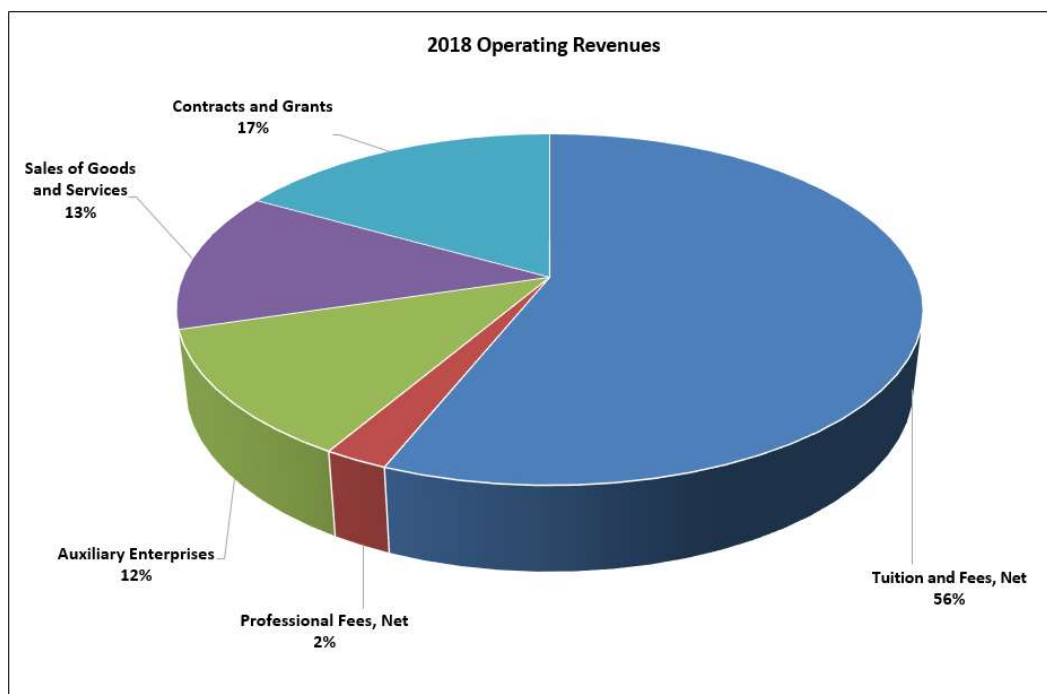
Condensed Comparative Statement of Revenues, Expenses and Changes in Net Position			
For the Years Ended August 31, 2018 and 2017			
(in thousands of dollars)			
	2018	2017	% Increase (Decrease)
Operating Revenues	\$ 654,363	\$ 619,860	5.6%
Operating Expenses	1,003,806	951,772	5.5%
Operating Income (Loss)	\$ (349,443)	\$ (331,912)	5.3%
Nonoperating Revenues (Expenses)	364,447	336,694	8.2%
Income (Loss) Before Other Revenues, Expenses and Transfers	\$ 15,004	\$ 4,782	213.8%
Other Revenues, Expenses and Transfers	64,676	78,089	(17.2%)
Change in Net Position	\$ 79,680	\$ 82,871	(3.9%)
Net Position, Beginning of Year	\$ 825,805	\$ 742,934	11.2%
Restatement	(100,821)	-	(100.0%)
Restated Net Position, Beginning of Year	724,984	742,934	(2.4%)
Net Position, End of Year	\$ 804,664	\$ 825,805	(2.6%)

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2018

Operating Revenues

Operating revenues totaled \$654.4 million in 2018, an increase of \$34.5 million, or 5.6%, over 2017. The System's primary sources of operating revenues are tuition and fees, and federal, state, local, and private grants. Net tuition and fees, representing 56% of operating revenues, are reflected in the financial statements with associated discounts and allowances shown separately. Net tuition and fees increased \$7.7 million, or 2.2%, as a result of increased enrollment and increased tuition rates throughout the System. Federal, state, local, and private grant revenues, representing 17% 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. These revenues increased by \$7.7 million. The largest increases came from the combination of auxiliary and other sales of goods and services, \$17.5 million or 12.1%, due to expanded dining and residence hall operations at UNT and UNTD and increases for medical contract services at HSC.

The pie chart below shows operating revenues by major source for the year ended August 31, 2018:



Operating Expenses

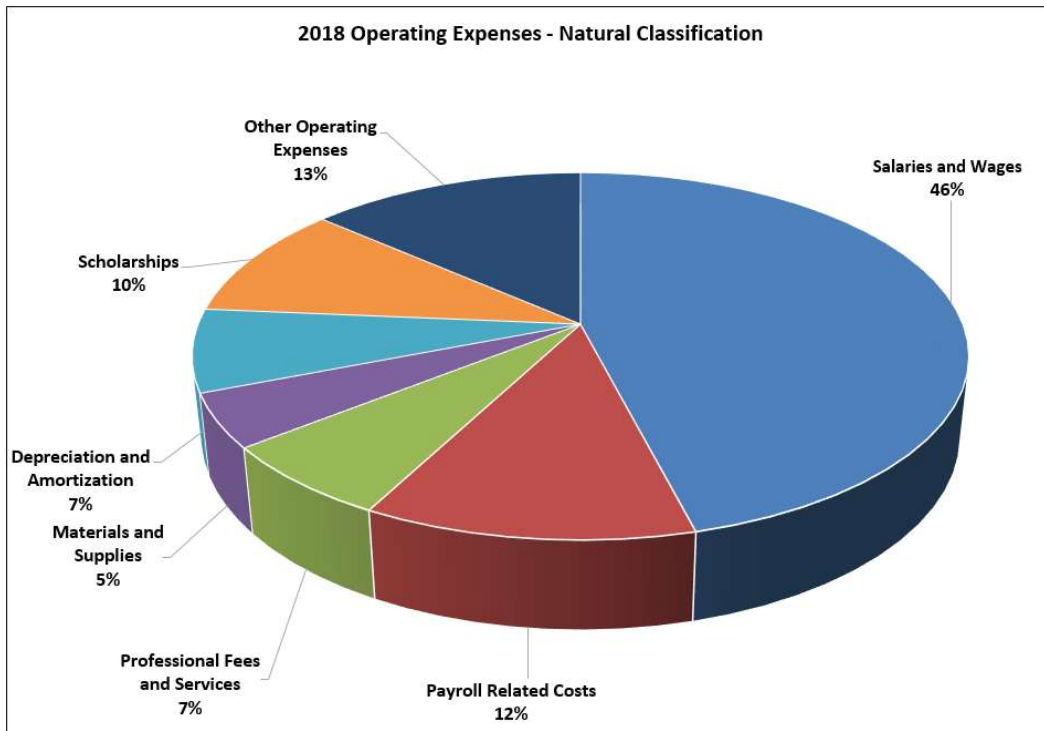
Operating expenses totaled \$1,003.8 million in 2018, an increase of \$52.0 million, or 5.5%, over 2017. The increase is primarily due to a \$12.6 million, or 14.2%, increase in scholarship expenses, natural classification, from both internal and external sources along with payroll expenses increasing \$20.2 million, or 3.6%. While most operating expense categories increased due to expanding operations, the NACUBO function categories for administrative support functions in academic and institutional support combined decreased by \$5.2 million.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2018

The table below shows the amount and percentage change of operating expenses based on natural classification for the year ended August 31, 2018:

Operating Expenses - Natural Classification			
For the Years Ended August 31, 2018 and 2017			
(in thousands of dollars)			
	<u>2018</u>	<u>2017</u>	<u>% Increase (Decrease)</u>
Operating Expenses			
Cost of Goods Sold	\$ 9,020	\$ 7,932	13.7%
Salaries and Wages	461,421	446,122	3.4%
Payroll Related Costs	118,204	113,268	4.4%
Professional Fees and Services	66,305	61,124	8.5%
Federal Pass-Through Expenses	1,259	976	29.0%
State Pass-Through Expenses	107	212	(49.5%)
Travel	14,006	11,971	17.0%
Materials and Supplies	47,416	45,309	4.7%
Communications and Utilities	20,332	17,902	13.6%
Repairs and Maintenance	39,515	38,981	1.4%
Rentals and Leases	14,727	14,484	1.7%
Printing and Reproduction	5,932	6,300	(5.8%)
Depreciation and Amortization	73,218	69,095	6.0%
Scholarships	100,982	88,420	14.2%
Claims and Losses	(145)	(24)	509.2%
Other Operating Expenses	31,507	29,700	6.1%
Total Operating Expenses	\$ 1,003,806	\$ 951,772	5.5%

The pie chart below shows the percentage of total operating expenses pertaining to each type of operating expense based on natural classification for the year ended August 31, 2018:

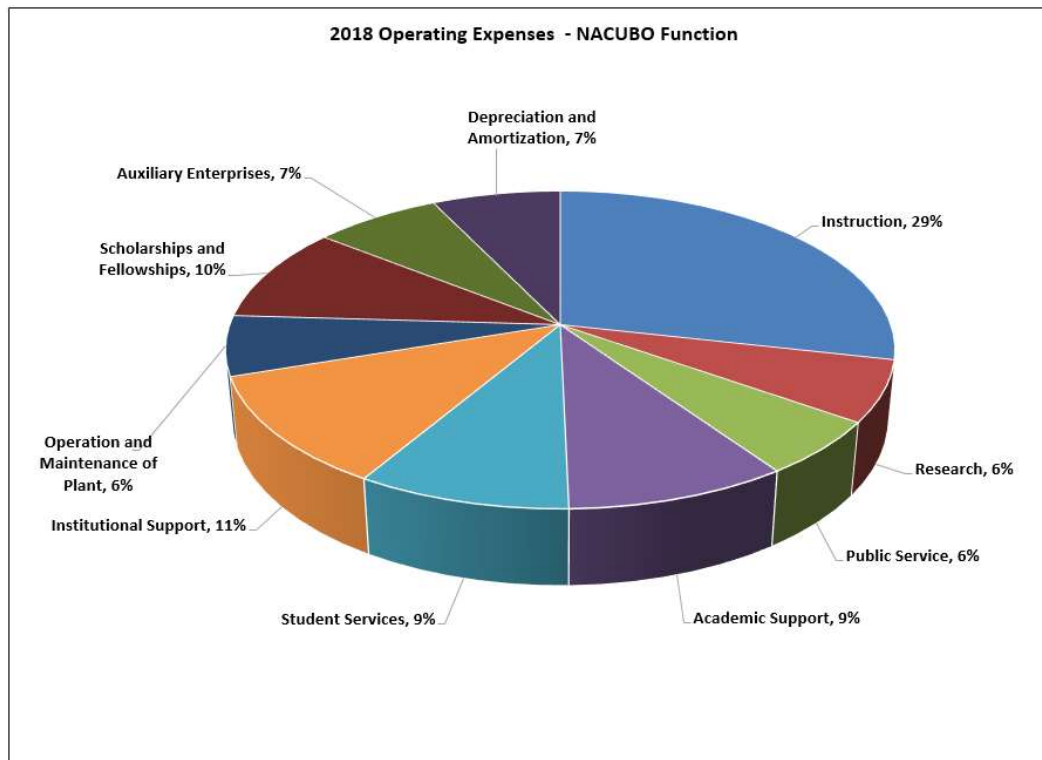


UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2018

The table below shows the amount and percentage change of operating expenses based on NACUBO functional (programmatic) classification for the year ended August 31, 2018:

Operating Expenses - NACUBO Function				
For the Years Ended August 31, 2018 and 2017				
(in thousands of dollars)				
	2018	2017	% Increase (Decrease)	
Operating Expenses				
Instruction	\$ 289,077	\$ 282,720	2.2%	
Research	63,170	59,115	6.9%	
Public Service	56,755	49,278	15.2%	
Academic Support	84,313	87,565	(3.7%)	
Student Services	90,460	87,264	3.7%	
Institutional Support	114,148	116,114	(1.7%)	
Operation and Maintenance of Plant	62,011	55,065	12.6%	
Scholarships and Fellowships	98,362	86,138	14.2%	
Auxiliary Enterprises	72,292	59,418	21.7%	
Depreciation and Amortization	73,218	69,095	6.0%	
Total Operating Expenses	\$ 1,003,806	\$ 951,772	5.5%	

The pie chart below shows 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, 2018:



UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2018

Nonoperating Revenues and Expenses

Certain significant recurring revenues and expenses are considered nonoperating. The System's primary nonoperating revenues come from state appropriations, federal Pell Grant revenue, gifts, investment income and net increase in fair market value of investments. The System's primary nonoperating expenses are interest expense and fiscal charges and other nonoperating expenses. Federal nonoperating revenue increased \$9.8 million, or 17.6%, between 2017 and 2018 due to increase in Pell Grant eligible recipients at UNT and UNTD. Additionally, other nonoperating expenses decreased by \$6.4 million over prior year. While legislative revenue and additional appropriations increased, the State funded tuition revenue bond funding was received through legislative transfer in 2017 and as legislative revenue in 2018.

Other Revenues, Expenses and Transfers

Other revenues, expenses and transfers is comprised of capital and endowment related additions and transfers, which decreased \$13.4 million, or 17.2%, in 2018. HEF comprises the majority of the activity. Annual HEF-related revenue totaled \$56.8 million, no change from 2017, and is reported as capital appropriations rather than operating or nonoperating revenue. In addition to HEF, legislative transfers in decreased by \$20.8 million due to the tuition revenue bond transfer from 2017 being included in legislative revenue for 2018. This \$20.8 million decrease in revenue for this portion of the statement was offset by an increase in contributions to permanent endowments of \$4.6 million, and a decrease in legislative appropriation lapses of \$3.4 million.

Capital Asset and Debt Administration

Investments in capital asset additions were \$250.8 million in 2018. Major capital project activity included:

- Building Improvements (UNT) – College of Visual Arts and Design Building and Science Research Building
- Building Improvements (HSC) – Interdisciplinary Research and Education Building
- Building Improvements (UNTD) – Dallas Student Learning and Success Center and Wisdom Residence Hall
- Building Improvements (System Administration) – Dallas Municipal Building

The System has committed \$446.8 million to capital asset additions and improvements that are currently in various stages of completion. These additions and improvements primarily consist of new buildings or renovations to existing buildings, including the Interdisciplinary Research Building at HSC, the College of Visual Arts and Design at UNT, residence and dining halls at UNT, the Dallas Municipal Building for the future use by UNT Dallas College of Law, and the Student Learning and Success Center at UNT Dallas. More detailed information regarding the System's capital additions and commitments is provided in Note 2, *Capital Assets*, and Note 12, *Contingencies and Commitments*, in the Notes to the Comprehensive Financial Statements.

Revenue bonds payable represents the largest portion of the System's liabilities. Current and non-current revenue bonds payable decreased \$47.4 million to \$731.5 million in 2018. All bonds related to financing of current and prior years' construction needs reflect "Aa2" and "AA" credit ratings from two major bond rating agencies, Moody's and Fitch, respectively. More detailed information regarding the System's bonded indebtedness is provided in Note 5, *Long-Term Liabilities*, and Note 6, *Bonded Indebtedness*, in the accompanying Notes to the Comprehensive Financial Statements.

Economic Outlook

The System's primary sources of revenue are tuition and fees and legislative appropriations. Enrollment growth, program expansion, and positive accreditation proceedings contributed to a positive outlook for the System.

