

Appendix Book - December 17, 2021 Audit and Finance Committee Meeting

AUDIT AND FINANCE COMMITTEE

ANNUAL COMPREHENSIVE FINANCIAL REPORT AND
INDEPENDENT AUDITORS' REPORT- Draft 2021.12.09.pdf



**ANNUAL COMPREHENSIVE
FINANCIAL REPORT
& INDEPENDENT
AUDITORS' REPORT**
FOR THE YEAR ENDED AUGUST 31, 2021

**UNIVERSITY OF NORTH TEXAS
SYSTEM**

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

For the fiscal year ended August 31, 2021

DALLAS, TEXAS

Lesa Roe, Chancellor



TABLE OF CONTENTS

| | |
|---|-------|
| Organizational Data | 5 |
| Letter of Transmittal | 7-8 |
| Independent Auditors' Report | 9-10 |
| Management's Discussion and Analysis | 11-20 |
| Statements | |
| Statement of Net Position | 22-23 |
| Statement of Financial Position - UNT Foundation, Inc. | 24 |
| Statement of Financial Position - UNTHSC Foundation | 25 |
| Statement of Revenues, Expenses and Changes in Net Position | 26 |
| Matrix of Operating Expenses Reported by Function | 27 |
| Statement of Activities - UNT Foundation, Inc. | 28 |
| Statement of Activities - UNTHSC Foundation | 29 |
| Statement of Cash Flows | 30-31 |
| Notes to the Comprehensive Financial Statements | 33-76 |
| Notes to the Financial Statements - UNT Foundation, Inc. | 77-86 |
| Notes to the Financial Statements - UNTHSC Foundation | 87-96 |
| Required Supplementary Information | 97-99 |



UNIVERSITY OF NORTH TEXAS SYSTEM

ORGANIZATIONAL DATA

August 31, 2021

BOARD OF REGENTS

G. Brint Ryan(Term expires May 2021)* Dallas
A.K. Mago.....(Term expires May 2021)* Dallas
Laura Wright(Term expires May 2021)* Dallas

Mary Denny(Term expires May 2023) Aubrey
Milton B. Lee.....(Term expires May 2023) San Antonio
Carlos Munguia(Term expires May 2023) University Park

Melisa Denis.....(Term expires May 2025) Southlake
Daniel Feehan(Term expires May 2025) Fort Worth
John Scott, Jr., D.O.(Term expires May 2025) Keller

STUDENT REGENT

Jessica Armstead.....(Term expires May 2022) Desoto

OFFICERS OF THE BOARD

Laura Wright Chairman
Milton B. Lee Vice Chairman

ADMINISTRATIVE OFFICERS

Lesa Roe Chancellor
Daniel Tenney Vice Chancellor for Finance

** As of the time of print, the Governor of Texas had not yet made new Regent appointments.*





UNT SYSTEM™



December 16, 2021

Laura Wright, Chair, UNT System Board of Regents
Milton B. Lee, Vice Chair, UNT System Board of Regents
Carlos Munguia, Audit & Finance Committee Chair, UNT System Board of Regents
Board of Regent Members

University of North Texas System
1901 Main Street
Dallas, Texas 75201

Dear Chair Wright, Vice Chair Lee, Chair Munguia and Board of Regents,

We are pleased to submit the audited Annual Comprehensive Financial Report (ACFR) of the University of North Texas System (UNTS) for the fiscal year ended August 31, 2021. 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 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.

As the only public university system based exclusively in the Dallas-Fort Worth region, the University of North Texas System is committed to driving DFW and Texas.

The UNT System includes the University of North Texas in Denton, the University of North Texas Health Science Center in Fort Worth and the University of North Texas at Dallas. Across our system we have grown strategically to serve nearly 50,000 students, and our flagship institution is now the largest university in Dallas-Fort Worth and the fourth largest in Texas.

We transform students' lives through accessible, innovative degree programs that prepare them to be leaders in the workforce of tomorrow. With campuses in Dallas, Denton, Fort Worth and Frisco, we are deeply embedded in the local business community through partnerships with the many globally recognized companies based right here in North Texas.

The UNT System strongly believes in the transformative power of a college degree – higher education should be accessible to everyone, regardless of income, race, gender identity/expression, age, nationality, sexual orientation, disability, veteran status or diverse perspectives. More than half of our system-wide student body identifies as minority, and we are investing resources in building inclusive, caring campus communities.

We serve our communities – especially in times of need – and UNT System institutions have been leaders in public health response throughout the coronavirus pandemic. We are excited to help DFW and Texas emerge from the pandemic's shadow stronger than ever, as we solve local and global challenges through world renowned research programs, while creating economic opportunity through education.

The preparation of the System's externally audited ACFR 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,

Daniel Tenney
Vice Chancellor for Finance, UNT System

cc: Lesa B. Roe, Chancellor
Dr. Neal J. Smatresk, President, UNT
Dr. Michael R. Williams, President, UNT Health Science Center
Robert Mong, President, UNT Dallas
Clayton Gibson, Vice President for Finance and Administration & CFO, UNT
Gregory R. Anderson, Executive Vice President, Office of Finance and Operations, UNT Health Science Center
Arthur Bradford, Senior Vice President & CFO, Finance & Administration, UNT Dallas
Ninette Caruso, Chief Audit Executive, UNT System
Alan Stucky, Vice Chancellor and General Counsel, UNT System

DRAFT 12.08.21

Placeholder for Auditor
Opinion Letter Page 1 of 2

Placeholder for Auditor
Opinion Letter Page 2 of 2

UNIVERSITY OF NORTH TEXAS SYSTEM
Management’s Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2021

Introduction

The University of North Texas System (the “System”) was established by the 76th Legislature with legislative funding 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 \$1.1 billion annual consolidated budget and employs roughly 10,000 people at its various locations within the robust North Texas Region. In Fall 2020, over 47,000 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 annually appoints a non-voting Student Regent for a one-year term.

The COVID-19 global pandemic continues to create challenges for the System and its academic institutions that are expected to continue well into the next fiscal year. The System continues to invest significant effort and resources to ensure the safety of our academic and administrative facilities while maintaining financial stability. The hybrid flexible teaching modality adopted in 2020 has been modified to allow fall classes to resume as primarily face to face classes complimented by online academic opportunities. Additionally, safety guidelines such as face coverings, disinfectant stations, social distancing and signage continue to be followed to ensure safety in all academic, administrative, dining, and residence hall facilities. Management has referenced the impact of COVID-19 where appropriate in the financial statements presented within.

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, 2021, with selected comparative information as of and for the year ended August 31, 2020. The MD&A is 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 Annual 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 Annual Comprehensive Financial Report contains the Statement of Financial Position and the Statement of Activities for the following discretely presented component units: the University of North Texas Foundation, Inc. (“UNT Foundation”); and the University of North Texas Health Science Center Foundation (“UNTHSC Foundation”). Each foundation is a separate nonprofit organization. The foundations are essential components of the UNT and HSC programs for university advancement and development of private sources of funding for capital acquisition, operations, endowments, and other purposes relating to the mission of each university. The financial statements of the foundations have been prepared in accordance with GAAP as prescribed by the Financial Accounting Standards Board (“FASB”).

UNIVERSITY OF NORTH TEXAS SYSTEM
Management’s Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2021

Financial Highlights

- Total assets and deferred outflows of resources of the System exceeded its total liabilities and deferred inflows of resources in 2021, resulting in a net position of \$765.7 million. Unrestricted net position, which may be used to meet the System’s future obligations, was \$23.3 million, or 3.0% of total net position as of August 31, 2021.
- The System concluded the 2021 fiscal year with an increase in net position of \$66.2 million, compared to a decrease of \$20.1 million in 2020. Operating revenues increased \$40.8 million due to increased tuition and fees, robust research activities, and new contracts to provide COVID-related services. Funds received from the Federal Higher Education Emergency Relief Funds (“HEERF”) increased \$64.2 million over prior year, and investment income and gains in the fair market value of investments increased \$41.5 million, offset by a \$41.4 million increase from primarily HEERF related payments to students via scholarships and student loan relief. Appropriations decreased \$8.9 million due to the 5% required biennium revenue reduction.
- The System continues to make significant investments, \$133.6 million in 2022, in numerous capital projects across all institutions to strategically benefit students, faculty, and staff. The System has committed \$283.2 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, and what the System owes to vendors, investors and lending institutions. 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, 2021