For 2019, net tuition and fees revenues are budgeted at an increase of \$35.7 million, or 9.6%, over 2018. This revenue increase is the result of full-time student equivalent enrollment growth, nominal tuition rate increases, and the implementation of differential tuition plans. Between fall 2015 and fall 2018, enrollment increased 4.3% system-wide.

Facing a significant budget shortfall due to the downturn in oil and gas industry, the 85th Texas Legislature passed a budget that included \$14.1 billion in funding for higher education, a \$220 million (1.6%) increase over the 2016-2017

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2018

biennium. This increase was primarily the result of increases passed in the prior Legislative session, such as increases to the allocations in HEF that some institutions receive, increases in student enrollment, and increased funding for Health Related Institutions. Formula funding for General Academic Institutions was reduced by \$47.7 million from prior biennium levels. Special Items, now known as "Non-formula Support," were a major topic of discussion and were reduced statewide by \$261.1 million. The session culminated in a two-year appropriations decrease to the System institutions of \$16.7 million from 2016-2017 levels. Actual revenue receipts for the State biennium have come in higher than originally anticipated, which will have a positive impact on the upcoming 86th Legislative session.

Fiscal year 2019 budgeted legislative appropriation revenues for the System are \$1.1 million higher than 2018. Budgeted amounts include continued funding for specialized initiatives and unique programs recognized as deserving state support. These areas of excellence include the University of North Texas Health Science Center's (HSC) Institute for Patient Safety and Preventable Harm, HSC's Texas Missing Persons and Human Identification Program, University of North Texas's (UNT) Texas Academy of Mathematics and Science, and the University of North Texas Dallas College of Law ("College of Law").

Construction projects at System institutions supported by the 84th Legislature are in the final stages of construction and will open in 2019 and 2020. These include the Interdisciplinary Research Building at the HSC, Student Success and Learning Center at UNTD, College of Visual Arts and Design facility at UNT, and the renovation of the historic Dallas Municipal Building in downtown Dallas for the College of Law. These projects have all been supported with State funds to continue growth, educational excellence, and research capacity at System institutions. The System continues to maintain a 'stable' outlook from Fitch and Moody's for debt financing which has enabled these construction projects to progress on schedule.

UNT established four Research Institutes of Excellence that are a pipeline for bringing UNT's research to industry and the marketplace. It is one of the nation's 115 top-tier research universities by the Carnegie Classification. Strategic initiatives for growth and revenue include expanding off-site educational opportunities for working professionals—delivering UNT degrees in new locations and modalities. UNT's New College at Frisco is preparing to build a \$100 million facility near the heart of Frisco, one of the fastest growing cities in the country. This new campus will house 5,000 students able to receive full or partial degrees in a number of different disciplines without the need to commute to the main campus. Frisco and the surrounding area is home to many corporations including Toyota, the Dallas Cowboys, Texas Instruments, and many more, offering opportunities for collaboration and employment for UNT students.

UNTD had record enrollment in Fall 2018 and is on track to achieve its goal of 5,000 students by Fall 2020. The institution's first residence hall, Wisdom Hall, completed construction and opened to students for the Fall 2018 semester. Construction on the new Student Learning and Success Center ("SLSC") is well underway and is expected to open its doors in January of 2019. Planned use of this space includes a one-stop-shop for student support services, large event space, a modern library, and a student operated radio station. The UNTD College of Law received provisional accreditation from the American Bar Association (ABA) in June of 2017 and is scheduled for site visits in the spring of 2019 in its bid for full accreditation. The historic Dallas Municipal Building is currently undergoing an estimated \$72 million renovation and is expected to house the College of Law beginning in 2019.

The HSC continues to expand some of its most recent initiatives including graduating the inaugural cohort of their College of Pharmacy students; furthering the Fort Worth M.D. School's accreditation, a partnership with Texas Christian University ("TCU") whose first class of 60 students will begin in Fall 2019; and advancing the Institute for Patient Safety and Preventable Harm's mission by creating patient safety projects, providing community education programs and offering grant funding opportunities. The Interdisciplinary Research and Education Building has completed construction and is now home to the UNT System College of Pharmacy, the North Texas Eye Research Institute, and the TCU and UNTHSC School of Medicine. New positions are being funded in the 2019 budget to support the operations of this new facility. Additionally, UNTHSC plans to create even more residency positions through partnerships with regional health care systems and launch a groundbreaking research study that could make it possible to diagnose Alzheimer's disease with a simple blood test.

**COMPREHENSIVE
FINANCIAL STATEMENTS**

of the

UNIVERSITY OF NORTH TEXAS SYSTEM

DALLAS, TEXAS

For the Year Ended August 31, 2018

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Net Position
As of August 31, 2018

	August 31,
	2018
ASSETS	
Current Assets	
Cash and Cash Equivalents:	
Cash on Hand	\$ 111,057.44
Cash in Bank	20,154,127.36
Cash in Transit/Reimburse from Treasury	176,310.47
Cash in State Treasury	17,980,532.23
Cash Equivalents	166,157,860.84
Short Term Investments	9,140,415.00
Restricted Cash and Cash Equivalents:	
Cash on Hand	2,882.52
Cash in Bank	3,310,461.27
Cash Equivalents	94,004,790.57
Restricted Short Term Investments	8,200,837.54
Legislative Appropriations	130,461,624.68
Receivables From:	
Accounts Receivable, net	89,097,217.78
Federal, net	18,033,344.10
Other Intergovernmental	1,641,039.81
Clinical Practice, net	7,112,514.26
Gifts, Pledges and Donations, net	2,542,020.83
Interest and Dividends	2,751,511.91
Other Receivables, net	6,183,037.75
Due From Other Agencies	8,930,702.48
Consumable Inventories	564,322.12
Merchandise Inventories	2,552,186.27
Prepaid Items	48,873,673.86
Loans and Contracts	5,154,919.40
Other Current Assets	76,025.00
Total Current Assets	\$ 643,213,415.49
Non-Current Assets	
Restricted:	
Restricted Investments	\$ 79,213,079.57
Loans and Contracts	4,689,566.42
Investments	254,582,353.99
Gifts, Pledges and Donations	3,268,591.69
Capital Assets:	
Non-Depreciable or Non-Amortizable	399,505,681.39
Depreciable or Amortizable, Net	845,524,132.66
Total Non-Current Assets	\$ 1,586,783,405.72
Total Assets	\$ 2,229,996,821.21
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources	\$ 46,493,666.18
Total Deferred Outflows of Resources	\$ 46,493,666.18
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,276,490,487.39

Continued on Next Page

See Accompanying Notes to the Comprehensive Financial Statements

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Net Position
As of August 31, 2018

	August 31,
	2018
LIABILITIES	
Current Liabilities	
Payables From:	
Accounts Payable	\$ 61,823,206.02
Payroll Payable	42,147,678.04
Other Payables	4,161,445.80
Interest	10,619,498.43
Due To Other Agencies	197,256.73
Unearned Revenue	248,308,680.93
Notes and Loans Payable	3,044,535.00
Revenue Bonds Payable	48,692,074.80
Claims and Judgments	608,602.00
Employees' Compensable Leave	5,069,176.93
Capital Lease Obligations	2,066,773.20
Net OPEB Liability	438,362.00
Funds Held for Others	2,321,493.78
Total Current Liabilities	\$ 429,498,783.66
Non-Current Liabilities	
Notes and Loans Payable	\$ 80,555,465.00
Revenue Bonds Payable	682,832,409.78
Claims and Judgments	856,375.00
Employees' Compensable Leave	20,697,887.31
Capital Lease Obligations	1,393,949.84
Net Pension Liability	107,143,850.00
Net OPEB Liability	85,953,667.00
Total Non-Current Liabilities	\$ 979,433,603.93
Total Liabilities	\$ 1,408,932,387.59
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources	\$ 62,894,211.41
Total Deferred Inflows of Resources	\$ 62,894,211.41
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 1,471,826,599.00
NET POSITION	
Net Investment in Capital Assets	\$ 438,057,577.96
Restricted For:	
Funds Held as Permanent Investments	
Non-Expendable	53,248,455.14
Expendable	32,609,993.30
Other Restricted	47,592,677.12
Unrestricted	233,155,184.87
Total Net Position	\$ 804,663,888.39

See Accompanying Notes to the Comprehensive Financial Statements

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UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Statement of Financial Position
As of August 31, 2018

	August 31,
	2018
ASSETS	
Cash and Cash Equivalents	\$ 13,206,667
Investments	355,984,317
Contributions and Other Receivables	6,718,043
Real Property	33,164
Other Assets	7,500
Cash Value - Life Insurance Policies	551,315
Assets Held Under Trust and Annuity Agreements	5,589,186
Total Assets	\$ 382,090,192
LIABILITIES	
Accounts Payable and Accrued Expenses	\$ 2,001,924
Agency Funds	460,317
Trust and Annuity Obligations	2,477,704
Assets Held for Others	217,024,679
Total Liabilities	\$ 221,964,624
NET ASSETS	
Unrestricted:	
Board Designated Endowments	\$ 390,000
Board Designated for Reserves	1,869,728
Fair Value of Endowments Below Historical Cost	(180,265)
Undesignated	942,704
Total Unrestricted	3,022,167
Temporarily Restricted	35,557,815
Permanently Restricted	121,545,586
Total Net Assets	\$ 160,125,568
TOTAL LIABILITIES & NET ASSETS	\$ 382,090,192

See Accompanying Notes to the Financial Statements

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended August 31, 2018

	August 31, 2018
OPERATING REVENUES	
Tuition and Fees	\$ 475,899,756.37
Discounts and Allowances	(110,226,273.09)
Professional Fees	33,718,715.80
Discounts and Allowances	(18,339,992.58)
Auxiliary Enterprises	77,186,487.81
Sales of Goods and Services	84,176,162.87
Federal Grant Revenue	63,465,134.46
Federal Pass-Through Revenue	1,014,117.99
State Grant Revenue	2,118,145.39
State Grant Pass-Through Revenue	30,958,819.28
Other Contracts and Grants	11,992,504.90
Other Operating Revenues	2,399,295.73
Total Operating Revenues	\$ 654,362,874.93
OPERATING EXPENSES ⁽¹⁾	
Instruction	\$ 289,077,077.46
Research	63,169,582.64
Public Service	56,755,167.12
Academic Support	84,312,507.44
Student Services	90,460,043.45
Institutional Support	114,148,132.07
Operation and Maintenance of Plant	62,010,942.58
Scholarships and Fellowships	98,362,064.35
Auxiliary Enterprises	72,292,439.16
Depreciation and Amortization	73,217,801.13
Total Operating Expenses	\$ 1,003,805,757.40
Operating Loss	\$ (349,442,882.47)
NONOPERATING REVENUES (EXPENSES)	
Legislative Appropriations (GR)	\$ 222,412,817.00
Additional Appropriations (GR)	48,027,897.02
Federal Revenue	65,205,855.38
Gifts	19,330,524.80
Investment Income	22,948,108.07
Interest Expense and Fiscal Charges	(18,371,242.60)
Loss on Sale of Capital Assets	(116,253.74)
Net Increase in Fair Value of Investments	4,600,430.71
Other Nonoperating Revenues	648,132.97
Other Nonoperating Expenses	(239,657.77)
Total Nonoperating Revenues (Expenses)	\$ 364,446,611.84
Income Before Other Revenues, Expenses and Transfers	\$ 15,003,729.37
OTHER REVENUES, EXPENSES AND TRANSFERS	
Capital Contributions	\$ 1,423,440.12
Capital Appropriations (HEF)	56,766,916.00
Contributions To Permanent and Term Endowments	4,919,358.75
Transfers From Other State Agencies	639,114.00
Transfers To Other State Agencies	(39,889.80)
Legislative Transfers In	1,108,827.00
Legislative Transfers Out	(141,823.00)
Total Other Revenues, Expenses and Transfers	\$ 64,675,943.07
CHANGE IN NET POSITION	\$ 79,679,672.44
Beginning Net Position	\$ 825,804,640.96
Restatement	(100,820,425.01)
Beginning Net Position, as Restated	\$ 724,984,215.95
ENDING NET POSITION	\$ 804,663,888.39

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

UNIVERSITY OF NORTH TEXAS SYSTEM
Matrix of Operating Expenses Reported by Function
For the Year Ended August 31, 2018

Operating Expenses	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operation and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenditures
Cost of Goods Sold	\$ 41,300.56	\$ -	\$ 169,131.77	\$ 34,599.07	\$ 33,714.42	\$ 492,683.47	\$ -	\$ -	\$ 8,248,223.59	\$ -	\$ 9,019,652.88
Salaries and Wages	207,969,188.12	31,414,705.96	19,215,361.62	47,289,598.85	49,215,668.11	66,673,152.04	17,662,409.49	191,012.02	21,789,878.19	-	461,420,974.40
Payroll Related Costs	51,570,352.26	6,673,147.30	4,551,270.31	11,606,781.83	12,697,030.97	17,457,047.62	6,439,900.21	2,546.90	7,205,753.32	-	118,203,830.72
Professional Fees and Services	5,004,996.66	8,889,939.93	27,088,732.23	3,420,086.87	5,144,576.01	9,488,110.25	2,830,519.47	152.44	4,437,805.78	-	66,304,919.64
Federal Pass-Through Expenses	27,615.57	1,219,921.96	11,710.34	-	-	-	-	-	-	-	1,259,247.87
State Pass-Through Expenses	-	106,709.97	-	-	-	-	-	-	-	-	106,709.97
Travel	2,908,449.57	1,909,161.36	492,808.65	2,680,517.55	4,947,500.90	861,524.70	54,688.12	1,502.72	149,707.46	-	14,005,861.03
Materials and Supplies	7,909,307.81	7,399,487.65	2,157,525.89	9,516,476.33	5,589,868.38	4,311,221.71	5,366,949.17	2,881.02	5,163,096.39	-	47,416,814.35
Communications and Utilities	787,166.85	126,327.46	150,869.38	436,858.47	1,503,974.09	1,660,286.21	10,422,665.86	0.17	5,243,933.87	-	20,332,082.36
Repairs and Maintenance	660,869.90	841,761.17	584,289.68	3,543,399.55	1,033,949.71	4,420,408.93	15,005,230.59	65.00	13,425,468.56	-	39,515,443.09
Rentals and Leases	986,664.99	1,103,722.86	875,656.43	1,461,736.69	2,486,643.32	2,328,118.66	3,735,935.85	-	1,748,503.30	-	14,726,982.10
Printing and Reproduction	608,314.62	195,712.12	286,788.69	854,307.05	1,667,865.13	1,780,292.11	89,080.48	-	449,211.36	-	5,931,571.56
Depreciation and Amortization	-	-	-	-	-	-	-	-	-	73,217,801.13	73,217,801.13
Scholarships	1,341,808.03	1,048,270.49	328,966.17	16,190.00	60,985.33	14,883.71	-	98,151,547.28	19,650.00	-	100,982,301.01
Claims and Losses	(205,070.88)	-	-	-	47,500.00	8,274.72	2,150.25	-	1,734.85	-	(145,411.06)
Other Operating Expenses	9,466,113.40	2,240,714.41	842,055.96	3,451,955.18	6,030,767.08	4,652,127.94	401,413.09	12,356.80	4,409,472.49	-	31,506,976.35
Total Operating Expenses	\$ 289,077,077.46	\$ 63,169,582.64	\$ 56,755,167.12	\$ 84,312,507.44	\$ 90,460,043.45	\$ 114,148,132.07	\$ 62,010,942.58	\$ 98,362,064.35	\$ 72,292,439.16	\$ 73,217,801.13	\$ 1,003,805,757.40

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UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Statement of Activities
For the Year Ended August 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended August 31, 2018 Total
REVENUES, GAINS AND OTHER SUPPORT:				
Contributions	\$ 42,200	\$ 6,584,302	\$ 13,081,095	\$ 19,707,597
Investment Income	2,045	2,213,364	-	2,215,409
Grant Revenue	-	605,000	-	605,000
Management Fee Income	2,166,936	-	-	2,166,936
Other Income	-	160,804	5,999	166,803
Realized and Unrealized Gain (Loss) on Market Value of Investments	44,490	9,316,457	6,012	9,366,959
Actuarial Gain (Loss) on Annuity Obligations	-	-	151,232	151,232
Increase in Cash Value - Life Insurance	-	-	100,406	100,406
TOTAL REVENUES, GAINS AND OTHER SUPPORT	\$ 2,255,671	\$ 18,879,927	\$ 13,344,744	\$ 34,480,342
NET ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS:				
Net Assets Released from Restrictions	\$ 7,739,224	\$ (7,699,217)	\$ (40,007)	\$ -
Transfers/Changes in Donor Restrictions	(176,197)	(4,978,017)	5,154,214	-
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS	\$ 7,563,027	\$ (12,677,234)	\$ 5,114,207	\$ -
PROGRAM SERVICES:				
Internal Management Fee	\$ 1,457,578	\$ -	\$ -	\$ 1,457,578
Scholarships and Awards	2,245,036	-	-	2,245,036
Grant Support to UNT	605,000	-	-	605,000
Expense Reimbursements	23,623	-	-	23,623
Services for Programs	255,204	-	-	255,204
Distributions to UNT	3,133,414	-	-	3,133,414
Grant to University President	133,000	-	-	133,000
Distributions to Other Institutions	16,500	-	-	16,500
Life Insurance Premiums	10,816	-	-	10,816
Total Program Services	\$ 7,880,171	\$ -	\$ -	\$ 7,880,171
MANAGEMENT AND GENERAL EXPENSES:				
Salaries and Benefits	\$ 1,093,342	\$ -	\$ -	\$ 1,093,342
Consulting Fees	56,469	-	-	56,469
Professional Services	41,569	-	-	41,569
Travel	23,055	-	-	23,055
Administrative and Other	20,643	-	-	20,643
Bank and Credit Card Charges	156	-	-	156
Office and Computer Equipment	14,683	-	-	14,683
Insurance	20,670	-	-	20,670
Professional Development and Memberships	23,249	-	-	23,249
Strategic Planning	14,490	-	-	14,490
Total Management and General Expenses	\$ 1,308,326	\$ -	\$ -	\$ 1,308,326
TOTAL PROGRAM SERVICES AND EXPENSES	\$ 9,188,497	\$ -	\$ -	\$ 9,188,497
CHANGE IN NET ASSETS	\$ 630,201	\$ 6,202,693	\$ 18,458,951	\$ 25,291,845
Net Assets, Beginning of Year	\$ 2,391,966	\$ 29,355,122	\$ 103,086,635	\$ 134,833,723
NET ASSETS END OF PERIOD	\$ 3,022,167	\$ 35,557,815	\$ 121,545,586	\$ 160,125,568

See Accompanying Notes to the Financial Statements

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Cash Flows
For the Year Ended August 31, 2018

	August 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds from Customers	\$ 94,881,877.23
Proceeds from Tuition and Fees	372,821,955.27
Proceeds from Research Grants and Contracts	125,183,176.49
Proceeds from Auxiliaries	77,186,487.81
Proceeds from a Defined Benefit Pension Plan	3,486,762.00
Proceeds from a Defined Benefit OPEB Plan	1,640,656.00
Proceeds from Other Revenues	2,981,533.91
Payments to Suppliers for Goods and Services	(250,852,533.51)
Payments to Employees	(541,570,432.02)
Payments for Loans Provided	(1,912,229.84)
Payments for Pension Benefits to Plan Members	(3,486,762.00)
Payments for OPEB Benefits to Plan Members	(1,640,656.00)
Payments for Other Expenses	(124,668,317.08)
Net Cash Used by Operating Activities	\$ (245,948,481.74)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from State Appropriations	\$ 216,612,348.27
Proceeds from Gifts	19,562,607.83
Proceeds from Endowments	4,919,358.75
Proceeds from Transfers from Other Agencies	639,114.00
Proceeds from Legislative Transfers	1,108,827.00
Proceeds from Grant Receipts	65,205,855.38
Proceeds from Other Revenues	648,132.97
Payments for Legislative Transfers	(141,823.00)
Payments for Transfers to Other Agencies	(39,889.80)
Payments for Other Uses	(2,243,459.62)
Net Cash Provided by Noncapital Financing Activities	\$ 306,271,071.78
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Capital Assets	\$ 741,486.02
Proceeds from State Appropriations	56,766,916.00
Proceeds from Debt Issuance	161,591,805.73
Proceeds from Capital Contributions	714,749.79
Payments for Additions to Capital Assets	(231,144,150.64)
Payments for Capital Leases	(4,615,260.33)
Payments of Principal on Debt Issuance	(146,687,465.70)
Payments of Other Costs of Debt Issuance	(3,604,854.39)
Payments of Interest on Debt Issuance	(31,552,163.41)
Net Cash Used by Capital and Related Financing Activities	\$ (197,788,936.93)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sale of Investments	\$ 624,852,275.75
Proceeds from Interest and Investment Income	22,615,122.53
Payments to Acquire Investments	(518,512,137.05)
Net Cash Provided by Investing Activities	\$ 128,955,261.23
Net Decrease in Cash and Cash Equivalents	\$ (8,511,085.66)
Cash and Cash Equivalents, September 1, 2017	\$ 310,409,108.36
Cash and Cash Equivalents, August 31, 2018	\$ 301,898,022.70
Cash and Cash Equivalents	\$ 204,579,888.34
Restricted Cash and Cash Equivalents	97,318,134.36
Cash and Cash Equivalents, August 31, 2018	\$ 301,898,022.70

See Accompanying Notes to the Comprehensive Financial Statements

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Cash Flows
For the Year Ended August 31, 2018

	<u>August 31,</u> <u>2018</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED	
BY OPERATING ACTIVITIES	
Operating Loss	\$ (349,442,882.47)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation and Amortization	\$ 73,217,801.13
Pension Expense	8,436,602.00
OPEB Expense	4,623,363.00
Employee Benefits Paid by State	31,950,955.63
Changes in Assets and Liabilities:	
Decrease in Receivables	5,507,309.57
Decrease in Inventories	179,011.84
Increase in Prepaid Expenses	(3,224,696.98)
Increase in Loans and Contracts	(1,912,229.84)
Increase in Other Assets	(76,025.00)
Increase in Deferred Outflows of Resources - Pensions	(180,229.00)
Increase in Deferred Outflows of Resources - OPEB	(3,008,885.00)
Decrease in Payables	(14,501,195.65)
Increase in Unearned Revenue	13,184,846.21
Decrease in Benefits Payable	(13,059,965.00)
Decrease in Liabilities to Employees for Defined Benefit Pensions	(12,565,794.00)
Decrease in Liabilities to Employees for Defined Benefit OPEB	(14,452,751.00)
Increase in Other Liabilities	1,015,329.82
Increase in Deferred Inflows of Resources - Pensions	9,259,261.00
Increase in Deferred Inflows of Resources - OPEB	19,101,692.00
Total Adjustments	<u>\$ 103,494,400.73</u>
Net Cash Used by Operating Activities	<u>\$ (245,948,481.74)</u>
NON-CASH TRANSACTIONS	
Net Change in Fair Value of Investments	\$ 4,600,430.71
Donation of Capital Assets	1,353,440.12
Loss on Sale of Capital Assets	(116,253.74)
Amortization of Bond Premiums	5,498,695.47
Amortization of Deferred Inflows/Outflows from Refunding Bonds	(736,152.50)
Capital Assets Acquired with Payables	23,225,440.68

See Accompanying Notes to the Comprehensive Financial Statements

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**NOTES TO THE
COMPREHENSIVE FINANCIAL STATEMENTS**

of the

UNIVERSITY OF NORTH TEXAS SYSTEM

DALLAS, TEXAS

For the Year Ended August 31, 2018

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Note 1: Summary of Significant Accounting Policies

Introduction

The University of North Texas System (the "System") is an agency of the State of Texas (the "State") and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' Reporting Requirements for Annual Financial Reports of State Agencies and Universities and with Generally Accepted Accounting Principles ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB").

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

The System is composed of the 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. The System has one discrete component unit. Information on the component unit can be found in Note 15, *Financial Reporting Entity*.

Basis of Accounting

The comprehensive 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 full 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 nonexchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended. The Statement of Revenues, Expenses and Changes in Net Position is segregated into operating and nonoperating sections. Operating activities consist of transactions that are the direct result of providing goods and services to customers or directly related to the System's principal ongoing operations.

The System follows the requirements and guidelines provided in GASB pronouncements. Standards newly effective for fiscal year 2018 are listed below:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, specifically replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for Other Postemployment Benefits ("OPEB"). The scope of this Statement addresses accounting and financial reporting for OPEB provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. Note disclosure and required supplementary information requirements are also addressed. This statement has a significant impact to the comprehensive financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for governments which are a beneficiary of such agreements. This statement has minimal impact to the financial statements, as no System institution currently has irrevocable split-interest agreements. The System's discretely

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

presented component unit, UNT Foundation Inc. (the “Foundation”), does have such agreements. However, the Foundation is a nonprofit entity that reports in accordance with FASB.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement has minimal to no impact to the comprehensive financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for transactions in which cash and other monetary assets acquired with existing resources, other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement has minimal impact to the comprehensive financial statements.

Assets, Liabilities, Deferred Outflows and Inflows 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 investment accounts to be disbursed to its institutions to support capital projects.

Legislative Appropriations

The appropriation of revenues by the Texas Legislature (the “Legislature”) is in the form of general revenue. When the Legislature meets during the odd-numbered years, they approve 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 state appropriations to the System in future years; however, the System expects that the Legislature will continue to do so. Higher Education Funds (“HEF”) are general revenue appropriations received from the State designated for the acquisition of certain capital assets and capital projects. As of August 31, 2018, the unexpended amount was approximately \$112.7 million.

Accounts and Other Receivables

Accounts receivable mainly consists of tuition and fee charges to students. Accounts receivable is shown net of an allowance for doubtful accounts, which is approximately \$35.9 million of the outstanding accounts receivable balance at August 31, 2018. The System has adopted a policy of reserving for account receivables based on collections history over the previous five years. Any amount outstanding after five years is reserved at 100% per state requirements.

Federal receivables include federal grants and education scholarships.

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

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Clinical Practice receivables are presented net of allowances for contractual discounts and bad debts. The bad debt allowance on clinical receivables was approximately \$900 thousand as of August 31, 2018. Clinical accounts receivable are subject to concentrations of patient accounts receivable credit risk. The mix of receivables (gross) from patients and third parties as of August 31, 2018 was as follows:

	Net	Gross
County Hospital	0%	0%
Medicaid	19%	26%
Medicare	43%	32%
Commercial	25%	23%
Self-pay	4%	11%
Other	9%	8%
Total	100%	100%

Gift receivables include amounts pledged to the System by donors, net of allowances. The allowance for gift pledges is approximately \$1.8 million at August 31, 2018. 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.

Prepaid Items

Prepaid items include prepaid scholarship expenses that pertain to the fall term of the following fiscal year and other various prepaid expenses.

Loans and Contracts

Current and noncurrent loans and contracts receivables, related to student loans, are shown net of allowances. The net allowance on loans and contracts at August 31, 2018 is approximately \$4.5 million.

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*, as amended. Changes in realized gain (loss) on the carrying value of investments are reported as a component of investment income. Restricted investments include investments restricted by legal or contractual requirements, including those related to donors and constitutional restrictions.

Capital and Intangible Assets

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

Purchases of library books are capitalized. 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*, as amended.

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

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as amended, requires all intangible assets not specifically excluded by scope provisions to be classified as capital assets. The System has computer

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

software that meets the criteria. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets is applied to computer software, as applicable.

Deferred Outflows of Resources

Deferred outflows of resources relate to unamortized losses on the refunding of debt, and certain amounts related to pensions and OPEB.

Deferred Outflows of Resources Related to Debt Refunding

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

Deferred Outflows of Resources Related to Pensions

Certain changes in the collective net pension liability of the Teacher Retirement System of Texas ("TRS") Plan (the "TRS Plan") are reported as deferred outflows or as deferred inflows of resources related to pensions, depending on the type of change. The types of deferred outflows of resources related to pensions and their respective accounting treatments are discussed below.

- System contributions subsequent to the measurement date of the collective net pension liability are recognized as a reduction in the net pension liability in the following year.
- The effect on the System's proportionate share of the total pension liability of changes of economic and demographic assumptions or of other inputs that increase the total pension liability is amortized as a component of pension expense using the straight-line method over the expected average remaining service lives of active and inactive employees.
- The effect on the System's proportionate share of the total pension liability of differences between expected and actual experience that increase the total pension liability is amortized as a component of pension expense using the straight-line method over the expected average remaining service lives of active and inactive employees.
- Increases in the System's proportion of the collective net pension liability are amortized as a component of pension expense using the straight-line method over the expected average remaining service lives of active and inactive employees.
- System contributions during the measurement period that are greater than its proportionate share of total contributions is amortized as a component of pension expense using the straight-line method over the expected average remaining service lives of active and inactive employees.
- The effect on the System's proportionate share of the collective net pension liability of less actual earnings on pension plan investments than projected is amortized as a component of pension expense using the straight-line method over a period of five years.

Deferred Outflows of Resources Related to OPEB

Certain changes in the net OPEB liability of the Employees Retirement System of Texas ("ERS") Plan (the "ERS Plan") are reported as deferred outflows or as deferred inflows of resources related to OPEB, depending on the type of change. The types of deferred outflows of resources related to OPEB and their respective accounting treatments are discussed below.

- System contributions for retirees subsequent to the measurement date of the net OPEB liability are recognized as a reduction in the OPEB liability in the following year.
- The effect on the System's proportionate share of the net OPEB liability of less actual earnings on OPEB plan investments than projected is amortized as a component of OPEB expense using the straight-line method over a period of five years.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Liabilities

Accounts and Other Payables

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

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 nonexchange transaction. Unearned revenue includes \$237.2 million of tuition revenue related to the semesters that have not been completed as of August 31, 2018. Tuition revenue is recognized based on the number of class days as a percentage of total class days that fall within the fiscal year.

Revenue Bonds Payable

Revenue bonds payable are reported at par value. Bond discounts and premiums are amortized over the life of the bonds using the effective interest method. Revenue bonds payable is reported separately as either current or non-current in the Statement of Net Position.

Claims and Judgments

Claims and judgments 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 Note 12, *Contingencies and Commitments*, and Note 14, *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

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

Net Pension Liability

The fiduciary net position of the TRS Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the TRS Plan, and additions to/deductions from the TRS Plan's fiduciary net position have been determined on the same basis as they are reported by TRS. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach.

Net OPEB Liability

The fiduciary net position of the ERS Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments of the Other Employee Benefit

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Trust Fund are reported at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings.

Deferred Inflows of Resources

Deferred inflows of resources relate to unamortized gains on refunding of debt and certain amounts related to pensions and OPEB.