The following table reflects the condensed Comparative Statement of Net Position for the System as of August 31, 2021 and 2020:

| Condensed Comparative Statement of Net Position | | | |
|--|---------------------|---------------------|----------------------------------|
| As of August 31, 2021 and 2020 | | | |
| (in thousands of dollars) | | | |
| | 2021 | 2020 | % Increase (Decrease) |
| Assets and Deferred Outflows of Resources | | | |
| Current Assets | \$ 657,648 | \$ 587,765 | 11.9% |
| Capital Assets, Net | 1,417,134 | 1,420,052 | (0.2%) |
| Other Non-Current Assets | 477,298 | 395,087 | 20.8% |
| Total Assets | \$ 2,552,080 | \$ 2,402,904 | 6.2% |
| Deferred Outflows of Resources | 386,359 | 433,179 | (10.8%) |
| Total Assets and Deferred Outflows of Resources | \$ 2,938,439 | \$ 2,836,083 | 3.6% |
| Liabilities and Deferred Inflows of Resources | | | |
| Current Liabilities | \$ 566,186 | \$ 513,551 | 10.2% |
| Non-Current Liabilities | 1,422,092 | 1,434,226 | (0.8%) |
| Total Liabilities | \$ 1,988,278 | \$ 1,947,777 | 2.1% |
| Deferred Inflows of Resources | 184,482 | 188,800 | (2.3%) |
| Total Liabilities and Deferred Inflows of Resources | \$ 2,172,760 | \$ 2,136,577 | 1.7% |
| Net Position | | | |
| Net Investment in Capital Assets | \$ 559,437 | \$ 550,045 | 1.7% |
| Restricted: | | | |
| Funds Held as Permanent Investments: | | | |
| Non-Expendable | 64,471 | 58,544 | 10.1% |
| Expendable | 55,901 | 38,331 | 45.8% |
| Other Restricted | 62,596 | 61,689 | 1.5% |
| Total Restricted | \$ 182,968 | \$ 158,564 | 15.4% |
| Unrestricted | 23,274 | (9,103) | 355.7% |
| Total Net Position | \$ 765,679 | \$ 699,506 | 9.5% |
| Total Liabilities, Deferred Inflows of Resources and Net Position | \$ 2,938,439 | \$ 2,836,083 | 3.6% |

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 increased \$69.9 million, or 11.9%, in 2021. Cash and cash equivalents increased \$43.8 million due to increased liquidity stemming from an investment rebalance for UNT (\$10 million from Long Term Pool to Short Term Pool May 2021) and operating surpluses for the fiscal year. Accounts receivable increased \$30.6 million as a result of amounts billed on federal, state, and local government contracts, primarily HEERF and the Tarrant County Health Department contract for COVID-19-related services. These increases were offset by a \$8.7 million decrease in prepaid expenses due to HEERF funding used to pay student scholarships rather than institutional funds.

Non-Current Assets: Net Capital Assets

Net capital assets decreased \$2.9 million, or 0.2% in 2021. The decrease in capital and intangible assets is primarily attributable to \$100.3 million of capital improvements offset by depreciation and amortization expense of \$102.4 million. Major capital improvements included \$29.0 million for the Frisco Branch campus, \$11.9 million for the Discovery Park mechanical, electrical, and plumbing upgrade, \$3.7 million for the HSC Center for Bio Health building, \$3.4 million for the Terrill Hall mechanical, electrical, and plumbing renovation, and \$2.7 million for the Art Studio facility. Other FY21 capital expenses include \$26.4 million in equipment, vehicle and library purchases, and \$8.1 million for capitalized buildings and improvements.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2021

Other Non-Current Assets

The System's other non-current assets increased by \$82.2 million, or 20.8%, primarily due to a \$59.3 million increase in investments and a \$23.8 million increase in restricted investments. These increases were driven by strong capital market gains throughout 2021. The long-term and endowment investment returns were 16.7% and were 19.7% respectively for the year.

Deferred Outflows of Resources

Deferred outflows of resources decreased \$46.8 million, or 10.8%, in 2021, primarily due to a reduction in deferred outflows of resources related to OPEB and pensions of \$34.5 million and \$11.8 million, respectively.

Total Liabilities and Deferred Inflows

Current Liabilities

The System's current liabilities increased \$52.6 million, or 10.2%, in 2021 primarily due to a \$20.0 million increase in unearned revenue as a result of higher enrollment. Notes and loans payable increased \$31.1 million due to new commercial paper issued in 2021 and revenue bonds payable increased \$3.5 million due to new principal payments for 2020 A&B bonds sold in the previous year. OPEB liability increased \$2.0 million. These increases were offset by a \$3.9 million decrease in accounts payable.

Non-Current Liabilities

Non-current liabilities consist primarily of the non-current portion of revenue bonds payable, net pension and other postemployment benefits liability, and employees' compensable leave liability. In total, non-current liabilities decreased \$12.1 million, or 0.8%. Bond principal decreased \$48.9 million and bond premium amortization decrease \$6.3 million as a result of 2021 debt service payments for a total decrease of \$55.1 million. Capital lease obligations also decreased \$1.8 million as a result of scheduled lease payments. These reductions were offset by an increase in net OPEB obligation of \$35.5 million due to changes in actuarial assumptions, primarily a reduction in the discount rate from 2.97% to 2.20%. and a net pension liability increase of \$8.7 million due to changes in employer contributions and proportionate share. d

Deferred Inflows of Resources

Deferred inflows of resources decreased \$4.3 million, or 2.3%, in 2021 primarily due to a \$11.1 million decrease in pensions due to changes in proportionate share and contributions and changes in assumption, offset by a \$6.9 million increase due to changes in OPEB actuarial assumptions.

Total Net Position

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 increased by \$66.2 million, or 9.5%, in 2021.

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 \$9.4 million, or 1.7%, increase in net investment in capital assets in 2021 primarily resulted from activity 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 includes the System's permanent investments subject to externally imposed restrictions governing their use. In total, restricted net position increased by \$24.4 million, or 15.4%, in 2021 primarily as a result of \$6.0 million in new endowments. Positive growth in restricted investments, the fair market value of investments, and fundraising efforts continued in 2021 resulting in an increase in restricted contributions across the System.

Unrestricted Net Position

Unrestricted net position increased by \$32.4 million, or 355.6% in 2021. Operating revenues increased \$40.8 million as a result of increased tuition and fees related to increased enrollment on all campuses. Robust research activities

UNIVERSITY OF NORTH TEXAS SYSTEM
Management’s Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2021

at all institutions, accompanied by new contracts with the Tarrant County Health Department to provide COVID-related services also boosted operating revenues. HEERF increased \$64.1 million and investment income and the fair market value of investments increased \$41.5 million. These increases were offset by a \$41.4 million increase in primarily HEERF-related payments to students in the form of scholarships, financial aid, and loan forgiveness. Other revenue offsets include a \$6.9 million increase in operating expenses as we prepared to move back to on-campus activities in the summer of 2021.

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 2021, 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 operations 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, 2021 and 2020:

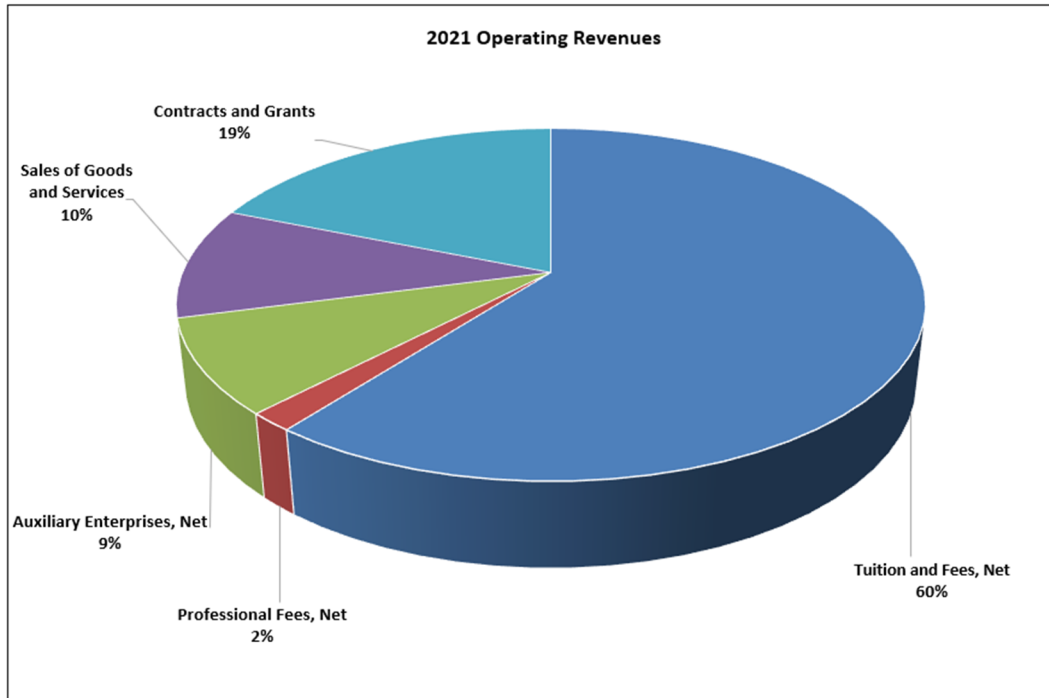
| Condensed Comparative Statement of Revenues, Expenses and Changes in Net Position | | | |
|--|---------------------|---------------------|----------------------------------|
| For the Years Ended August 31, 2021 and 2020 | | | |
| (in thousands of dollars) | | | |
| | <u>2021</u> | <u>2020</u> | <u>% Increase (Decrease)</u> |
| Operating Revenues | | | |
| Tuition and Fees, Net | \$ 426,883 | \$ 406,654 | 5.0% |
| Contracts and Grants | 133,099 | 104,570 | 27.3% |
| Other Operating Revenues | 149,028 | 157,035 | (5.1%) |
| Total Operating Revenues | \$ 709,010 | \$ 668,259 | 6.1% |
| Operating Expenses | \$ 1,203,666 | \$ 1,161,489 | 3.6% |
| Operating Income (Loss) | \$ (494,656) | \$ (493,230) | 0.3% |
| Nonoperating Revenues (Expenses) | | | |
| Investment Income | \$ 74,516 | \$ 32,974 | 126.0% |
| Interest on Capital Asset-Related Debt | (26,055) | (28,542) | (8.7%) |
| Noncapital Grants and Contracts | 156,013 | 90,379 | 72.6% |
| Other Non Operating Revenues and Expenses, net | 287,847 | 306,040 | (5.9%) |
| Total Nonoperating Revenues (Expenses) | \$ 492,321 | \$ 400,851 | 22.8% |
| Other Revenues, Expenses, and Transfers | | | |
| Capital Contributions | \$ 3,063 | \$ 12,825 | (76.1%) |
| Capital Appropriations | 55,827 | 56,767 | (1.7%) |
| Contributions to Permanent and Term Endowments | 6,168 | 2,462 | 150.5% |
| Transfers | 4,334 | 3,930 | 10.3% |
| Other | (884) | (3,684) | (76.0%) |
| Total Other Revenues, Expenses, and Transfers | \$ 68,508 | \$ 72,300 | (5.2%) |
| Change in Net Position | \$ 66,173 | \$ (20,079) | (429.6%) |
| Net Position, Beginning of Year | \$ 699,506 | \$ 719,585 | (2.8%) |
| Net Position, End of Year | \$ 765,679 | \$ 699,506 | 9.5% |

UNIVERSITY OF NORTH TEXAS SYSTEM
Management’s Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2021

Operating Revenues

Operating revenues totaled \$709.0 million in 2021, an increase of \$40.8 million, or 6.1%, over 2020. The System’s primary sources of operating revenues are tuition and fees, and federal, state, local, and private grants. Net tuition and fees, representing 60.2% of operating revenues, are reflected in the financial statements with associated discounts and allowances shown separately. Net tuition and fees increased \$20.2 million as a result of increased enrollment throughout the System. Federal, state, local, and private grant and contract revenues, representing 18.8% 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. Grant and contract related revenues increased by \$28.5 million as a result of increased research activities at all institutions accompanied by new contracts with the Tarrant County Health Department to provide COVID-related services in 2021. Net professional fees revenue increased \$3.0 million due to increased medical and correctional services provided by HSC. Auxiliary enterprise revenue decreased \$8.6 million as a result of campuses running at minimum capacity with virtual, on-line instruction the majority of the year due to the continuing COVID-19 pandemic.

The chart below shows total operating revenues by major source for the year ended August 31, 2021:



Operating Expenses

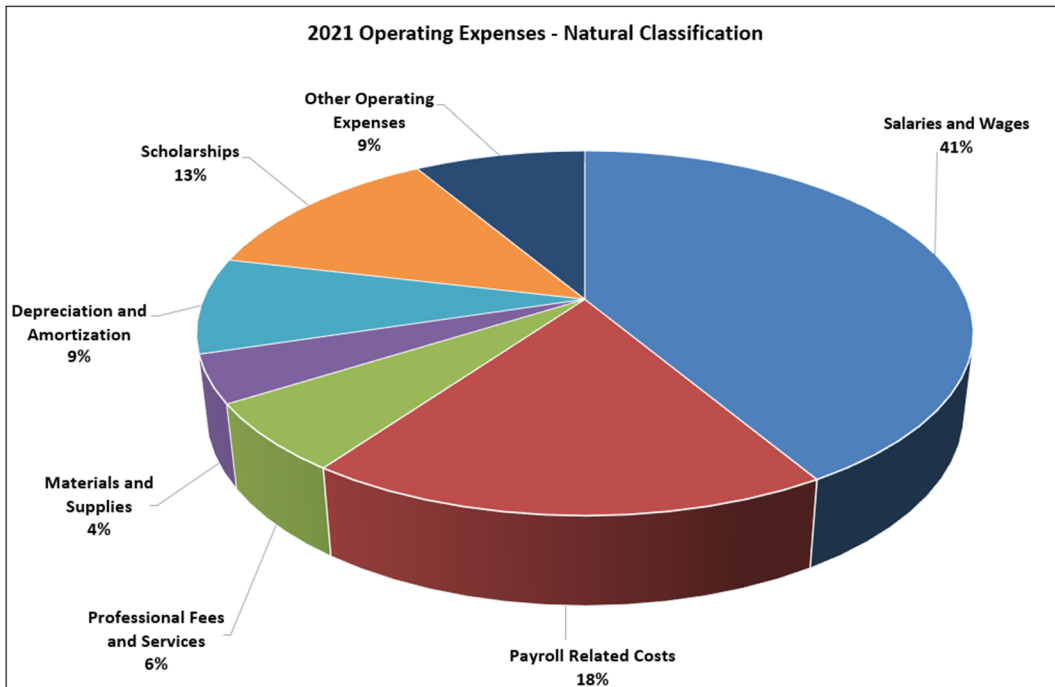
Operating expenses totaled \$1,203.7 million in 2021, an increase of \$42.2 million, or 3.6%, over 2020. Scholarships increased by \$31.7 million as the System continued to provide support to students who experienced hardship related to the COVID-19 pandemic. Repairs and maintenance increased \$9.4 million as institutions prepared to move back to on-campus instruction in late 2021, and due to the winter storm in February 2021. Professional fees also increased \$8.1 million due to the resumption of capital construction projects as the System began to resume operations. Depreciation expense increased \$4.2 million as a result of new capital assets placed into service in 2020. These increases were offset by a \$5.2 million decrease in travel, a \$3.4 million decrease in utilities and a \$2.6 million increase in general operating expenses as management continued the plan adopted in 2020 by System leadership to reduce costs in response to the COVID-19 pandemic.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2021

The table below shows the amount and percentage change of operating expenses based on natural classification for the year ended August 31, 2021:

| Operating Expenses - Natural Classification | | | |
|---|---------------------|---------------------|----------------------------------|
| For the Years Ended August 31, 2021 and 2020 | | | |
| (in thousands of dollars) | | | |
| | <u>2021</u> | <u>2020</u> | <u>% Increase (Decrease)</u> |
| Operating Expenses | | | |
| Cost of Goods Sold | \$ 5,743 | \$ 6,653 | (13.7%) |
| Salaries and Wages | 499,169 | 499,177 | (0.0%) |
| Payroll Related Costs | 221,534 | 223,905 | (1.1%) |
| Professional Fees and Services | 73,631 | 65,551 | 12.3% |
| Federal Pass-Through Expenses | 1,076 | 858 | 25.5% |
| Travel | 2,305 | 7,457 | (69.1%) |
| Materials and Supplies | 50,950 | 47,270 | 7.8% |
| Communications and Utilities | 19,154 | 22,556 | (15.1%) |
| Repairs and Maintenance | 34,586 | 25,173 | 37.4% |
| Rentals and Leases | 11,508 | 13,739 | (16.2%) |
| Printing and Reproduction | 4,203 | 4,718 | (10.9%) |
| Depreciation and Amortization | 102,369 | 98,169 | 4.3% |
| Scholarships | 153,667 | 121,957 | 26.0% |
| Asset Retirement Obligation | 110 | 105 | 4.9% |
| Claims and Losses | (60) | 846 | (107.1%) |
| Other Operating Expenses | 23,721 | 23,355 | 1.6% |
| Total Operating Expenses | \$ 1,203,666 | \$ 1,161,489 | 3.6% |