Deferred Inflows of Resources Related to Debt Refunding

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

Deferred Inflows of Resources Related to Pensions

Certain changes in the collective net pension liability of the TRS Plan are reported as deferred outflows of resources related to pensions or as deferred inflows of resources related to pensions, depending on the type of change. The types of deferred inflows of resources related to pensions and their respective accounting treatments are discussed below.

- The effect on the System's proportionate share of the total pension liability of changes of economic and demographic assumptions or of other inputs that decrease the total pension liability is amortized as a component of pension expense using the straight-line method over the expected average remaining service lives of active and inactive employees.
- The effect on the System's proportionate share of the total pension liability of differences between expected and actual experience that decrease the total pension liability is amortized as a component of pension expense using the straight-line method over the expected average remaining service lives of active and inactive employees.
- Decreases in the System's proportion of the collective net pension liability are amortized as a component of pension expense using the straight-line method over the expected average remaining service lives of active and inactive employees.
- System contributions during the measurement period that are less than its proportionate share of total of contributions are amortized as a component of pension expense using the straight-line method over the expected average remaining service lives of active and inactive employees.
- The effect on the System's proportionate share of the collective net pension liability of more actual earnings on pension plan investments than projected is amortized as a component of pension expense using the straight-line method over a period of five years.

Deferred Inflows of Resources Related to OPEB

Certain changes in the net OPEB liability of the ERS Plan are reported as deferred outflows of resources related to OPEB or as deferred inflows of resources related to OPEB, depending on the type of change. The types of deferred inflows of resources related to OPEB and their respective accounting treatments are discussed below.

- The effect on the System's proportionate share of the total OPEB liability of changes of economic and demographic assumptions or of other inputs that decrease the total OPEB liability is amortized as a component of OPEB expense using the straight-line method over the expected average remaining service lives of active and inactive employees.
- The effect on the System's proportionate share of the total OPEB liability of differences between expected and actual experience that decrease the total OPEB liability is amortized as a component of OPEB expense using the straight-line method over the expected average remaining service lives of active and inactive employees.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Net Position

Net Investment in Capital Assets

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

Restricted Net Position

Restricted net position primarily consists of permanent investments subject to restrictions 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.

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 toward restricted resources and then toward unrestricted resources.

Revenues and Expenses

Operating Revenues and Expenses

Operating revenues include activities such as net student tuition and fees; net professional fees for hospital clinical services; net sales and services by auxiliary enterprises; and most federal, state and local grants and contracts. Operating expenses include salaries and wages, payroll related costs, professional fees and services, 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 expenses.

Professional Fees 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. 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 either as operating expense or as 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

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

an institution-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.

Nonoperating Revenues and Expenses

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

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 comprehensive financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements

GASB Statement No. 83, *Certain Asset Retirement Obligations*, determines the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (ARO) and requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. This statement will be implemented in fiscal year 2019. The System anticipates minimal impact to the comprehensive financial statements.

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. This statement will be implemented in fiscal year 2020. The System is in process of evaluating the impact this will have to the comprehensive financial statements.

GASB Statement No. 87, *Leases*, creates a single model for lease accounting. It requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement will be implemented in fiscal year 2021. The System is in process of analyzing current operating leases to assess impact of this statement. The System anticipates moderate impact to the comprehensive financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, requires additional note disclosures relating to debt and clarifies which liabilities governments should include when disclosing information related to debt. Additional disclosures include unused lines of credit, assets pledged as collateral, and terms specified in debt agreements for significant events of default, termination, or subjective acceleration clauses with finance-related consequences. This statement will be implemented in fiscal year 2019. The System anticipates minimal impact to the comprehensive financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement will be implemented in fiscal year 2021, or earlier if the State chooses to implement the standard early. The System anticipates minimal impact to the comprehensive financial statements.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Note 2: Capital Assets

A summary of changes in capital assets for the year ended August 31, 2018 is presented below:

	Balance September 1, 2017	Adjustments	Reclassification of Completed Construction In Progress	Increase Interagency Transfers	Additions	Deletions	Balance August 31, 2018
Non-Depreciable or Non-Amortizable Assets:							
Land and Land Improvements	\$ 80,675,840.27	\$ -	\$ -	\$ -	\$ 745,962.24	\$ (292,500.00)	\$ 81,129,302.51
Construction in Progress	86,532,124.25	339,461.90	(19,710,987.15)	-	228,383,191.63	(2,392,357.56)	293,151,433.07
Other Tangible Capital Assets	25,220,386.61	-	-	-	4,559.20	-	25,224,945.81
Total Non-Depreciable or Non-Amortizable Assets:	\$ 192,428,351.13	\$ 339,461.90	\$ (19,710,987.15)	\$ -	\$ 229,133,713.07	\$ (2,684,857.56)	\$ 399,505,681.39
Depreciable Assets:							
Buildings and Building Improvements	\$ 1,141,436,115.03	\$ 17,232.58	\$ 15,810,308.23	\$ -	\$ 292,853.54	\$ -	\$ 1,157,556,509.38
Infrastructure	66,741,087.23	(305,933.20)	1,309,664.71	-	-	-	67,744,818.74
Facilities and Other Improvements	127,426,383.84	-	585,883.21	-	24,725.00	-	128,036,992.05
Furniture and Equipment	162,130,321.83	(376,644.01)	-	25,122.30	13,883,419.13	(6,277,889.86)	169,384,329.39
Vehicles, Boats and Aircraft	13,761,124.39	-	-	-	341,786.56	(384,472.72)	13,718,438.23
Other Capital Assets	103,151,841.88	323,203.88	-	-	6,437,358.34	(166,685.00)	109,745,719.10
Total Depreciable Assets:	\$ 1,614,646,874.20	\$ (342,140.75)	\$ 17,705,856.15	\$ 25,122.30	\$ 20,980,142.57	\$ (6,829,047.58)	\$ 1,646,186,806.89
Less Accumulated Depreciation for:							
Buildings and Building Improvements	\$ (507,656,129.84)	\$ 10,783.36	\$ -	\$ -	\$ (44,724,440.73)	\$ -	\$ (552,369,787.21)
Infrastructure	(20,750,733.77)	68,834.97	-	-	(2,408,916.42)	-	(23,090,815.22)
Facilities and Other Improvements	(30,765,064.26)	(0.99)	-	-	(3,905,611.41)	-	(34,670,676.66)
Furniture and Equipment	(116,213,987.23)	(68,522.12)	-	(25,122.30)	(13,047,108.67)	5,498,507.94	(123,856,232.38)
Vehicles, Boats and Aircraft	(8,796,462.00)	(1,364.72)	-	-	(1,244,379.38)	371,297.70	(9,670,908.40)
Other Capital Assets	(63,042,897.94)	17,303.62	-	-	(4,901,365.14)	142,680.10	(67,784,279.36)
Total Accumulated Depreciation	\$ (747,225,275.04)	\$ 27,034.12	\$ -	\$ (25,122.30)	\$ (70,231,821.75)	\$ 6,012,485.74	\$ (811,442,699.23)
Total Depreciable Assets, Net	\$ 867,421,599.16	\$ (315,106.63)	\$ 17,705,856.15	\$ -	\$ (49,251,679.18)	\$ (816,561.84)	\$ 834,744,107.66
Amortizable Assets - Intangibles:							
Computer Software	\$ 31,214,634.86	\$ -	\$ 2,005,131.00	\$ -	\$ 720,416.95	\$ (434,368.99)	\$ 33,505,813.82
Total Amortizable Assets - Intangibles	\$ 31,214,634.86	\$ -	\$ 2,005,131.00	\$ -	\$ 720,416.95	\$ (434,368.99)	\$ 33,505,813.82
Less Accumulated Amortization for:							
Computer Software	\$ (20,174,178.15)	\$ (0.28)	\$ -	\$ -	\$ (2,985,979.38)	\$ 434,368.99	\$ (22,725,788.82)
Total Accumulated Amortization	\$ (20,174,178.15)	\$ (0.28)	\$ -	\$ -	\$ (2,985,979.38)	\$ 434,368.99	\$ (22,725,788.82)
Amortizable Assets - Intangibles, Net	\$ 11,040,456.71	\$ (0.28)	\$ 2,005,131.00	\$ -	\$ (2,265,562.43)	\$ -	\$ 10,780,025.00
Total Capital Assets, Net	\$ 1,070,890,407.00	\$ 24,354.99	\$ -	\$ -	\$ 177,616,471.46	\$ (3,501,419.40)	\$ 1,245,029,814.05

A summary of interest costs related to Capital Assets for the year ended August 31, 2018 is presented below:

	Interest Charged to Expense	Interest Capitalized	Total Interest Cost Incurred
Non-Depreciable or Non-Amortizable Assets:			
Construction in Progress	\$ 6,492,766.36	\$ 3,866,042.77	\$ 10,358,809.13
Total Non-Depreciable or Non-Amortizable Assets:	\$ 6,492,766.36	\$ 3,866,042.77	\$ 10,358,809.13
Depreciable Assets:			
Buildings and Building Improvements	\$ 8,904,783.00	\$ 2,178,401.94	\$ 11,083,184.94
Infrastructure	16,187.50	-	16,187.50
Facilities and Other Improvements	7,650,311.41	-	7,650,311.41
Furniture and Equipment	31,062.68	-	31,062.68
Vehicles, Boats and Aircraft	38,674.62	-	38,674.62
Total Depreciable Assets:	\$ 16,641,019.21	\$ 2,178,401.94	\$ 18,819,421.15
Total Capital Assets, Net:	\$ 23,133,785.57	\$ 6,044,444.71	\$ 29,178,230.28

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Note 3: Cash, Cash Equivalents and Investments

Deposits of Cash in Bank

As of August 31, 2018, the carrying amount of deposits was \$23,464,588.63 as presented below:

Cash In Bank Carrying Value	\$	23,464,588.63
Cash in Bank per Statement of Net Position	\$	<u>23,464,588.63</u>
Proprietary Funds Current Assets Cash in Bank	\$	20,154,127.36
Proprietary Funds Current Assets Restricted Cash in Bank		3,310,461.27
Cash in Bank per Statement of Net Position	\$	<u>23,464,588.63</u>

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 \$260,162,651.41 that is invested in cash equivalents. The remainder of the cash and cash equivalents balance of \$18,270,782.66 is comprised of cash on hand, cash in transit or reimbursement from the Treasury, and cash in the State Treasury.

As of August 31, 2018, the total bank balance was \$3,913,988.32.

The carrying amount of deposits for the System’s discretely presented component unit, UNT Foundation, reported on the UNT Foundation Statement of Net Position as of August 31, 2018 was \$13,206,667.00. As of August 31, 2018, the total bank balance was \$3,068,874.31.

Custodial Credit Risk - Deposits

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

As of August 31, 2018, 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-backed 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 section 51.0031(c) of the Texas Education Code. 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

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment. 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.

As of August 31, 2018, the System's investments are presented below. Included in this amount is \$260,162,651.41 classified as cash equivalents.

Investments and Cash Equivalents	As of August 31, 2018
U.S. Government Agency Obligations	\$ 14,037,887.40
Equity	547,291.00
Repurchase Agreement	5,347,598.18
Fixed Income Money Market and Bond Mutual Funds	207,031,689.76
Other Commingled Funds	116,893,527.60
Other Commingled Funds (TexPool)	4,614,885.36
Externally Managed Investments – Domestic ⁽¹⁾	262,797,168.73
Miscellaneous (limited partnerships, guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)	29,289.48
Total Investments and Cash Equivalents	\$ 611,299,337.51

- (1) Fair values of investments that are not managed by the University of North Texas Foundation are primarily based on market valuations provided by external managers.

Credit Risk – Investments

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The System utilizes ratings assigned by Standard & 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, 2018, the System's credit quality distribution for securities with credit risk exposure was as follows:

Fund Type	GAAP Fund	Investment Type	Standard and Poor's			
			AAA	AA	Unrated	Total
05	0001	U.S. Government Agency Obligations	\$ -	\$ 14,037,887.40	\$ -	\$ 14,037,887.40
05	0001	Equity	-	-	547,291.00	547,291.00
05	0001	Repurchase Agreement	-	-	5,347,598.18	5,347,598.18
05	0001	Fixed Income Money Market and Bond Mutual Fund	58,332,338.11	-	148,699,351.65	207,031,689.76
05	0001	Other Commingled Funds	116,893,527.60	-	-	116,893,527.60
05	0001	Commingled Funds (TEXPOOL)	4,614,885.36	-	-	4,614,885.36
05	0001	Externally Managed Investments	-	-	262,797,168.73	262,797,168.73
05	0001	Miscellaneous	-	-	29,289.48	29,289.48
05	0001	Total	\$ 179,840,751.07	\$ 14,037,887.40	\$ 417,420,699.04	\$ 611,299,337.51

Concentration of Credit Risk

As of August 31, 2018, 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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Custodial Credit Risk - Investments

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 does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of August 31, 2018, the System did not have 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, 2018, the System investments subject to interest rate risk – commingled funds, certificates of deposit, repurchase agreements and fixed income money market – have an average maturity of less than one year. The System's investments in U.S. Government Agency Obligations have an average maturity of approximately three years and the investments in bond mutual funds have an average maturity of less than three years.

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, 2018, 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, fixed income and alternative investment 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 (U.S. and international equities), 20-40% risk reduction assets (U.S. 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/>.

As of August 31, 2018, total investments in the Pool, including the System portion, consisted of the following investment types:

Investment	Fair Value
Equity	\$ 19,944,507.58
Domestic Mutual Funds	111,865,440.91
International Other Commingled Funds	38,530,017.90
International Mutual Funds	67,792,697.40
Fixed Income Money Market & Bond Mutual Funds	64,157,227.79
Externally Managed Investments (Hedge Funds)	53,161,957.64
Real Estate Funds (REITs)	1,617.27
Miscellaneous	530,850.04
Total investments	\$ 355,984,316.53

The System's portion of the Pool's investments as of August 31, 2018 is \$215,641,803.66.

The Pool's investments are not rated by Standard & Poor's. As of August 31, 2018, 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

UNIVERSITY OF NORTH TEXAS SYSTEM
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For the Year Ended August 31, 2018

subject to interest rate risk – fixed income money market and bond mutual funds – have a weighted average maturity of less than one year and approximately eight years, respectively.

As of August 31, 2018, the System's investments in the Pool consisted of the following investment types:

Equity

Equity consists of direct ownership of equity securities in publicly-held corporations. Equity securities are typically managed by an external investment advisor.

Domestic Mutual Funds

Domestic mutual funds are mutual funds that, by policy, invest primarily in U.S. equity securities of publicly-held corporations.

International Other Commingled Funds

International other commingled funds include ownership of unit interests in commingled pools which invest primarily in international equity securities of publicly held corporations.

International Mutual Funds

International mutual funds are mutual funds that, by policy, invest primarily in international equity securities of publicly-held corporations.

Other Commingled Funds

Other commingled funds include ownership of unit interests in commingled pools which invest primarily in publicly-traded fixed income securities of U.S. government, agency and private corporations.

Fixed Income Money Market & Bond Mutual Funds

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 per share or stable price per share, limits on the maximum maturity of any individual security in the fund's portfolio, and limits on the maximum weighted-average portfolio maturity and life. Money market funds typically attempt to maintain a net asset value or price of \$1.00 per share. Bond mutual funds are publicly-traded open-end mutual funds that primarily invest in fixed income securities of the U.S. government and agencies, U.S. corporations, and international fixed income securities.

Alternative Investments

Alternative investments consist of hedge funds, real estate, and other pooled funds that employ various investment strategies that are typically less correlated to the publicly traded investment markets. Investments may be held through a combination of unit interests in limited partnerships, publicly-traded open-end mutual fund vehicles, or unit ownership in other commingled pooled funds.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Fair Value Measurements

The System's investments are recorded at fair value as of August 31, 2018, and have been categorized based upon a fair value hierarchy in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The System categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure fair value of the assets. An investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value on a recurring basis:

- Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (quoted market prices for similar assets or liabilities) or indirectly (corroborated from observable market information)
- Level 3 Unobservable inputs for an asset or liability

The System has the following recurring fair value measurements as of August 31, 2018:

	8/31/2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
U.S. Government Agency Obligations	\$ 14,037,887.40	\$ -	\$ 14,037,887.40	\$ -
Equity	547,291.00	547,291.00	-	-
Bond Mutual Funds	65,436,031.68	65,436,031.68	-	-
Externally Managed Investments - Other	47,155,365.07	46,884,012.39	-	271,352.68
Total Investments at Fair Value	<u>\$ 127,176,575.15</u>	<u>\$ 112,867,335.07</u>	<u>\$ 14,037,887.40</u>	<u>\$ 271,352.68</u>
Investments and Cash Equivalents Measured at NAV				
Other Commingled Funds (TexStar)	\$ 15,215,655.13			
Externally Managed Investments - Foundation Managed Pool	215,641,803.66			
Total Investments at NAV	<u>\$ 230,857,458.79</u>			
Total Investments at Fair Value	<u>\$ 358,034,033.94</u>			
Investments and Cash Equivalents not Measured at Fair Value				
Repurchase Agreements	\$ 5,347,598.18			
Fixed Income Money Market and Bond Mutual Funds	141,595,658.08			
Other Commingled Funds (TexTERM)	101,677,872.47			
Other Commingled Funds (TexPool)	4,614,885.36			
Miscellaneous	29,289.48			
Total Investments not Measured at Fair Value	<u>\$ 253,265,303.57</u>			
Total Investments	<u>\$ 611,299,337.51</u>			

Investments classified in Level 1 of the fair value hierarchy, totaling \$112,867,335.07 for the year ended August 31, 2018, are valued using quoted prices in active markets.

U.S. government agency obligations totaling \$14,037,887.40 classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques maintained by pricing vendors. Matrix pricing is used to value securities based on benchmark quoted prices of assets with similar attributes. These prices are obtained from pricing sources by the System's custodial bank.

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Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

\$215,641,803.66 of the System's externally managed investments are managed by the Foundation in the long term pool. The Foundation pool has the following recurring fair value measurements as of August 31, 2018:

	8/31/2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Equity	\$ 19,944,507.58	\$ 19,388,651.53	\$ 555,856.05	\$ -
Domestic Mutual Funds	111,865,440.91	111,865,440.91	-	-
International Commingled Funds	38,530,017.90	-	38,530,017.90	-
International Mutual Funds	67,792,697.40	67,792,697.40	-	-
Fixed Income Money Market and Bond Mutual Fund	64,157,227.79	-	64,157,227.79	-
Externally Managed Investments (Hedge Funds)	53,161,957.64	-	21,820,665.87	31,341,291.77
Real Estate Funds (REITs)	1,617.27	-	-	1,617.27
Miscellaneous	530,850.04	-	530,850.04	-
Total Investments at Fair Value	\$ 355,984,316.53	\$ 199,046,789.84	\$ 125,594,617.65	\$ 31,342,909.04

Within the pool, 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 Externally Managed Investments (Hedge Funds) and Real Estate Funds (REITs) are determined by third-party valuations of the investments. See Foundation Note 13 for further information regarding the fair value of pool investments.

Other Commingled Funds consists of funds invested with TexPool, TexStar, and TexTERM. These commingled funds were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. They are structured somewhat like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. In addition, interest rates are also adjusted on a daily basis and the funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. The System reports its investment with TexStar of \$15,215,655.13 at fair value and reports its investment with TexPool and TexTERM of \$106,292,757.83 at amortized cost in accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Please refer to the *Investments Reported at NAV* section below for further information regarding commingled funds reported at fair value. For commingled funds reported at amortized cost, there are no limitations or restrictions on withdrawals and maximum transaction amounts.

Investments Reported at NAV

Other Commingled funds

The System invests excess working capital in TexStar to maintain sufficient liquidity and increase yields. There are no unfunded commitments. No limitations or restrictions on redemptions exist. Redemptions can occur at any time.

Externally Managed Investments – Foundation managed long term investment pool

The System records its unitized portion of the Foundation's long term pool investments using NAV. As of August 31, 2018, \$215,641,803.66 of the System's externally managed investments are managed by the Foundation in the long term pool.

Fair Value	Fair Value	Frequency Range - Low	Frequency Range - High	Notice Range - Low	Notice Range - High	Unfunded Commitment
Hedge Funds	\$ 32,851,537.04	Quarterly	Quarterly	45 Days	180 Days	\$0
Mutual Funds	182,789,784.98	Daily	Monthly	1 Day	60 Days	\$0
Real Estate	481.64	N/A	N/A	N/A	N/A	\$0
Total	\$ 215,641,803.66					

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Note 4: Short-Term Debt

Commercial Paper

At the May 19, 2018 meeting, the University of North Texas System Board of Regents approved a resolution limiting the principal amount of Series A Commercial Paper Notes that may be outstanding at any one time to \$50,000,000.00. The Twenty-Fourth Resolution established the UNT System Revenue Financing System Commercial Paper Program Series B (Extendible Commercial Paper). The issuance of Series B Commercial Paper Notes may not exceed, in aggregate, the principal amount of \$75,000,000.00 at any one time. 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. Commercial paper activity for the System for the year ended August 31, 2018 is as follows:

	September 1, 2017	Additions	Reductions	Other Adjustments ⁽¹⁾	August 31, 2018
Series A Commercial Paper	\$ 12,300,000.00	\$ 22,900,000.00	\$ -	\$ (33,120,000.00)	\$ 2,080,000.00
Series B Commercial Paper	12,975,000.00	35,425,000.00	-	(48,400,000.00)	-
Total Commercial Paper	\$ 25,275,000.00	\$ 58,325,000.00	\$ -	\$ (81,520,000.00)	\$ 2,080,000.00

⁽¹⁾ Amount reclassified to long-term liabilities.

The outstanding balance of commercial paper at August 31, 2018 was \$83,600,000.00 at an average interest rate of 1.32%. In September 2018, the System refunded \$81,520,000.00 of commercial paper into long-term bonds. See Note 13, *Subsequent Events*, for more information on the refunding. As a result of the refunding, the System considers \$80,555,465.00 of commercial paper balance to be long-term debt, and \$964,535.00 to be the current portion of the debt. The remaining balance of \$2,080,000.00 is reported as short-term debt as of August 31, 2018. Average commercial paper maturity during the year ended August 31, 2018 was approximately 31 days. The System will provide liquidity support for \$50,000,000.00 in Series A 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 or institutional funds are received to retire the commercial paper debt.

The System 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. The System, working with bond counsel and its financial advisor, routinely determines alternative long-term funding to ensure that commercial paper is used as interim financing only and will be paid off after completion of construction or equipment acquisition.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Note 5: Long-Term Liabilities

Changes in Long-Term Liabilities

The following changes occurred in long-term liabilities during the year ended August 31, 2018:

	September 1, 2017	Additions	Reductions	Other Adjustments ⁽¹⁾	August 31, 2018	Amounts Due Within One Year	Amounts Due Thereafter
Bonds Payable:							
Revenue Bonds Payable	\$ 725,950,000.00	\$ 22,845,000.00	\$ 64,765,000.00	\$ -	\$ 684,030,000.00	\$ 43,495,000.00	\$ 640,535,000.00
Unamortized Net Premiums	52,993,180.05	-	5,498,695.47	-	47,494,484.58	5,197,074.80	42,297,409.78
Total Bonds Payable	\$ 778,943,180.05	\$ 22,845,000.00	\$ 70,263,695.47	\$ -	\$ 731,524,484.58	\$ 48,692,074.80	\$ 682,832,409.78
Notes and Loans Payable:							
Notes and Loans Payable	\$ -	\$ -	\$ -	\$ 81,520,000.00	\$ 81,520,000.00	\$ 964,535.00	\$ 80,555,465.00
Claims and Judgments	1,729,924.00	-	264,947.00	-	1,464,977.00	608,602.00	856,375.00
Compensable Leave	25,075,919.40	3,579,971.09	2,888,826.25	-	25,767,064.24	5,069,176.93	20,697,887.31
Capital Lease Obligations	5,506,269.66	-	2,045,546.62	-	3,460,723.04	2,066,773.20	1,393,949.84
Net Pension Liability	119,709,644.00	21,197.00	12,586,991.00	-	107,143,850.00	-	107,143,850.00
Net OPEB Liability	-	86,392,029.00	-	-	86,392,029.00	438,362.00	85,953,667.00
Total Long-Term Liabilities	\$ 930,964,937.11	\$ 112,838,197.09	\$ 88,050,006.34	\$ 81,520,000.00	\$ 1,037,273,127.86	\$ 57,839,523.93	\$ 979,433,603.93

⁽¹⁾ Amount reclassified from short-term liabilities.

Revenue Bonds Payable

Scheduled principal and interest payments for revenue bonds issued and outstanding as of August 31, 2018 are as follows:

Year	Principal	Interest	Total
2019	\$ 43,495,000.00	\$ 28,084,095.49	\$ 71,579,095.49
2020	42,305,000.00	26,630,069.41	68,935,069.41
2021	43,715,000.00	25,218,711.04	68,933,711.04
2022	45,290,000.00	23,627,893.33	68,917,893.33
2023	39,570,000.00	21,925,137.01	61,495,137.01
2024-2028	193,615,000.00	89,923,900.41	283,538,900.41
2029-2033	168,685,000.00	50,172,850.34	218,857,850.34
2034-2038	56,385,000.00	20,497,428.20	76,883,428.20
2039-2043	39,665,000.00	7,659,599.40	47,324,599.40
2044-2046	11,305,000.00	832,195.10	12,137,195.10
Total	\$ 684,030,000.00	\$ 294,571,879.73	\$ 978,601,879.73

Interest paid during 2018, net of capitalized interest, amounted to \$23,557,408.83. Total interest and fiscal charges incurred for the year ended August 31, 2018 was \$29,178,230.28. Of this total, the System capitalized \$6,044,444.71 associated with financing capital projects during the construction phase. In addition, the System recorded \$5,498,695.47 and (\$736,152.50) relating to the amortization of premiums and deferred outflows of resources from bond refundings, respectively. The remaining amount of \$18,371,242.60 was reported as interest expense and fiscal charges for the year ended August 31, 2018.

Notes and Loans Payable

In September 2018, the System refunded \$81,520,000.00 of commercial paper into long-term bonds. See Note 4, *Short-Term Debt*, and Note 13, *Subsequent Events*, for more information on the refunding. As a result of the refunding, the System considers \$80,555,465.00 of commercial paper balance to be long-term debt, and \$964,535.00 to be the current portion of the debt. The remaining balance of \$2,080,000.00 is reported as short-term debt as of August 31, 2018.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Claims and Judgments

As of August 31, 2018, the Claims and Judgments liability accrual is comprised of incurred but not reported (“IBNR”) activity associated with HSC. 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 12, *Contingencies and Commitments*, and Note 14, *Risk Management*, 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 with no break in state service to a position which accrues vacation leave. Substantially all full-time System employees earn between eight and twenty-one hours of annual leave 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, up to a maximum of 532 hours 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 as the employee’s salary or wage compensation is paid. An expense and a liability are recorded as the benefits accrue to employees, and the liability is reduced as the accrued leave is taken. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Capital Lease Obligations

See Note 7, *Leases*, for more information on capital lease obligations.

Net Pension Liability

See Note 1, *Summary of Significant Accounting Policies*, and Note 8, *Defined Benefit Pension Plan and Defined Contribution Plan*, for more information on the Net Pension Liability.

Net OPEB Liability

See Note 1, *Summary of Significant Accounting Policies*, and Note 9, *Postemployment Benefits Other Than Pensions*, for more information on the Net Pension Liability.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Note 6: Bonded Indebtedness

At August 31, 2018, the System had principal outstanding related to revenue bonds of \$684,030,000.00. Revenue Financing System ("RFS") debt is secured by and payable from pledged revenues as defined in the Master Resolution establishing the RFS. 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.

General information related to revenue bonds outstanding as of August 31, 2018, is summarized in the following table:

Bond	Purpose	Issue Date	Interest Rates	Amount Issued	Total Principal Outstanding as of 8/31/18
RFS Bonds, Series 2009A	To provide funds for the purposes of constructing and equipping buildings, and for paying certain costs of issuing the bonds	12/2/2009	3.0000% - 5.0000%	\$ 159,310,000.00	\$ 5,055,000.00
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 issuing the bonds	12/2/2009	3.0000% - 4.7500%	15,800,000.00	2,350,000.00
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, Revenue Financing System Bonds Series 2002A, and paying certain costs of issuing the bonds	7/23/2010	3.0000% - 5.0000%	57,625,000.00	31,090,000.00
RFS Refunding and Improvement Bonds, Series 2012A	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2003; a portion of the Board's outstanding commercial paper notes; for purchasing, constructing, improving, renovating, enlarging, and equipping property and infrastructure; and paying certain costs of issuing the bonds	6/1/2012	2.0000% - 5.0000%	75,890,000.00	49,465,000.00
RFS Refunding Bonds, Taxable Series 2012B	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2003B and paying certain costs of issuing the bonds	6/1/2012	0.5500% - 4.0500%	4,820,000.00	3,870,000.00
RFS Refunding Bonds, Series 2015	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2003A and 2005 Bonds and paying certain costs of issuing the bonds	4/30/2015	1.9500% - 1.9500%	38,265,000.00	19,700,000.00
RFS Refunding Bonds, Series 2015A	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2014 Private Placement Arrangement, for refunding a portion of the Board's commercial paper notes and provide funding for constructing and equipping buildings, and paying certain costs of issuing the bonds	10/21/2015	2.0000%-5.0000%	105,130,000.00	103,070,000.00
RFS Refunding Bonds, Series 2015B	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2014 Private Placement Arrangement, for refunding a portion of the Board's commercial paper notes, provide funding for constructing and equipping buildings, and paying certain costs of issuing the bonds	10/21/2015	0.3000%-4.8380%	73,035,000.00	61,470,000.00
RFS Refunding Bonds, Series 2015C	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2007 Bonds and and paying certain costs of issuing the bonds	3/1/2016	2.4460%-10.0000%	45,865,000.00	41,525,000.00
RFS Refunding Bonds, Series 2017A	To provide funds for the purposes of refunding a portion of the Revenue Financing System Bonds Series 2009A; a portion of the Board's outstanding commercial paper notes; for constructing, improving, renovating, and equipping property; and paying certain costs of issuing the bonds	1/31/2017	1.0000%-5.0000%	196,165,000.00	187,785,000.00
RFS Refunding Bonds, Series 2017B	To provide funds for the purposes of refunding a portion of the Revenue Financing System Bonds Series 2009A; a portion of the Board's outstanding commercial paper notes; for constructing, improving, renovating, and equipping property; and paying certain costs of issuing the bonds	1/31/2017	0.9000%-4.1220%	164,305,000.00	156,330,000.00
RFS Forward Refunding Bonds, Series 2018	To provide funds for the purposes of refunding a portion of the Revenue Financing System Bonds Series 2009; and paying certain costs of issuing the bonds	3/14/2018	2.4000% - 2.4000%	22,845,000.00	22,320,000.00
Total				<u>\$ 959,055,000.00</u>	<u>\$ 684,030,000.00</u>

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Early Extinguishments in 2018

The System refunded \$22,175,000.00 of the RFS Series 2009 bonds with the RFS Forward Refunding Bonds, Series 2018:

- RFS Forward Refunding Bonds, Series 2018, were issued on March 14, 2018 to refund \$22,175,000.00 of the RFS Series 2009 Bonds, and pay certain costs of issuing the bonds.
- Series 2018 Bonds were issued at par with a par value of \$22,845,000.00.
- Net proceeds of \$22,747,262.00, after payment of \$97,737.50 in issuance costs and \$0.50 of cash, were used to purchase U.S. Government Securities. The proceeds and cash were deposited in an irrevocable trust with an escrow agent to provide for future debt payments on the 2009 bonds.
- Refunding the Series 2009 bonds with the Series 2018 bonds reduced the System's debt service payments over the next 20 years by approximately \$3,893,432.00.
- Economic gain of \$3,076,309.97 is the difference between the net present value of the old and new debt service payments. In addition, the deferred amount of \$572,262.50 was recorded as deferred outflows from the Series 2018 portion of the refunding.