The chart below shows the percentage of total operating expenses pertaining to each type of major operating expense based on natural classification for the year ended August 31, 2021:

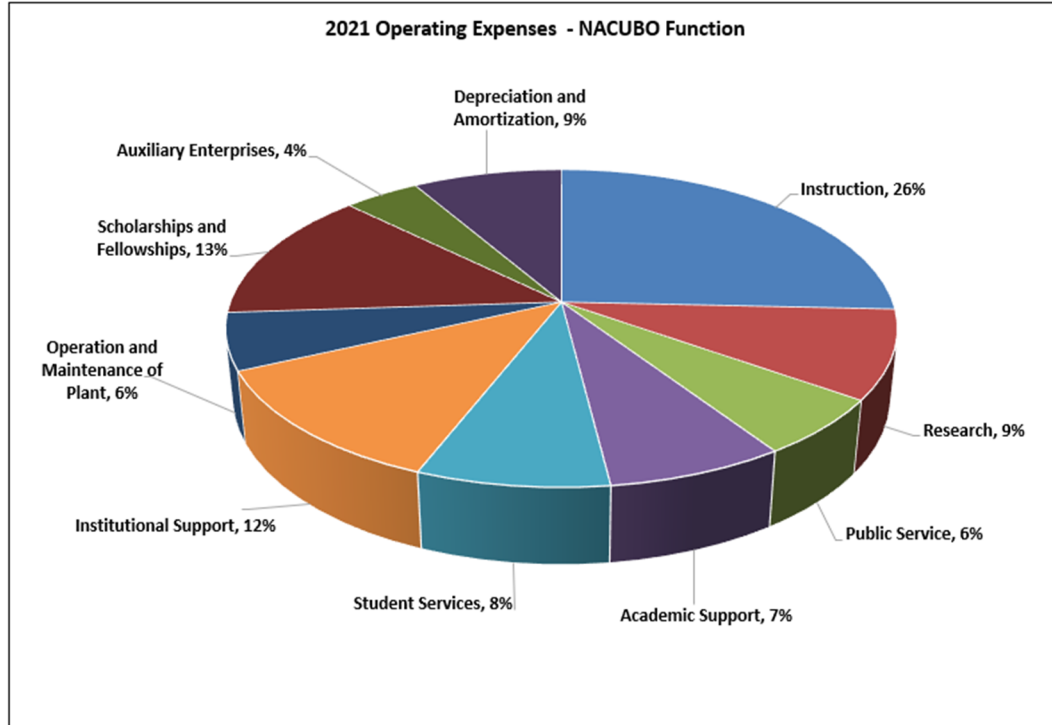


UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2021

The table below shows the amount and percentage change of operating expenses based on NACUBO functional (programmatic) classification for the year ended August 31, 2021:

| Operating Expenses - NACUBO Function | | | |
|---|----------------------------|----------------------------|----------------------------------|
| For the Years Ended August 31, 2021 and 2020 | | | |
| (in thousands of dollars) | | | |
| | <u>2021</u> | <u>2020</u> | <u>% Increase (Decrease)</u> |
| Operating Expenses | | | |
| Instruction | \$ 312,696 | \$ 316,539 | (1.2%) |
| Research | 109,993 | 110,181 | (0.2%) |
| Public Service | 71,323 | 62,413 | 14.3% |
| Academic Support | 89,702 | 88,652 | 1.2% |
| Student Services | 96,900 | 99,878 | (3.0%) |
| Institutional Support | 147,895 | 139,110 | 6.3% |
| Operation and Maintenance of Plant | 70,348 | 62,210 | 13.1% |
| Scholarships and Fellowships | 150,447 | 119,407 | 26.0% |
| Auxiliary Enterprises | 51,993 | 64,930 | (19.9%) |
| Depreciation and Amortization | 102,369 | 98,169 | 4.3% |
| Total Operating Expenses | <u>\$ 1,203,666</u> | <u>\$ 1,161,489</u> | <u>3.6%</u> |

The 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, 2021:



UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2021

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. Total nonoperating revenues and expenses increased \$91.5 million, or 22.8%, over the prior year. The variance is primarily a result of a \$64.1 million increase in HEERF funds as well as the Federal Pell Grant program which increased \$1.5 million. The System recognized an increase in investment earnings of \$41.5 million driven by strong capital market gains throughout the fiscal year. Long Term Pool return was 16.7% and Endowment returns were 19.7%. Other nonoperating expenses increased \$10.4 million as the result of payments for student loan relief utilizing HEERF funds. Appropriations decreased \$7.3 million primarily due to the required 5% biennium reduction being recorded as a reduction to appropriations revenue in 2021. Additionally, interest expense and fiscal charges increased \$2.5 million.

Other Revenues, Expenses, and Transfers

Other revenues, expenses, and transfers comprised of capital and endowment related additions and transfers decreased \$3.8 million, or 5.2%, in 2021. HEF comprises the majority of the activity in this category. Annual HEF-related revenue totaled \$55.8 million, a reduction of \$1.0 million from 2020, and is reported as capital appropriations rather than operating or nonoperating revenue. Capital contributions decreased \$9.8 million due to the \$10.5 million in proceeds from the sale of tax credits in 2020 related to the renovation of the historic municipal building for the College of Law. Contributions to permanent endowments increased \$3.7 million as a result of the newly established Ken Hill School of Pharmacy endowment of \$4.0 million at HSC. In 2021 the lapse was treated as a reduction to appropriations and recorded in the "Nonoperating Revenue (Expenses)" section of the SRECNP.

Capital Asset and Debt Administration

Investments in capital asset additions were \$100.3 million in 2021. Major capital project activity included:

- Building Improvements (System Administration) – Frisco Branch Campus
- Building Improvements (UNT) –Discovery Pak Mechanical, Electrical, and Plumbing Upgrade
- Building Improvements (HSC) – Center for Bio Health Building
- Building Improvements (UNT) – Terrill Hall Mechanical, Electrical, and Plumbing Renovation

The System has committed \$283.2 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 Center for Bio Health at HSC, Discovery Park, Terrill Hall, and the Frisco Branch campus for the future use by UNT Main campus. More detailed information regarding the System's capital additions and commitments is provided in Note 2, *Capital Assets*, and Note 11, *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 \$51.7 million to \$782.7 million in 2021. 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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2021

Economic Outlook

The System's primary sources of revenue are tuition and fees and legislative appropriations. Despite the stresses brought about by the COVID-19 pandemic and ensuing economic fallout, UNT System institutions continue to serve our students and communities and remain committed to strengthening our financial posture. While headwinds persist, the recovery from the COVID-19 pandemic has been rapid and dramatic due to strategic cost reduction efforts, federal and state government support, and student's desire to return to in person learning.

For 2022, net tuition and fees revenues are budgeted at an increase of \$37.8 million, or 9.7%, compared to 2021. This revenue increase represents the beginning of recovering from the impacts of the COVID-19 pandemic. UNTS institutions returned to full campus presence for Fall 2021 while maintaining the necessary diligence to combat the pandemic.

The 87th Texas Legislature adjourned in June 2021 having passed a budget that included a 12% increase for UNT System institutions compared to the previous biennium. Funding increases were driven primarily by significant enrollment growth at UNT and UNT Dallas and funding for new non-formula support items. Fiscal year 2022 budgeted legislative appropriation revenues for the System are \$22.8 million higher than 2021. Budgeted amounts include continued new funding for specialized initiatives and unique programs recognized as deserving state support. These areas of excellence include the University of North Texas Center for Agile and Adaptive Additive Manufacturing (CAAAM), UNT Dallas Center for Socioeconomic Mobility through Education, and UNTHSC's Forensic Genetics Research and Education.

Since 2019, the System has placed nine new buildings into service in support of growth and the student experience. Having completed this large building cycle, 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.

The University of North Texas is one of the state's largest public universities and one of the nation's 115 top-tier research universities by the Carnegie Classification. UNT had record enrollment in Fall 2021 of 42,227 students, which is a 3.9% increase from 2020. 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 progressing in its efforts to build a \$115 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.

The University of North Texas at Dallas had record enrollment in Fall 2021 of 4,186 students and its record growth is expected to continue its current pace. With the aim of being the engine for upward mobility in the southern Dallas region, UNTD has received funding and is beginning to form the Center for Socioeconomic Mobility through Education. An initiative that will work with K-12 schools and other non-profit organizations in the area to create actionable programs for students to begin a rewarding and successful career.