Defeased Bonds Outstanding

A portion of RFS Refunding Bonds, Series 2012A, were defeased during 2016. Funds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. As of August 31, 2018, the par value outstanding of in-substance defeased bonds was \$4,405,000.00.

A portion of RFS Bonds, Series 2009A, were advance refunded during 2017. Funds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded bonds. As of August 31, 2018, the par value outstanding of defeased bonds was \$115,595,000.00.

Funds Available for Debt Service

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

Total pledged revenues consist of available pledged revenues, which include the gross revenues of the RFS, the Student Union Fee, pledged general tuition (which includes general use fees), investment income, and funds held for payment of debt service. 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 debt service. System HEF reserves cannot be included in total pledged revenues. The following table provides the pledged revenue information for the System's revenue bonds:

Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	\$ 978,601,879.73
Term of Commitment Year Ending 8/31	2045
Percentage of Pledged Revenue	100%
Current Year Pledged Revenue	\$ 948,195,233.73
Current Year Principal and Interest Paid	\$ 72,191,853.54

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Note 7: Leases

Operating Leases

The System has entered into various operating leases for buildings, equipment, vehicles and land. Rental expenses for operating leases were \$6,556,105.00 in 2018. The lease terms typically range from 12 to 60 months, where some lease terms contain optional renewals. Future minimum lease payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2018, were as follows:

<u>Fiscal Year</u>	<u>Lease Payments</u>
2019	\$ 5,489,477.59
2020	3,416,689.90
2021	1,777,336.45
2022	79,374.90
2023	62,499.96
2024 – 2028	312,499.80
2029 – 2033	312,499.80
2034 – 2038	312,499.80
2039 – 2043	312,499.80
2044 – 2048	312,499.80
Total Future Minimum Operating Lease Payments	\$ 12,387,877.80

The System has also leased buildings 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, 2018, were as follows:

<u>Assets Leased</u>	<u>2018</u>
Buildings:	
Cost	\$ 12,499,219.05
Less: Accumulated Depreciation	(5,253,132.60)
Carrying Value	<u>\$ 7,246,086.45</u>
Parking Garage:	
Cost	\$ 10,655,156.80
Less: Accumulated Depreciation	(6,402,417.40)
Carrying Value	<u>\$ 4,252,739.40</u>
Total Carrying Value	<u>\$ 11,498,825.85</u>

There were no contingent rentals for the period ended August 31, 2018. Rental income for operating leases was \$3,987,115.39 in 2018. Future minimum lease income under non-cancelable operating leases as of August 31, 2018, was as follows:

<u>Year</u>	<u>Lease Income</u>
2019	\$ 4,073,495.10
2020	1,660,839.78
2021	1,416,364.43
2022	1,196,404.08
2023	1,076,564.22
2024 and beyond	2,745,575.63
Total Minimum Lease Income	<u>\$ 12,169,243.24</u>

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Capital Leases

Leases that are purchases in substance are reported as capital lease obligations. The System has 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 the asset and liability 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 and accumulated depreciation of all assets under capital lease as of August 31, 2018, is presented below:

Assets Under Capital Lease	August 31, 2018
Equipment:	
Cost	\$ 9,139,859.82
Less: Accumulated Depreciation	(4,619,328.61)
Carrying Value	\$ 4,520,531.21
Vehicles:	
Cost	\$ 450,594.26
Less: Accumulated Depreciation	(175,093.61)
Carrying Value	\$ 275,500.65
Total Carrying Value	\$ 4,796,031.86

Capital lease obligations are due in monthly, quarterly or annual installments. Future minimum lease payments for assets under capital lease at August 31, 2018, were as follows:

Year	Principal	Interest
2019	\$ 2,066,773.20	\$ 91,733.10
2020	554,546.35	20,094.82
2021	278,394.50	14,237.50
2022	252,348.08	8,741.42
2023	216,969.45	4,191.51
2024 – 2028	91,691.46	458.97
Total Future Minimum Lease Payments	\$ 3,460,723.04	\$ 139,457.32

Note 8: Defined Benefit Pension Plan and Defined Contribution Plan

Teacher Retirement System

Plan Description

The State has joint contributory retirement plans for the majority of its employees. One of the primary plans in which the System participates is the TRS Plan. The TRS Plan is a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation administered by TRS. The TRS Plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The TRS Plan is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Legislature has the authority to establish and amend benefits and contribution rates within the guidelines of the Texas Constitution. The TRS Plan's Board of Trustees does not have the authority to establish or amend benefit terms.

The employers in the TRS Plan include the state of Texas, TRS, the state's public schools, education service centers, charter schools, and community and junior colleges. Employees of TRS and state of Texas colleges, universities and medical schools are members of the TRS Plan.

Detailed information about the TRS Plan's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2018

Benefits Provided

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The pension benefit formulas are based on members' average annual compensation and years of service credit. The standard annuity is 2.3% of the average of the five highest annual salaries multiplied by years of service credit. For grandfathered members who were hired on or before August 31, 2005 and meet certain criteria, the standard annuity is based on the average of the three highest annual salaries. The plan does not provide automatic post-employment benefit changes, including automatic cost of living adjustments ("COLAs"). Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Legislature.

All System personnel working on a half time or greater basis that is projected to last for 4½ months or more are eligible for membership in the TRS 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 participation in the TRS Plan on or after September 1, 2007 must be age 60 to retire and members who were not vested in the TRS Plan 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. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule.

Contributions

Contribution requirements are established or amended pursuant to Article XVI, Section 67 of the Texas Constitution, which requires the Legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation paid to members of the System during the year. Texas Government Code Section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

During the measurement period of 2017 for fiscal 2018 reporting, the amount of the System's contributions recognized by the plan was \$10,961,110.00. The contribution rates are based on a percentage of the monthly gross compensation for each member. Contributions by employees were 7.7% of gross earnings during the measurement period of 2017. 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% of annual compensation for during the measurement period of 2017.

Pension Liabilities, Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Teacher Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. Fair value is a market-based measurement, not an entity-specific measurement. TRS utilizes one or more of the following valuation techniques in order to measure fair value: the market approach, the cost approach, and the income approach. More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2017 Comprehensive Annual Financial Report.

At August 31, 2018, the System reported a liability of \$107,143,850.00 for its proportionate share of the collective net pension liability of the TRS Plan. The collective net pension liability was measured as of August 31, 2017 (the "measurement date"), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The System's proportion of the collective net pension liability at the measurement date was 0.3350903754%, which was an increase of 0.0183019279% from the 0.3167884475%

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measured at the prior measurement date. The System's proportionate share was based on its contributions to the pension plan, excluding State on-behalf contributions, relative to the contributions of all employers and non-employer contributing entities to the TRS Plan for the period September 1, 2016 through August 31, 2017 (the "measurement period"). During the measurement period, the amount of the System's contributions recognized by the TRS Plan, including State on-behalf contributions, was \$14,662,766.34. The State recognized \$36,183,350.73 for its proportionate share of the net pension liability related to its contributions to TRS on behalf of the System. The State's proportionate share for those contributions was 0.1131627490%.

For the year ended August 31, 2018, the System recognized pension expense of \$8,436,602.00. At August 31, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement date	\$ 11,593,499.00	\$ -
Changes of assumptions	4,880,572.00	2,794,014.00
Difference between expected and actual experience	1,567,563.00	5,778,128.00
Change in proportion and contribution difference	17,895,137.00	26,197,364.00
Net difference between projected and actual investment return	-	7,808,411.00
Total	<u>\$ 35,936,771.00</u>	<u>\$ 42,577,917.00</u>

The \$11,593,499.00 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year</u>	<u>Expense</u>
2019	\$ (5,803,060.00)
2020	1,036,209.00
2021	(6,328,433.00)
2022	(7,754,557.00)
2023	9,127.00
Thereafter	606,069.00
Total	<u>\$ (18,234,645.00)</u>

Actuarial Assumptions

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2017 measurement date:

Actuarial Methods and Assumptions	TRS Plan
Actuarial Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Actuarial Assumptions:	
Discount Rate	8.0%
Investment Rate of Return	8.0%
Inflation	2.50%
Salary Increase	3.50% to 9.50% including inflation
Mortality	
Active	90% of the RP 2014 Employee Mortality Tables for males and females
Post-Retirement	2015 TRS Healthy Pensioner Mortality Tables
Ad Hoc Post-Employment Benefit Changes	None

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The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study for the four-year period ended August 31, 2014 and adopted September 2015. The mortality rates were based on 90% of the RP 2014 employee Mortality Tables for the active members. The Post-retirement mortality rates were based on 2015 TRS Healthy Pensioner Mortality Tables.

There have been no changes to the benefit provisions of the TRS Plan since the prior measurement date. The discount rate used to measure the total net pension liability was 8.0%. There has been no change in the discount rate since the prior measurement period. The projected cash flows into and out of the TRS Plan assumed that members, employers, and non-employer contributing entities make their contributions at the statutorily required rates. Under this assumption, the TRS Plan's fiduciary net position is projected to be sufficient to make all future pension benefit payments of current active and inactive plan members. Therefore, the 8.0% long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of geometric real rates of return for each major asset class for the TRS Plan's investment portfolio are presented below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Global Equity		
U.S.	18.0%	4.6%
Non-U.S. Developed	13.0%	5.1%
Emerging Markets	9.0%	5.9%
Directional Hedge Funds	4.0%	3.2%
Private Equity	13.0%	7.0%
Stable Value		
U.S. Treasury	11.0%	0.7%
Absolute Return	0.0%	1.8%
Stable Value Hedge Funds	4.0%	3.0%
Cash	1.0%	-0.2%
Real Return		
Global Inflation Linked Bonds	3.0%	0.9%
Real Assets	16.0%	5.1%
Energy and Natural Resources	3.0%	6.6%
Commodities	0.0%	1.2%
Risk Parity		
Risk Parity	5.0%	6.7%
Total	<u>100%</u>	

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The following presents the System’s proportionate share of the net pension liability calculated using the discount rate of 8.0%, as well as what the System’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0%) or 1 percentage point higher (9.0%) than the current rate:

1.0% Decrease (7.0%)	Current Discount Rate (8.0%)	1.0% Increase (9.0%)
\$ 180,623,361.00	\$ 107,143,850.00	\$ 45,960,231.00

As further discussed in Note 13, *Subsequent Events*, the investment return assumption will be lowered from 8.0% to 7.25% for fiscal year 2019 reporting.

Optional Retirement Program

The State has also established the Optional Retirement Program (the “ORP”), a defined contribution plan, for institutions of higher education. Participation in the ORP is in lieu of participation in the TRS Plan and is available to certain eligible employees who hold faculty positions and other professional positions including but not limited to director-level and above, librarians and coaches. The ORP provides for the purchase of annuity contracts and mutual funds and is administered by a variety of investment firms. Employees are immediately vested in their own contributions and earnings on those contributions and become vested in the employer contributions after one year and one day of service.

The employee and employer contribution rates are established by the Legislature each biennium. 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 State provides an option for a local supplement in addition to 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% of annual compensation) and the employer (6.60% state base rate for 2018 plus any local supplement for a maximum 8.50% of annual compensation) for the year ended August 31, 2018, is provided in the following table:

ORP Participation	
Member Contributions	\$ 8,665,294.53
Employer Contributions	9,251,219.54
Total	\$ 17,916,514.07

Note 9: Postemployment Benefits Other Than Pensions

Employees Retirement System

Plan Description

The state of Texas currently participates in two types of defined benefit OPEB plans. The System participates in the ERS Plan. The ERS Plan is a cost-sharing, multiple-employer defined benefit OPEB plan with a special funding situation administered by ERS.

The Legislature has the authority to establish and amend benefits and contribution rates within the guidelines of the Texas Constitution. The ERS Plan’s Board of Trustees does not have the authority to establish or amend benefit terms. Benefits are provided to retirees through the Texas Employees Group Benefits Program as authorized by Texas Insurance Code, Chapter 1551.

The employers in the ERS Plan include the state of Texas agencies and universities, community and junior colleges, and other entities specified by the Legislature. Employees of state of Texas agencies, colleges, universities and medical schools are members of the ERS Plan.

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Detailed information about the ERS Plan's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained by writing to ERS at 200 E. 18th Street, Austin, TX, 78701-1400.

Benefits Provided

The ERS Plan provides postemployment health care, life and dental insurance benefits to retirees. The benefit and contribution provisions of the ERS Plan are authorized by state law and may be amended by the Legislature. All System employees that work at least 20 hours but less than 30 hours per week are eligible for partial health benefits under ERS. UNTS employees that work 30 or more hours are eligible for full health benefits under ERS. 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. Surviving spouses and dependents of retirees are also covered by the plan. The plan does not provide automatic cost of living adjustments.

Contributions

During the measurement period of 2017 for fiscal 2018 reporting, the amount of the System's contributions recognized by the plan for retirees was \$2,375,324.00. Contributions to ERS for the year ended August 31, 2018 for active and retired employees was as follows:

ERS Participation	
Member Contributions	\$ 18,104,120.26
State On-Behalf Contributions	25,173,028.55
Employer Contributions	38,308,274.43
Total	\$ 81,585,423.24

The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. The contribution requirements for the state and the members in the measurement period are presented in the table below:

Employer Contribution Rates	
Retiree Health and Basic Life Premium	
Retiree Only	\$ 617.30
Retiree & Spouse	\$ 970.98
Retiree & Children	\$ 854.10
Retiree & Family	\$ 1,207.78

OPEB Liabilities, OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

The OPEB plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by ERS. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. More detailed information on the plan's investment valuation, investment policy, assets, and fiduciary net position may be obtained from ERS' fiscal 2017 Comprehensive Annual Financial Report.

At August 31, 2018, the System reported a restatement to decrease fiscal year 2018 beginning net position of \$100,844,780.00 related to OPEB, comprised of \$103,220,104.00 to reflect the beginning Net OPEB Liability, offset by \$2,375,324.00 to record beginning deferred outflows of resources related to prior contributions. Restatement of all prior periods was not practical for purposes of GASB 75 implementation for the ERS Plan, and as such, restatement to beginning balance was reported. The System is dependent upon information provided from the ERS Plan for recognizing OPEB liability, deferred inflows, deferred outflows, and expense information. The ERS Plan information

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provided to the System used retiree data for OPEB reporting in fiscal year 2018. We believe that the contributions made for active employees do not represent a post-employment benefit but rather a current period expense. Accordingly, contributions made subsequent to the measurement date by the System for active employees have been recorded as an expense as of August 31, 2018 and contributions made subsequent to the measurement date by the System for retirees have been recorded as a deferred outflow as of August 31, 2018.

At August 31, 2018, the System reported a liability of \$86,392,029.00 for its proportionate share of the collective net OPEB liability of the ERS Plan. The non-current portion of the liability was \$85,953,667.00 and the current portion was \$438,362.00. The collective net OPEB liability was measured as of August 31, 2017 (the "measurement date"), and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The System's proportion of the collective net OPEB liability at the measurement date was 0.25354973%. The System's proportionate share was based on its contributions to the OPEB plan, excluding State on-behalf contributions, relative to the contributions of all employers and non-employer contributing entities to the ERS Plan for the period September 1, 2016 through August 31, 2017 (the "measurement period").

For the year ended August 31, 2018, the System recognized OPEB expense of \$4,623,363.00. At August 31, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement date	\$ 2,983,307.00	\$ -
Changes of assumptions	-	18,063,537.00
Difference between expected and actual experience	-	1,038,155.00
Net difference between projected and actual investment return	25,578.00	-
Total	<u>\$ 3,008,885.00</u>	<u>\$ 19,101,692.00</u>

The \$2,983,307.00 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net OPEB liability for 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year</u>	<u>Expense</u>
2019	\$ (4,295,788.00)
2020	(4,295,788.00)
2021	(4,295,788.00)
2022	(4,295,788.00)
2023	(1,892,962.00)
Thereafter	-
Total	<u>\$ (19,076,114.00)</u>

Actuarial Assumptions

The total OPEB liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total OPEB liability as of the August 31, 2017 measurement date:

Actuarial Methods and Assumptions	<u>ERS Plan</u>
Actuarial Valuation Date	August 31, 2017
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent of Payroll, Open
Remaining Amortization Period	30 Years
Actuarial Assumptions:	
Discount Rate	3.51%
Inflation	2.50%

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Salary Increase	2.50% to 9.50% including inflation
Healthcare Cost and Trend Rate	8.50% for FY 2019, decreasing 0.50% per year to 4.50% for FY 2027 and later years
Aggregate Payroll Growth	3.00%
Retirement Age	Experience-based tables of rates that are specific to the class of employee
Mortality	
State Agency Members	
Service Retirees, Survivors and Other Inactive Members	2017 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2017
Disabled Retirees	RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014
Active Members	RP-2014 Active Member Mortality tables with Ultimate MP Projection Scale from the year 2014
Higher Education Members	
Service Retirees, Survivors and Other Inactive Members	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014
Disabled Retirees	Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB
Ad Hoc Post-Employment Benefit Changes	None

The actuarial assumptions used in the valuation were primarily based on the result of actuarial experience studies performed by the ERS and TRS retirement plan actuaries for the period September 1, 2011 to August 31, 2016 for state agency members and for the period September 1, 2010 to August 31, 2014 for higher education members. The mortality rates were based on the tables identified in the above table titled *Actuarial Methods and Assumptions*.

The following benefit revisions have been adopted since the prior valuation for retirees and dependents for whom Medicare is not primary:

- a. Increase in the out-of-pocket cost applicable to services obtained at a free standing emergency facility,
- b. Elimination of the copayment for virtual visits,
- c. Copay reduction for Airrosti and for out of state participants, and
- d. Elimination of the deductible for in-network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits.

The discount rate used to measure the total net OPEB liability was the municipal bond rate of 3.51% as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.84%. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates on a pay-as-you-go basis and is not intended to accumulate assets, there is no long-term expected rate of return. ERS' board of trustees adopted an amendment to the investment policy in August 2017 to require that all funds in this plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments be at least 2.4%. The investment rate of return used to calculate the projected earnings on OPEB plan investments was 2.84%.

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Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of the System's net OPEB liability. The following presents the System's proportionate share of the net OPEB liability calculated using the discount rate of 3.51%, as well as what the System's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.51%) or 1 percentage point higher (4.51%) than the current rate:

1.0% Decrease (2.51%)	Current Discount Rate (3.51%)	1.0% Increase (4.51%)
\$ 103,126,837.00	\$ 86,392,029.00	\$ 73,429,427.00

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the proportionate share of the System's net OPEB liability. The following presents the System's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates, as well as what the System's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates 1 percentage point lower or 1 percentage point higher than the current rates:

1.0% Decrease (7.50% decreasing to 3.50%)	Current Healthcare Cost Trend Rates (8.50% decreasing to 4.50%)	1.0% Increase (9.50% decreasing to 5.50%)
\$ 72,627,180.00	\$ 86,392,029.00	\$ 104,252,707.00

Note 10: Interagency Activity and Transactions

The System experienced routine transfers with other state agencies, which were consistent with the activities of the fund making the transfer. Repayment of interagency balances will occur within one year from the date of the financial statements. There were no balances in interfund receivables and payables at August 31, 2018.

Note 11: Adjustments to Net Position

During fiscal year 2018, certain accounting changes and adjustments were made that required a restatement to net position. The restatement of beginning net position for fiscal year 2018 is as follows:

	Total
Net Position at August 31, 2017 as Previously Reported	\$ 825,804,640.96
Capital Assets Adjustments	24,354.99
GASB 75 implementation, OPEB	(100,844,780.00)
Total Restatement	(100,820,425.01)
Net Position at August 31, 2017 as Restated	\$ 724,984,215.95

Note 12: 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 U.S. 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.

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Contingencies

Healthcare Litigation

Jessica Jimenez, et al. v. UNTHSC, et al. Case No. 352-275721-14, 352nd Judicial District Court, Tarrant County, Texas. Health care liability claim alleging patient died as a result of a perforated esophagus that occurred during surgery. HSC appealed the denial of its motion to dismiss to the court of appeals, which reversed the district court’s decision and rendered judgment in HSC’s favor. The case is pending review before the Texas Supreme Court. Plaintiff seeks damages over \$1,000,000. The likelihood of an unfavorable outcome is reasonably possible and the range of loss is estimated to be \$0 to \$250,000.

Commitments

The System continues to implement capital improvements to upgrade facilities. Approximately \$447 million in capital commitments have been entered into for the construction and renovation of various facilities across all of its campuses. These projects are in various stages of completion. The estimated breakdown of funding sources available for this commitment is as follows: 20% Tuition Revenue Bonds, 56% Revenue Financing System Bonds, 12% HEF, 5% auxiliary revenues, 5% from Gift/Donations, and 2% from designated funds. Approximately \$282 million of the commitment, or roughly 63%, is expected to be spent in 2019.

Note 13: Subsequent Events

Bonds Issuance

The System issued \$172.1 million in new bonds subsequent to August 31, 2018. This routine activity finances the acquisition, construction and equipping of property.

Description	Amount	Issuance Date	Purpose
Revenue Financing System Bonds, Series 2018A	\$ 149,425,000.00	9/11/2018	To provide funds for acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads, or related infrastructure through the University System; refunding a portion of the Board’s outstanding Series A and Series B Commercial Paper Notes; and paying certain costs of issuing the Series 2018A Bonds.
Revenue Financing System Bonds, Taxable Series 2018B	22,685,000.00	9/11/2018	To provide funds for acquiring, purchasing, constructing, improving, renovating, enlarging or equipping property, buildings, structures, facilities, roads, or related infrastructure through the University System; refunding a portion of the Board’s outstanding Series A and Series B Commercial Paper Notes; and paying certain costs of issuing the Series 2018B Bonds.

Investment Manager Change

On September 4, 2018, the System changed the manager of the Long Term Pool and Intermediate Investment Pool to DiMeo Schneider & Associates. As of August 31, 2018, the market value of the Long Term Pool and Intermediate Investment Pool were \$158.5 million and \$79.5 million, respectively.

Mediation Settlement

On October 30, 2018, the System settled mediation related to the construction of a residence hall on UNTD’s campus. The total settlement was for \$1.2 million and was related to construction performed prior to August 31, 2018. The impact will be capitalized with the residence hall asset. The settlement was paid in November 2018.

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Property Acquisition

On September 28, 2018, the System closed on the purchase of a land and building acquisition in Frisco, TX for future campus expansion. The purchase price was \$8.5 million and was funded through debt proceeds.

Defined Benefit Plan Investment Return Assumption

At its July 2018 board meeting, the TRS Board of Trustees voted to lower the investment return assumption from 8.0% to 7.25% for the TRS Plan, per recommendation from an actuarial experience study. As a result of the decreased rate, the System anticipates a material increase in net pension liability for fiscal year 2019 reporting.

Other Postemployment Benefits – GASB 75 Implementation

The System is dependent upon information provided from the ERS Plan for recognizing OPEB liability, deferred inflows, deferred outflows, and expense information. The ERS Plan information provided to the System used retiree data for OPEB reporting in fiscal year 2018. We believe that the contributions made for active employees do not represent a post-employment benefit but rather a current period expense. Accordingly, contributions made subsequent to the measurement date by the System for active employees have been recorded as an expense as of August 31, 2018 and contributions made subsequent to the measurement date by the System for retirees have been recorded as a deferred outflow as of August 31, 2018.

Gift for UNT's G. Brint Ryan College of Business

On February 4, 2019, UNT announced the largest gift in the university's history. Alumnus G. Brint Ryan and his wife Amanda pledged \$30 million to create the G. Brint Ryan College of Business. The gift will provide ongoing support for business research through academic endowments, as well as funds to support strategic program initiatives to ensure the college is one of the nation's top providers of business higher education.

Note 14: 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. Financial risks are transferred through contracts, or financed through commercial insurance or self-insurance plans. Financial exposure from lawsuits for damages and injunctive relief arising from torts and contracts is mitigated by the function of sovereign, Eleventh Amendment and individual immunities and statutory limits on the amount of recovery. In addition, state law limits financial exposure for state law claims made against individual employees and officials. Currently the System does not carry System-wide commercial general liability insurance for any of the institutions; commercial general liability policies are purchased 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*, as amended. There are no claims pending or significant non-accrued liabilities, except as stated in Note 12, *Contingencies and Commitments*. The System did not have any losses or settlements that exceeded insurance policy limits within the last three years.

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Self-Insurance Arrangements

Medical Professional Liability Self-Insurance Plan

HSC manages a medical malpractice self-insurance plan for its physicians. As of August 31, 2018, HSC had sufficient self-insurance reserves for known claims against its health care professionals. The policy limits for this plan are \$500,000/\$1,500,000. 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, 2018 and August 31, 2017, respectively:

	August 31, 2017	Additions	Reductions	August 31, 2018
Incurred But Not Reported Self-Insurance Claims (HSC) ⁽¹⁾	\$ 1,729,924.00	\$ -	\$ 264,947.00	\$ 1,464,977.00
Contingent Liabilities	\$ -	\$ 119,535.94	\$ 119,535.94	\$ -
	August 31, 2016	Additions	Reductions	August 31, 2017
Incurred But Not Reported Self-Insurance Claims (HSC) ⁽¹⁾	\$ 1,770,924.00	\$ 61,194.00	\$ 102,194.00	\$ 1,729,924.00
Contingent Liabilities	\$ 80,000.00	\$ 17,131.02	\$ 97,131.02	\$ -

(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 (the “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. UNT 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 2018 was \$350,000. For the year ended August 31, 2018, 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 are below the retention amounts for claims covered by commercial insurance. The System, as an agency of the State, 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, 2018, 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 institutions in the System as well as all officers, employees and volunteers. The policy provides for a maximum limit of \$10,000,000 with a zero deductible per insured individual and \$50,000 deductible per insured entity for D&O; and \$100,000 deductible per insured individual, \$50,000 deductible for the entity, and a \$25,000 deductible for volunteers for EPL.

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 \$250,000/\$500,000 for bodily injury and \$100,000 for property damage. The System carries liability insurance on its licensed vehicles in the amount of \$1,000,000 combined single limit for bodily injury and property damage.

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Medical Professional Liability

UNT has medical professional liability insurance coverage for professionals at the Student Health and Wellness Center, Athletic Training and Rehabilitation Center, and the Kristin Farmer Autism Center. Under the coverage, professionals are defined as physicians, nurses, nurse practitioners, physician assistants, pharmacists, and athletic trainers. This coverage also extends to Allied Health Care professionals and medical students at HSC. There is a maximum per incident limit of \$1,000,000 and an aggregate of \$3,000,000 with a \$5,000 deductible.

Property

The System carries property insurance to finance losses arising from damage to or destruction of capital assets. The insurance also covers business interruption, which protects against losses 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 \$570,000,000 shared limit through the State's state-wide property insurance program.

Workers' Compensation

The System is required by state law to participate in the State's 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 while 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, 2018, the System maintains one policy for out-of-state employees who reside in Alabama, Arizona, California, Kentucky, New Mexico, New York, Pennsylvania, South Carolina, Virginia and Washington.

Unemployment Compensation

The State 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 the General Revenue Fund – Consolidated one-half of the unemployment benefits for former and current employees from System appropriations. The Texas Comptroller of Public Accounts determines the proportionate amount to be reimbursed from each appropriated fund type. The System has only one appropriated fund type. The System must reimburse the General Revenue Fund 100% 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, 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 were pending at August 31, 2018.

The System maintains reserves for unemployment compensation payments made for all claims and settlements not eligible for state funding. There were no material outstanding claims pending as of August 31, 2018. Health benefits are provided through the various state contracts administered by the Employee Retirement System.

Miscellaneous

Other lines of insurance purchased include: contractual bonuses, camp 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, errors and omissions, and student professional liability.

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Note 15: Financial Reporting Entity

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

Assets Held By Affiliated Organizations

GASB authoritative guidance provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government, the System.

This guidance states that a legally separate tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met:

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

The System has defined significance as 3% of its net position. As of August 31, 2018, only the University of North Texas Foundation met the criteria for inclusion in the System's financial statements.

Discretely Presented Component Unit

University of North Texas Foundation

The University of North Texas Foundation, Inc. is reported as a discrete component unit. The Foundation's fiscal year end is August 31, consistent with the System. 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 from endowments for the benefit of UNT. 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 UNT. The governing board is self-perpetuating, comprised of elected members separate from the System's Board of Regents. The direction and management of the affairs of the Foundation and the control and disposition of its assets are vested in the Board of Directors of the Foundation. The System has no liability with regard to the Foundation, its operations or liabilities. The majority of endowments supporting university scholarships and other System programs are owned by the Foundation; therefore, including the Foundation's financial reports is important to obtain a full understanding of the System's financial position and resources.

The Foundation is an essential component of UNT's program for university advancement and for the development of private sources of funding for capital acquisitions, operations, endowments, and other purposes relating to the mission of UNT.

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

An amended agreement was approved by the Foundation's Board of Directors in their June 2009 meeting, and subsequently approved by the System Board of Regents in August 2009. Under the amended agreement, UNT's Vice

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

Related Parties

Through the normal course of operations, the System both receives funds from and provides funds to other state agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2018 related to pass-through grants were \$30,958,819.28 and \$106,709.97 respectively.