The University of North Texas Health Science Center at Fort Worth continues to expand some of its most recent initiatives, including the Fort Worth M.D. School, an innovative partnership with Texas Christian University ("TCU"); launching a first-of-its-kind national clinical trial aimed at determining if a simple blood test could be used to diagnose Alzheimer's disease; and expanded DNA work for the state, which is focused on reducing the sexual assault case backlog and increasing efforts to identify victims of human trafficking. UNTHSC plans to create even more residency positions through partnerships with regional health care systems.

In spite of the challenges COVID-19 brought upon our institutions, the University of North Texas System has prevailed stronger, more efficient, and more resilient to future challenges.

**COMPREHENSIVE
FINANCIAL STATEMENTS**

of the

UNIVERSITY OF NORTH TEXAS SYSTEM

DALLAS, TEXAS

For the Year Ended August 31, 2021

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Net Position
As of August 31, 2021

| | August 31, |
|--|----------------------------|
| | 2021 |
| ASSETS | |
| Current Assets | |
| Cash and Cash Equivalents: | |
| Cash on Hand | \$ 113,604.85 |
| Cash in Bank | 15,768,852.89 |
| Cash in Transit/Reimburse from Treasury | 876,353.27 |
| Cash in State Treasury | 27,330,429.77 |
| Cash Equivalents | 218,000,590.55 |
| Restricted Cash and Cash Equivalents: | |
| Cash on Hand | 1,850.52 |
| Cash in Bank | 4,448,169.04 |
| Cash Equivalents | 27,907,686.34 |
| Legislative Appropriations | 133,958,722.49 |
| Receivables From: | |
| Accounts Receivable | 109,067,535.67 |
| Federal | 37,196,784.59 |
| Other Intergovernmental | 5,870,704.02 |
| Clinical Practice | 4,831,411.97 |
| Gifts, Pledges and Donations | 90,193.41 |
| Interest and Dividends | 2,925,496.99 |
| Other Receivables | 4,379,576.97 |
| Due From Other Agencies | 2,912,503.13 |
| Consumable Inventories | 798,016.77 |
| Merchandise Inventories | 2,139,033.96 |
| Prepaid Items | 51,434,040.57 |
| Loans and Contracts | 7,501,931.61 |
| Other Current Assets | 94,916.25 |
| Total Current Assets | \$ 657,648,405.63 |
| Non-Current Assets | |
| Restricted Investments | \$ 113,243,975.66 |
| Loans and Contracts | 2,378,083.06 |
| Investments | 357,730,157.15 |
| Gifts, Pledges and Donations | 3,944,846.61 |
| Capital Assets: | |
| Non-Depreciable or Non-Amortizable | 205,794,543.56 |
| Depreciable or Amortizable, Net | 1,211,339,533.26 |
| Total Non-Current Assets | \$ 1,894,431,139.30 |
| Total Assets | \$ 2,552,079,544.93 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred Outflows of Resources | \$ 386,359,355.33 |
| Total Deferred Outflows of Resources | \$ 386,359,355.33 |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 2,938,438,900.26 |

Continued on Next Page

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Net Position
As of August 31, 2021

| | August 31, |
|--|----------------------------|
| | 2021 |
| LIABILITIES | |
| Current Liabilities | |
| Payables From: | |
| Accounts Payable | \$ 58,947,431.58 |
| Payroll Payable | 49,399,188.59 |
| Other Payables | 4,934,791.51 |
| Interest | 11,704,597.53 |
| Due To Other Agencies | 1,153,316.95 |
| Unearned Revenue | 283,401,305.19 |
| Notes and Loans Payable | 76,135,000.00 |
| Revenue Bonds Payable | 55,134,215.75 |
| Claims and Judgments | 473,815.00 |
| Employees' Compensable Leave | 4,623,136.21 |
| Capital Lease Obligations | 1,797,980.14 |
| Net OPEB Liability | 16,318,756.00 |
| Funds Held for Others | 584,552.14 |
| Other Current Liabilities | 1,577,413.30 |
| Total Current Liabilities | \$ 566,185,499.89 |
| Non-Current Liabilities | |
| Revenue Bonds Payable | \$ 727,583,718.78 |
| Claims and Judgments | 1,035,918.00 |
| Employees' Compensable Leave | 25,841,704.61 |
| Capital Lease Obligations | 1,773,386.49 |
| Asset Retirement Obligation | 2,601,000.00 |
| Net Pension Liability | 189,187,853.00 |
| Net OPEB Liability | 472,905,045.00 |
| Other Non-Current Liabilities | 1,163,647.11 |
| Total Non-Current Liabilities | \$ 1,422,092,272.99 |
| Total Liabilities | \$ 1,988,277,772.88 |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred Inflows of Resources | \$ 184,481,979.14 |
| Total Deferred Inflows of Resources | \$ 184,481,979.14 |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | \$ 2,172,759,752.02 |
| NET POSITION | |
| Net Investment in Capital Assets | \$ 559,437,092.49 |
| Restricted For: | |
| Funds Held as Permanent Investments | |
| Non-Expendable | 64,471,245.12 |
| Expendable | 55,900,558.80 |
| Other Restricted | 62,596,388.82 |
| Unrestricted | 23,273,863.01 |
| Total Net Position | \$ 765,679,148.24 |

See Accompanying Notes to the Comprehensive Financial Statements

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Statement of Financial Position
As of August 31, 2021

| | <u>August 31, 2021</u> |
|--|------------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ 16,220,771 |
| Investments | 315,630,727 |
| Contributions Receivable, Net | 7,623,842 |
| Real Property | 25,543 |
| Other Assets | 2,904 |
| Cash Value - Life Insurance Policies | 459,907 |
| Assets Held Under Split-Interest Agreements | <u>6,472,331</u> |
| Total ASSETS | <u>\$ 346,436,025</u> |
| LIABILITIES | |
| Accounts Payable and Accrued Expenses | \$ 212,433 |
| Agency Funds | 308,171 |
| Liabilities Under Split-Interest Agreements | 3,761,415 |
| Assets Held for Others | <u>89,199,037</u> |
| Total LIABILITIES | <u>\$ 93,481,056</u> |
| NET ASSETS | |
| Without Donor Restrictions: | |
| Undesignated | \$ 1,181,419 |
| Board Designated Endowments | 882,551 |
| Board Designated for Reserves | <u>4,009,372</u> |
| Total Without Donor Restrictions | <u>\$ 6,073,342</u> |
| With Donor Restrictions: | |
| Purpose Restrictions | \$ 8,320,351 |
| Perpetual in Nature | 238,561,805 |
| Fair Value of Endowments Below Historical Cost | <u>(529)</u> |
| Total With Donor Restrictions | <u>\$ 246,881,627</u> |
| Total NET ASSETS | <u>\$ 252,954,969</u> |
| Total LIABILITIES & NET ASSETS | <u>\$ 346,436,025</u> |

See Accompanying Notes to the Financial Statements

UNIVERSITY OF NORTH TEXAS HEALTH SCIENCE CENTER FOUNDATION
Statement of Financial Position
As of August 31, 2021

| | <u>August 31, 2021</u> |
|--|------------------------------|
| ASSETS | |
| Cash | \$ 1,302,331 |
| Investments, including \$105,566,672 and \$61,106,304 held on behalf of others as of August 31, 2021 and 2020 | 131,571,643 |
| Pledges Receivable, Net | 1,792,313 |
| Prepays | 177,500 |
| Total ASSETS | <u>\$ 134,843,787</u> |
| LIABILITIES | |
| Due to Related Party | \$ 106,027,779 |
| Total LIABILITIES | <u>\$ 106,027,779</u> |
| NET ASSETS | |
| Net Assets without Donor Restrictions | \$ 3,225,301 |
| Net Assets with Donor Restrictions | 25,590,707 |
| Total NET ASSETS | <u>\$ 28,816,008</u> |
| Total LIABILITIES & NET ASSETS | <u>\$ 134,843,787</u> |

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, 2021

| | <u>August 31,</u> <u>2021</u> |
|---|----------------------------------|
| OPERATING REVENUES | |
| Tuition and Fees | \$ 565,570,043.93 |
| Discounts and Allowances | (138,686,743.94) |
| Professional Fees | 28,747,623.93 |
| Discounts and Allowances | (16,720,541.40) |
| Auxiliary Enterprises | 61,382,473.64 |
| Discounts and Allowances | (117,685.00) |
| Sales of Goods and Services | 72,224,806.39 |
| Federal Grant Revenue | 69,520,442.64 |
| Federal Pass-Through Revenue | 7,571,946.46 |
| State Grant Revenue | 2,192,309.37 |
| State Grant Pass-Through Revenue | 35,357,469.89 |
| Other Contracts and Grants | 18,456,941.04 |
| Other Operating Revenues | 3,510,397.05 |
| Total Operating Revenues | <u>\$ 709,009,484.00</u> |
| OPERATING EXPENSES ⁽¹⁾ | |
| Instruction | \$ 312,695,839.33 |
| Research | 109,992,473.77 |
| Public Service | 71,322,625.80 |
| Academic Support | 89,702,387.59 |
| Student Services | 96,899,927.91 |
| Institutional Support | 147,894,750.35 |
| Operation and Maintenance of Plant | 70,348,202.70 |
| Scholarships and Fellowships | 150,446,531.42 |
| Auxiliary Enterprises | 51,993,413.91 |
| Depreciation and Amortization | 102,369,457.53 |
| Total Operating Expenses | <u>\$ 1,203,665,610.31</u> |
| Operating Loss | <u>\$ (494,656,126.31)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Legislative Appropriations (GR) | \$ 230,233,186.00 |
| Additional Appropriations (GR) | 47,747,224.13 |
| Federal Revenue | 156,012,583.70 |
| Gifts | 20,901,899.13 |
| Investment Income | 22,323,043.85 |
| Interest Expense and Fiscal Charges | (26,055,089.76) |
| Gain on Sale of Capital Assets | 77,506.74 |
| Net Increase in Fair Value of Investments | 52,193,320.71 |
| Other Nonoperating Revenues | 696,825.90 |
| Other Nonoperating Expenses | (11,809,145.07) |
| Total Nonoperating Revenues (Expenses) | <u>\$ 492,321,355.33</u> |
| Loss Before Other Revenues, Expenses and Transfers | <u>\$ (2,334,770.98)</u> |
| OTHER REVENUES, EXPENSES AND TRANSFERS | |
| Capital Contributions | \$ 3,063,046.30 |
| Capital Appropriations (HEF) | 55,826,506.00 |
| Contributions To Permanent and Term Endowments | 6,168,047.76 |
| Interagency Transfers of Capital Assets-Decrease | (26,238.06) |
| Transfers From Other State Agencies | 652,490.19 |
| Legislative Transfers In | 3,849,915.00 |
| Legislative Transfers Out | (141,823.00) |
| Legislative Appropriation Lapses | (883,732.49) |
| Total Other Revenues, Expenses and Transfers | <u>\$ 68,508,211.70</u> |
| CHANGE IN NET POSITION | <u>\$ 66,173,440.72</u> |
| Beginning Net Position | \$ 699,505,707.52 |
| ENDING NET POSITION | <u>\$ 765,679,148.24</u> |

⁽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, 2021

| 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 | \$ 48,255.10 | \$ - | \$ 103,076.07 | \$ 59,416.98 | \$ 3,997.31 | \$ 1,116,788.01 | \$ 5,105.37 | \$ - | \$ 4,406,213.68 | \$ - | \$ 5,742,852.52 |
| Salaries and Wages | 189,758,210.21 | 64,188,065.03 | 22,096,044.27 | 53,330,165.86 | 55,583,334.91 | 69,333,412.11 | 23,570,205.11 | 350,314.46 | 20,958,924.85 | - | 499,168,676.81 |
| Payroll Related Costs | 102,155,992.99 | 16,656,258.82 | 8,193,128.07 | 16,664,100.73 | 18,378,445.56 | 39,292,534.44 | 8,650,601.35 | 6,309.64 | 11,536,098.21 | - | 221,533,469.81 |
| Professional Fees and Services | 2,726,229.18 | 9,959,962.93 | 33,856,580.40 | 3,086,261.58 | 4,776,664.90 | 12,201,031.10 | 5,471,066.15 | - | 1,553,111.00 | - | 73,630,907.24 |
| Federal Pass-Through Expenses | 34,867.63 | 939,510.37 | 102,014.63 | - | - | - | - | - | - | - | 1,076,392.63 |
| Travel | 78,169.16 | 74,002.30 | 38,407.16 | 64,816.32 | 1,882,883.42 | 127,636.80 | 23,187.06 | - | 15,721.82 | - | 2,304,824.04 |
| Materials and Supplies | 7,904,952.47 | 11,697,044.90 | 3,841,883.02 | 9,899,354.90 | 4,873,570.34 | 6,283,483.25 | 4,051,890.89 | - | 2,397,785.14 | - | 50,949,964.91 |
| Communications and Utilities | 521,361.28 | 48,855.41 | 38,519.85 | 512,455.48 | 1,299,528.30 | 2,523,445.34 | 9,685,467.40 | - | 4,524,463.53 | - | 19,154,096.59 |
| Repairs and Maintenance | 1,041,681.70 | 1,286,359.53 | 1,478,830.01 | 1,021,987.50 | 1,627,521.43 | 7,902,991.07 | 17,705,246.17 | - | 2,520,698.73 | - | 34,585,316.14 |
| Rentals and Leases | 1,511,386.70 | 162,543.63 | 258,038.06 | 2,137,312.14 | 2,886,535.66 | 3,331,571.29 | 460,860.35 | - | 759,811.55 | - | 11,508,059.38 |
| Printing and Reproduction | 241,800.15 | 335,012.15 | 77,434.83 | 612,586.23 | 1,440,403.49 | 1,168,528.61 | 54,452.49 | - | 273,079.22 | - | 4,203,297.17 |
| Depreciation and Amortization | - | - | - | - | - | - | - | - | - | 102,369,457.53 | 102,369,457.53 |
| Scholarships | 633,310.27 | 2,767,959.44 | 175,879.75 | - | - | - | - | 150,089,907.32 | - | - | 153,667,056.78 |
| Asset Retirement Obligation | - | - | - | - | - | - | 110,380.35 | - | - | - | 110,380.35 |
| Claims and Losses | (588,232.00) | - | - | - | - | 528,005.69 | 213.69 | - | - | - | (60,012.62) |
| Other Operating Expenses | 6,627,854.49 | 1,876,899.26 | 1,062,789.68 | 2,313,929.87 | 4,147,042.59 | 4,085,322.64 | 559,526.32 | - | 3,047,506.18 | - | 23,720,871.03 |
| Total Operating Expenses | \$ 312,695,839.33 | \$ 109,992,473.77 | \$ 71,322,625.80 | \$ 89,702,387.59 | \$ 96,899,927.91 | \$ 147,894,750.35 | \$ 70,348,202.70 | \$ 150,446,531.42 | \$ 51,993,413.91 | \$ 102,369,457.53 | \$ 1,203,665,610.31 |

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Statement of Activities
For the Year Ended August 31, 2021

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|--|---------------------------------------|------------------------------------|------------------------------|
| REVENUES, GAINS AND OTHER SUPPORT: | | | |
| Gifts | \$ 56,000 | \$ 7,391,605 | \$ 7,447,605 |
| Grant Revenue | - | 446,976 | 446,976 |
| Net Investment Return | (169,750) | 38,745,016 | 38,575,266 |
| Other Income | - | 51,345 | 51,345 |
| Change in Value of Split-Interest Agreements | - | 404,393 | 404,393 |
| Gains/Income From Life Insurance Policies | - | 61,834 | 61,834 |
| Asset Management Fee Income | 2,830,293 | - | 2,830,293 |
| Release of Donor Restrictions | 15,369,929 | (15,369,929) | - |
| Transfers/Changes in Donor Restrictions | (11,738) | 11,738 | - |
| Total REVENUES, GAINS AND OTHER SUPPORT | <u>\$ 18,074,734</u> | <u>\$ 31,742,978</u> | <u>\$ 49,817,712</u> |
| EXPENSES: | | | |
| PROGRAM SERVICES: | | | |
| Support of UNT: | | | |
| Distributions to UNT | \$ 4,114,278 | | \$ 4,114,278 |
| Scholarships & Awards | 3,001,148 | | 3,001,148 |
| Grant Support to UNT | 446,976 | | 446,976 |
| Board Designated Grants to University | 165,128 | | 165,128 |
| Services/Expenses for Programs | 5,709,742 | | 5,709,742 |
| Internal Management Fees | 2,077,493 | | 2,077,493 |
| Other Support Provided | 19,148 | | 19,148 |
| Distributions to Other Institutions | 6,500 | | 6,500 |
| Total PROGRAM SERVICES | <u>\$ 15,540,413</u> | | <u>\$ 15,540,413</u> |
| MANAGEMENT AND GENERAL EXPENSES: | | | |
| Salaries & Benefits | \$ 1,079,976 | | \$ 1,079,976 |
| Administrative Expenses | 19,643 | | 19,643 |
| Professional Development & Travel | 20,012 | | 20,012 |
| Consulting Services | 40,144 | | 40,144 |
| Professional Fees | 37,700 | | 37,700 |
| Office, Computer Equipment and Software | 23,378 | | 23,378 |
| Bank Charges and Credit Card Discount | 26,533 | | 26,533 |
| Insurance | 25,915 | | 25,915 |
| Strategic Planning | 6,825 | | 6,825 |
| Total MANAGEMENT AND GENERAL EXPENSES | <u>\$ 1,280,126</u> | | <u>\$ 1,280,126</u> |
| Total EXPENSES | <u>\$ 16,820,539</u> | | <u>\$ 16,820,539</u> |
| CHANGE IN NET ASSETS | \$ 1,254,195 | \$ 31,742,978 | \$ 32,997,173 |
| Net Assets, Beginning of Year | 4,819,147 | 215,138,649 | 219,957,796 |
| NET ASSETS, END OF YEAR | <u>\$ 6,073,342</u> | <u>\$ 246,881,627</u> | <u>\$ 252,954,969</u> |