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

Note 16: 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 complete quarter.

The target distribution of spendable income to each unit of the endowment fund will be between 3% and 6% 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 3.75% 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 real value of the endowment principal will be protected. The distribution is made in accordance with the Texas Uniform Prudent Management of Institutional Funds Act. The net appreciation (cumulative and unexpended) on donor-restricted endowments presented below is available for authorization and expenditure by the System.

Endowment Type	Amount of Cumulative Net Appreciation ⁽¹⁾	Reported in Net Position
True Endowments	\$ 8,414,954.09	Restricted Expendable

(1) There was a positive fair value adjustment totaling \$500,971.53 for fiscal year 2018 related to true endowments. As of August 31, 2018, the System did not have any term endowments to report.

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

The target distribution of spendable income to each unit of the endowment fund will be between 3% and 5% of the moving average market value of a unit of the endowment fund for the preceding 12 quarters. Unless otherwise determined by the Foundation's Board of Directors, the target annual distribution rate shall be 4% of the average unit market value: for fiscal year 2018 the distribution rate was 3.75%. 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

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For the Year Ended August 31, 2018

value of the endowment is below the corpus of the endowment, the distributions 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 net appreciation (cumulative and unexpended) on donor-restricted endowments presented below is available for authorization and expenditure by the Foundation, a discrete component unit of the University of North Texas System.

Endowment Type	Amount of Cumulative Net Appreciation ⁽¹⁾	Reported in Net Position
True Endowments	\$ 15,603,728.68	Restricted Expendable

(1) There was a positive fair value adjustment totaling \$5,414,645.18 for fiscal year 2018 related to true endowments. As of August 31, 2018, the Foundation did not have any term endowments to report.

Note 17: Deferred Outflows of Resources and Deferred Inflows of Resources

A summary of the System's deferred outflows of resources and deferred inflows of resources as of August 31, 2018 is presented below:

	Total
Deferred Outflows of Resources	
Unamortized Losses on Refunding of Debt	\$ 7,548,010.18
Deferred Outflows of Resources Related to Pensions	35,936,771.00
Deferred Outflows of Resources Related to OPEB	3,008,885.00
Total Deferred Outflows of Resources	\$ 46,493,666.18
 Deferred Inflows of Resources	
Unamortized Gains on Refunding of Debt	\$ 1,214,602.41
Deferred Inflows of Resources Related to Pensions	42,577,917.00
Deferred Inflows of Resources Related to OPEB	19,101,692.00
Total Deferred Inflows of Resources	\$ 62,894,211.41

See Note 1, *Summary of Significant Accounting Policies*, Note 8, *Defined Benefit Pension Plan and Defined Contribution Plan*, and Note 9, *Postemployment Benefits Other Than Pensions*, for more information regarding deferred outflows of resources and deferred inflows of resources related to debt refunding, pensions, and OPEB.

**UNIVERSITY OF NORTH TEXAS SYSTEM
Required Supplementary Information
For the Year Ended August 31, 2018**

Required Supplementary Information (RSI)

Schedule of the System's Proportionate Share of the Net Pension Liability

RSI - Pension Proportionate Share

	2018	2017	2016	2015
System's proportion of the net pension liability	0.3350903754%	0.3167884475%	0.3348771000%	0.3870437000%
System's proportionate share of the net pension liability	\$ 107,143,850.00	\$ 119,709,644.00	\$ 118,374,598.00	\$ 103,405,818.19
System's covered payroll ⁽¹⁾	\$ 252,852,119.73	\$ 248,934,340.22	\$ 235,537,989.10	\$ 222,501,101.49
System's proportionate share of the net pension liability as a percentage of its covered payroll	42.37%	48.09%	50.26%	46.47%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

⁽¹⁾ Covered payroll is for the year prior, because the System's net pension liability as of August 31 current year is based on a measurement date of August 31 of the previous year.

Schedule of the System's Pension Contributions

RSI - Pension Contributions

	2018	2017	2016	2015	2014
Statutorily required contributions	\$ 11,593,499.00	\$ 10,961,110.00	\$ 10,085,190.00	\$ 9,916,773.00	\$ 9,870,977.18
Contributions in relation to the statutorily required contributions	11,593,499.00	10,961,110.00	10,085,190.00	9,916,773.00	9,870,977.18
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
System's covered payroll	\$ 266,991,392.49	\$ 252,852,119.73	\$ 248,934,340.22	\$ 235,537,989.10	\$ 222,501,101.49
Contributions as a percentage of covered payroll	4.34%	4.33%	4.05%	4.21%	4.44%

**UNIVERSITY OF NORTH TEXAS SYSTEM
Required Supplementary Information
For the Year Ended August 31, 2018**

Schedule of the System's Proportionate Share of the Net OPEB Liability

RSI - OPEB Proportionate Share

	2018
System's proportion of the net OPEB liability	0.25354973%
System's proportionate share of the net OPEB liability	\$ 86,392,029.00
System's covered-employee payroll ⁽¹⁾	\$ 29,780,201.94
System's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	290.10%
Plan fiduciary net position as a percentage of the total OPEB liability	2.04%

⁽¹⁾ Covered-employee payroll is for the year prior, because the System's net pension liability as of August 31 current year is based on a measurement date of August 31 of the previous year.

Schedule of the System's OPEB Contributions

RSI - OPEB Contributions

	2018
Statutorily required contributions	\$ 2,983,307.00
Contributions in relation to the statutorily required contributions	2,983,307.00
Contribution deficiency (excess)	\$ -
System's covered-employee payroll	\$ 31,419,339.86
Contributions as a percentage of covered-employee payroll	9.50%

**NOTES TO THE
FINANCIAL STATEMENTS**

of the

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

DENTON, TEXAS

For the Years Ended August 31, 2017 and 2018

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UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2018

Note 1: Purpose and Summary of Significant Accounting Policies

Purpose

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

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

Basis of Presentation

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

Contributions

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

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

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

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

Estimates

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

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with an initial maturity at the time of purchase of three months or less. At August 31, 2018 and 2017, there was \$1,918,559 and \$3,748,277, respectively, of cash equivalents in the Foundation's investment accounts awaiting investment.

Investments

The Foundation carries investments in marketable securities, other common stocks, and mutual funds with readily determinable fair values at their fair values based on quoted prices in active markets (Level 1 measurements) in the Statement of Financial Position. Investments in fixed income securities, fixed income mutual funds, and comingled funds are carried at their fair value based on published valuations (Level 2 measurements). Investments in non-publicly traded Real Estate Investment Trust and Hedge Funds of Funds are carried at their fair value as determined using significant

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2018

unobservable inputs (Level 3 measurements). Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Real Property

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

Other Assets

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

Agency Funds

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

Date of Management's Review

Subsequent events were evaluated through November 28, 2018, which is the date the financial statements were available to be issued.

Note 2: Investments

Investment securities consisted of the following at August 31, 2018 and 2017:

	<u>August 31, 2018</u>		<u>August 31, 2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. and International Stocks and Equity Mutual Funds/Comingled Funds	\$ 183,528,161	\$ 215,002,474	\$ 146,522,187	\$ 185,130,687
U.S. and International Fixed Income Securities and Mutual Funds/Comingled Funds	65,543,402	65,119,348	62,861,418	63,015,734
U.S. Balanced Comingled Fund	16,300,000	21,065,941	16,300,000	18,046,024
Real Estate Investment Trust and Mutual Funds	10,785,912	11,352,006	9,319,665	9,936,938
Natural Resource Mutual Fund/Global Hard Assets Mutual Fund	12,768,882	12,103,256	15,756,960	12,726,765
Hedge Funds of Funds/Mutual Fund	21,906,833	31,341,292	21,906,833	26,711,230
	<u>\$ 310,833,190</u>	<u>\$ 355,984,317</u>	<u>\$ 272,667,063</u>	<u>\$ 315,567,378</u>

Investment income consists of interest and dividends on investment securities and is shown net of investment fees and expenses of \$136,976 and \$69,532 for the years ended August 31, 2018 and 2017, respectively.

Note 3: Fair Value of Financial Instruments

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

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2018

Note 4: Fair Value Measurements

Fair values of assets measured on a recurring basis at August 31, 2018 and 2017 are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 31, 2018:				
Securities/Mutual Funds/Comingled Funds	\$ 324,641,408	\$ 199,171,377	\$ 125,470,031	\$ -
Real Estate Investment Trust	1,617	-	-	1,617
Hedge Funds of Funds	31,341,292	-	-	31,341,292
Total	\$ 355,984,317	\$ 199,171,377	\$ 125,470,031	\$ 31,342,909
August 31, 2017:				
Securities/Mutual Funds/Comingled Funds	\$ 288,849,551	\$ 193,605,834	\$ 95,243,717	\$ -
Real Estate Investment Trust	6,597	-	-	6,597
Hedge Funds of Funds	26,711,230	-	-	26,711,230
Total	\$ 315,567,378	\$ 193,605,834	\$ 95,243,717	\$ 26,717,827

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

	Real Estate Investment Trust	Hedge Funds Mutual Funds	Total
August 31, 2016	\$ 72,632	\$ 24,459,430	\$ 24,532,062
Total gains (losses) (realized/unrealized)	(66,035)	2,251,800	2,185,765
Purchases, issuance, and settlements	-	-	-
August 31, 2017	\$ 6,597	\$ 26,711,230	\$ 26,717,827
Total gains (losses) (realized/unrealized)	(4,980)	4,630,062	4,625,082
Purchases, issuance, and settlements	-	-	-
August 31, 2018	\$ 1,617	\$ 31,341,292	\$ 31,342,909

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 and comingled funds valued using level 2 inputs are based on published daily valuations. Fair values for the Real Estate Investment Trust, Hedge Funds of Funds, and Loan Fund are determined by third-party valuations of the investments. There were no changes in valuation methods during fiscal years 2018 or 2017.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2018

Note 5: Contributions and Other Receivables

Contributions and other receivables as of August 31, 2018 and August 31, 2017 are as follows:

	<u>August 31, 2018</u>	<u>August 31, 2017</u>
Contributions Receivable in less than one year	\$ 2,340,805	\$ 2,435,754
Contributions Receivable in one to five years	4,657,733	1,476,347
Contributions Receivable in six to ten years	2,051,426	25,000
Contributions Receivable in over ten years	-	-
Total Contributions Receivable	\$ 9,049,964	\$ 3,937,101
Less allowance for uncollectible amounts	\$ (746,449)	\$ (375,301)
Less discounts to net present value	(1,585,472)	(184,088)
Net Contributions Receivable	\$ 6,718,043	\$ 3,377,712
Other amounts receivable	\$ -	\$ 12,845
Total Contributions and Other Receivables	\$ 6,718,043	\$ 3,390,557

Contributions receivable in more than one year have been discounted to net present value using an interest rate of eight percent.

Note 6: Unrestricted Net Assets

During the year ended August 31, 2018, the Foundation's Board of Directors designated \$390,000 of unrestricted net assets to fund 13 board-designated endowment funds. The funds will be used for scholarships in the thirteen colleges within the University of North Texas.

Unrestricted net assets at August 31, 2018 and 2017 include \$1,869,728 and \$1,746,303, respectively, which has been designated by the Foundation's Board of Directors as a reserve for future operations.

Note 7: Temporarily Restricted Net Assets

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

Note 8: Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes at August 31, 2018 and 2017:

	<u>August 31, 2018</u>	<u>August 31, 2017</u>
Endowments to support various programs, scholarships, and other activities of the University of North Texas	\$ 120,994,271	\$ 102,563,259
Cash value of life insurance policies that will provide proceeds upon death of insured for endowments	551,315	523,376
Total	\$ 121,545,586	\$ 103,086,635

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2018

Note 9: Life Insurance Policies

Several endowments have been established which are to be funded or partially funded by life insurance policies for which the Foundation has been named owner and beneficiary. Premium payments made by the Foundation are reimbursed by the donors of the policies. As of August 31, 2018 and 2017, there were a total of 24 and 25 such policies, respectively, with death benefits totaling \$1,889,703 and \$1,982,636 respectively, and cash values totaling \$551,315 and \$523,376 respectively.

Note 10: Income Tax Status

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

Note 11: Retirement Plan

The Foundation sponsors a defined contribution retirement plan covering all full time employees of the Foundation. Prior to January 1, 2017, the Foundation contributed 8.5% of eligible employees' compensation to the plan, and employees were required to contribute a minimum of 6.65% of compensation to the plan. Effective January 1, 2017, a new 403(b) plan was adopted. Under the terms of the new plan, the Foundation contributes a full matching contribution of up to 6.0% of compensation for employees who make an elective contribution. An additional discretionary non-elective contribution may be allocated on the basis of compensation, as budgeted and approved by the Board in advance of the fiscal year. Employees may make voluntary contributions up to the limits prescribed by the Internal Revenue Code. The Foundation contributions to the existing and prior plans were \$68,553 and \$67,712 for the year ended August 31, 2018 and 2017 respectively.

Note 12: Assets Held Under Split Interest Agreements

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

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

Note 13: Assets Held For Others

The Foundation holds and invests certain funds in trust on behalf of the University of North Texas System (UNTS). Pursuant to an investment agreement dated March 15, 2012 and amended and restated on November 1, 2014, certain UNTS long-term assets have been placed with the Foundation and invested in the Foundation's Consolidated Investment Pool. The UNTS investment funds are subject to the same investment management policy as the Foundation's investments, but receive monthly distributions. The initial term of the agreement effective on November 1, 2014 ended August 31, 2017. It contains a provision to automatically renew annually thereafter, as well as a provision for early termination as agreed by the parties. UNTS elected to not renew the agreement August 21, 2018.

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

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2018

agreement ended August 31, 2013, with a provision to automatically renew annually thereafter. On April 28, 2017 the agreement was re-written with an effective date of June 1, 2017, with the initial term ending on August 31, 2022 and a provision to automatically renew and extend for additional five-year terms.

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

Also, a trust for which the Foundation serves as Trustee currently names the Foundation as the remainder beneficiary, however, the donor has retained the right to change the remainder beneficiary to other charitable organizations. As a result, the Foundation has recorded the assets held under this trust as assets held for others.

Assets held under these arrangements are included in the Statement of Financial Position at fair value, and the Foundation realized net management fee income of \$709,358 and \$523,376 respectively during the year ended August 31, 2018 and 2017, respectively for its services.

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

	<u>August 31, 2018</u>	<u>August 31, 2017</u>
Trust for which beneficiary can be changed	\$ 1,382,875	\$ 1,351,176
UNTS assets managed by Foundation	158,548,191	144,653,451
UNT endowment assets managed by Foundation	57,093,613	51,547,180
Total Assets Held for Others	<u>\$ 217,024,679</u>	<u>\$ 197,551,807</u>

Note 14: Concentrations of Credit Risk

The Foundation maintains cash balances at times in excess of \$250,000 in its depository bank, which are insured by the Federal Deposit Insurance Corporation up to \$250,000. The total amount of checking account deposits with Wells Fargo Bank N.A. as of August 31, 2018 and 2017 was \$3,198,051 and \$3,070,413, respectively. In addition to the checking account balances, the Foundation had cash balances of \$7,593,747 and \$5,386,401 at August 31, 2018 and 2017, respectively, invested with Wells Fargo Securities in a money market mutual fund.

The Foundation also maintains short-term cash investments in other money-market mutual funds, which are not insured. The amount held in money market mutual funds was \$2,544,046 and \$3,752,718 at August 31, 2018 and 2017, respectively.