See Accompanying Notes to the Financial Statements

UNIVERSITY OF NORTH TEXAS HEALTH SCIENCE CENTER FOUNDATION
Statement of Activities
For the Year Ended August 31, 2021

| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total |
|--|--|---|----------------------|
| SUPPORT AND REVENUE | | | |
| Contributions | \$ - | \$ 1,960,002 | \$ 1,960,002 |
| Special Events | - | 100,400 | 100,400 |
| Management Fees | 243,354 | - | 243,354 |
| Unrealized Gain on Investments | - | 3,721,628 | 3,721,628 |
| Investment Income (Loss), Net of Direct Expenses | (110,143) | 462,372 | 352,229 |
| Releases from Restriction | 4,180,081 | (4,180,081) | - |
| Total SUPPORT AND REVENUE | \$ 4,313,292 | \$ 2,064,321 | \$ 6,377,613 |
| EXPENSES | | | |
| Program Expenses | | | |
| Gifts and Scholarships | \$ 4,061,884 | \$ - | \$ 4,061,884 |
| Supporting Services | | | |
| Management and General | | | |
| Professional Fees | 167,930 | - | 167,930 |
| Alumni & Student Expenses | 63,242 | - | 63,242 |
| Fundraising Expenses | 98,750 | - | 98,750 |
| Total EXPENSES | \$ 4,391,806 | \$ - | \$ 4,391,806 |
| CHANGE IN NET ASSETS | \$ (78,514) | \$ 2,064,321 | \$ 1,985,807 |
| Net Assets, Beginning of Year | \$ 3,303,815 | \$ 23,526,386 | \$ 26,830,201 |
| NET ASSETS, END OF YEAR | \$ 3,225,301 | \$ 25,590,707 | \$ 28,816,008 |

See Accompanying Notes to the Financial Statements

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Cash Flows
For the Year Ended August 31, 2021

| | August 31, 2021 |
|--|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Proceeds from Customers | \$ 84,629,127.81 |
| Proceeds from Tuition and Fees | 432,627,348.35 |
| Proceeds from Research Grants and Contracts | 108,112,615.41 |
| Proceeds from Loan Programs | 690,719.27 |
| Proceeds from Auxiliaries | 61,264,788.64 |
| Proceeds from Other Revenues | 9,435,116.56 |
| Payments to Suppliers for Goods and Services | (208,824,619.37) |
| Payments to Employees | (598,651,069.00) |
| Payments for Loans Provided | (119,127.79) |
| Payments for Other Expenses | (167,107,420.78) |
| Net Cash Used by Operating Activities | \$ (277,942,520.90) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Proceeds from State Appropriations | \$ 242,699,619.36 |
| Proceeds from Gifts | 21,973,275.08 |
| Proceeds from Endowments | 6,168,047.76 |
| Proceeds from Transfers from Other Agencies | 652,490.19 |
| Proceeds from Legislative Transfers | 3,849,915.00 |
| Proceeds from Grant Receipts | 154,028,087.30 |
| Proceeds from Other Revenues | 683,118.76 |
| Payments for Legislative Transfers | (141,823.00) |
| Payments for Legislative Appropriation Lapses | (883,732.49) |
| Payments for Other Uses | (2,315,353.41) |
| Net Cash Provided by Noncapital Financing Activities | \$ 426,713,644.55 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Proceeds from Sale of Capital Assets | \$ 835,689.83 |
| Proceeds from State Appropriations | 55,826,506.00 |
| Proceeds from Debt Issuance | 34,247,000.00 |
| Proceeds from Capital Contributions | 70,000.00 |
| Payments for Additions to Capital Assets | (98,269,328.91) |
| Payments for Capital Leases | (1,846,430.65) |
| Payments of Principal on Debt Issuance | (48,087,000.00) |
| Payments of Interest on Debt Issuance | (32,126,321.87) |
| Net Cash Used by Capital and Related Financing Activities | \$ (89,349,885.60) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from Sale of Investments | \$ 422,486,125.89 |
| Proceeds from Interest and Investment Income | 21,610,679.60 |
| Payments to Acquire Investments | (453,411,527.78) |
| Net Cash Used by Investing Activities | \$ (9,314,722.29) |
| Net Increase in Cash and Cash Equivalents | \$ 50,106,515.76 |
| Cash and Cash Equivalents, September 1, 2020 | \$ 244,341,021.47 |
| Cash and Cash Equivalents, August 31, 2021 | \$ 294,447,537.23 |
| Cash and Cash Equivalents | \$ 262,089,831.33 |
| Restricted Cash and Cash Equivalents | 32,357,705.90 |
| Cash and Cash Equivalents, August 31, 2021 | \$ 294,447,537.23 |

See Accompanying Notes to the Comprehensive Financial Statements

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Cash Flows
For the Year Ended August 31, 2021

| | August 31, |
|---|----------------------------|
| | 2021 |
| | <hr/> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED | |
| BY OPERATING ACTIVITIES | |
| Operating Loss | \$ (494,656,126.31) |
| Adjustments to Reconcile Operating Loss to Net Cash Used | |
| by Operating Activities: | |
| Depreciation and Amortization Expense | \$ 102,369,457.53 |
| Pension Expense | 24,405,784.00 |
| OPEB Expense | 82,625,186.00 |
| Asset Retirement Obligation Expense | 110,380.35 |
| Employee Benefits Paid by State | 32,156,402.22 |
| Changes in Assets and Liabilities: | |
| Increase in Receivables | (34,022,759.30) |
| Decrease in Inventories | 390,861.20 |
| Decrease in Prepaid Expenses | 8,650,084.57 |
| Decrease in Loans and Contracts | 571,591.48 |
| Decrease in Other Assets | 114,151.50 |
| Decrease in Deferred Outflows of Resources - Pensions | 11,755,874.00 |
| Decrease in Deferred Outflows of Resources - OPEB | 34,525,464.00 |
| Decrease in Payables | (2,475,840.78) |
| Increase in Unearned Revenue | 20,031,144.90 |
| Increase in Employees' Compensable Leave | 644,016.75 |
| Decrease in Liabilities to Employees for Defined Benefit Pensions | (15,695,972.00) |
| Decrease in Liabilities to Employees for Defined Benefit OPEB | (45,059,521.00) |
| Decrease in Other Liabilities | (174,118.01) |
| Decrease in Deferred Inflows of Resources - Pensions | (11,125,041.00) |
| Increase in Deferred Inflows of Resources - OPEB | 6,916,459.00 |
| Total Adjustments | <u>\$ 216,713,605.41</u> |
| Net Cash Used by Operating Activities | <u>\$ (277,942,520.90)</u> |
| NON-CASH TRANSACTIONS | |
| Net Change in Fair Value of Investments | \$ 52,193,320.71 |
| Donation of Capital Assets | 2,993,046.30 |
| Borrowing Under Capital Lease Purchase | 48,878.95 |
| Gain on Sale of Capital Assets | 77,506.74 |
| Amortization of Bond Premiums | 6,747,863.80 |
| Amortization of Deferred Inflows/Outflows from Refunding Bonds | (439,505.84) |
| Capital Assets Acquired with Payables | 14,089,690.42 |
| Interagency Transfer of Capital Assets | (26,238.06) |

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, 2021

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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 (“UNT-D”). 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 two discrete component units. Information on the component units can be found in Note 14, *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 2021 are listed below:

GASB Statement No. 92, *Omnibus 2020*, addresses a variety of topics and includes specific provisions about some of the following: leases, intra-agency transfer of assets, pension plans, postemployment benefit plans other than pension plans, fiduciary activities, asset retirement obligations, investments, and derivative instruments. This statement has minimal impact to the comprehensive financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, except paragraphs 11b, 13, and 14 assists governments in the transition away from existing interbank offered rates (IBORs), including the London Interbank Offered Rate (LIBOR), to other reference rates. This statement has minimal impact to the comprehensive financial statements.

Paragraph 4 of GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, is effective in fiscal year 2021. Paragraph 4 of GASB Statement No. 97 determines whether a primary government is financially accountable for a potential component unit, other

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

than defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans, if the primary government performs the duties that a governing board typically would perform, the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board. This additional guidance has no impact to the comprehensive financial statements.

GASB Statement No. 98, *The Annual Comprehensive Financial Report*, establishes the term annual comprehensive financial report and its acronym ACFR, which replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement replaces an existing term but does not otherwise establish new accounting and financial reporting requirements.

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 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 held in the state treasury until spent. 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, 2021, the unexpended amount was approximately \$103.9 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 \$48.2 million of the outstanding accounts receivable balance at August 31, 2021. The allowance for doubtful accounts on other receivables was approximately \$4.4 million at August 31, 2021. 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. The allowance for doubtful accounts on federal receivables was approximately \$176 thousand at August 31, 2021.

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, 2021

, respectively

Clinical Practice receivables are presented net of allowances for contractual discounts and bad debts. The contractual and bad debt allowances on clinical receivables were approximately \$2.3 million and \$1.6 million as of August 31, 2021. Clinical accounts receivable are subject to concentrations of patient accounts receivable credit risk. The mix of receivables from patients and third parties as of August 31, 2021 was as follows:

| | Net | Gross |
|--------------|-------------|-------------|
| Medicaid | 24% | 38% |
| Medicare | 33% | 27% |
| Commercial | 32% | 24% |
| Self-pay | 7% | 8% |
| Other | 4% | 3% |
| 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, 2021. 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, 2021 is approximately \$4.9 million.

Investments

The System accounts for its investments at fair value in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, No. 72, *Fair Value Measurement and Application*, and No. 79, *Certain External Investment Pools and Pool Participants*, 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 expensed in accordance with the requirements of GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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 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 asset retirement obligations, 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 Asset Retirement Obligations

When an asset retirement obligation (“ARO”) is recognized, the System must also recognize a corresponding deferred outflow of resources. At initial measurement of an ARO, the deferred outflows associated with an ARO is recorded at the amount of the corresponding liability. For subsequent measurement and recognition, the reduction of deferred outflows is recognized and expensed over the useful life of the asset.

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 the difference between expected and actual earnings on investments is amortized as a component of pension 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, 2021

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 total OPEB liability of changes of economic and demographic assumptions or of other inputs that increase 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.
- Increases in the System’s proportion of the collective net OPEB liability are amortized as a component of OPEB 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 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 net OPEB liability of the difference between expected and actual earnings on investments is amortized as a component of OPEB expense using the straight-line method over a period of five years.

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 \$269.9 million of tuition revenue related to the semesters that have not been completed as of August 31, 2021. 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 11, *Contingencies and Commitments*, and Note 13, *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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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.

Asset Retirement Obligation

An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. An ARO must be recognized when the liability is incurred and reasonably estimable. Incurrence of a liability is manifested by the occurrence of both an external obligating event and an internal obligating event resulting from normal operations.

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 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.

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 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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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 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.

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.
- Decreases in the System's proportion of the total OPEB liability are amortized as a component of OPEB 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 contributions are amortized as a component of OPEB expense using the straight-line method over the expected average remaining service lives of active and inactive employees.

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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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 cost of goods sold, salaries and wages, payroll related costs, professional fees and services, federal and state pass-through expense, travel, materials and supplies, communications and utilities, repairs and maintenance, rentals and leases, printing and reproduction, depreciation and amortization, scholarships and fellowships, and asset retirement obligation. Operating expenses also includes the expenses related to scholarships, exemptions, and COVID-19 expenses paid with HEERF funds. 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 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, federal HEERF grants, 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, payments for student loan relief utilizing HEERF funds, and other expenses that are defined as nonoperating expenses by GASB.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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. 87, *Leases*, creates a single model for lease accounting, eliminating long-term operating leases. It requires lessee recognition of certain lease liabilities and an intangible right-to-use lease asset, and requires lessor recognition of a lease receivable and deferred inflows of resources. The statement also requires additional disclosures for both lessee and lessor. This statement will be implemented in fiscal year 2022. The System anticipates moderate impact to the comprehensive financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*, clarifies the existing definition of conduit debt obligation (“CDO”), establishes that a CDO is not a liability of the issuer, establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with CDOs, and improves note disclosures related to CDOs. This statement will be implemented in fiscal year 2023. The System anticipates minimal impact to the comprehensive financial statements.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, paragraphs 11b, 13, and 14 will be implemented in fiscal year 2022. Those three paragraphs of GASB Statement No. 93 assists governments to define the appropriate benchmark interest rates, related to interbank offered rates (IBORs), the London Interbank Offered Rate (LIBOR), and other reference rates. The System anticipates minimal impact to the comprehensive financial statements.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, defines and establishes criteria for public-private and public-public partnerships (PPPs), availability payment arrangements (APA), and certain criteria where service concession arrangements are considered PPPs. This statement will be implemented in fiscal year 2023. The System anticipates minimal impact to the comprehensive financial statements.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, defines and establishes criteria for subscription-based information technology arrangements (SBITAs) where it results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability, and provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. This statement requires note disclosures regarding SBITAs, and will be implemented in fiscal year 2023. The System anticipates moderate impact to the comprehensive financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, increases consistency and comparability related to the reporting of fiduciary component units, mitigates costs associated with the reporting of employee benefit plans as fiduciary component units in fiduciary fund financial statements, and enhances the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans. This statement, other than paragraph 4, will be implemented in fiscal years 2022. 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, 2021

Note 2: Capital Assets

A summary of changes in capital assets for the year ended August 31, 2021 is presented below:

| | Balance September 1, 2020 | Adjustments | Reclassification of Completed Construction In Progress | Increase Interagency Transfers | Decrease Interagency Transfers | Additions | Deletions | Balance August 31, 2021 |
|---|------------------------------|-------------------------|---|--------------------------------------|--------------------------------------|--------------------------|--------------------------|-----------------------------|
| Non-Depreciable or Non-Amortizable Assets: | | | | | | | | |
| Land and Land Improvements | \$ 96,494,152.89 | \$(7,649,793.75) | \$ - | - | - | \$ - | \$ - | \$ 88,844,359.14 |
| Construction in Progress | 72,890,982.16 | - | (54,366,812.55) | - | - | 70,243,233.54 | - | 88,767,403.15 |
| Other Tangible Capital Assets | 25,634,168.45 | - | - | - | - | 2,549,062.82 | (450.00) | 28,182,781.27 |
| Total Non-Depreciable or Non-Amortizable Assets: | \$ 195,019,303.50 | \$(7,649,793.75) | \$(54,366,812.55) | \$ - | \$ - | \$ 72,792,296.36 | \$ (450.00) | \$ 205,794,543.56 |
| Depreciable Assets: | | | | | | | | |
| Buildings and Building Improvements | \$1,654,463,573.88 | \$ 7,649,793.75 | \$ 49,431,431.85 | - | - | \$ 476,945.62 | \$ - | \$ 1,712,021,745.10 |
| Infrastructure | 70,629,568.97 | - | 1,503,981.84 | - | - | - | - | 72,133,550.81 |
| Facilities and Other Improvements | 141,280,062.62 | - | 3,431,398.86 | - | - | - | - | 144,711,461.48 |
| Furniture and Equipment | 183,929,087.45 | - | - | 572,978.18 | (58,000.00) | 20,351,525.36 | (7,835,154.38) | 196,960,436.61 |
| Vehicles, Boats and Aircraft | 11,247,265.57 | - | - | - | - | 299,770.43 | (419,089.12) | 11,127,946.88 |
| Other Capital Assets | 120,395,357.11 | - | - | - | - | 5,703,046.88 | (87,692.79) | 126,010,711.20 |
| Total Depreciable Assets: | \$2,181,944,915.60 | \$ 7,649,793.75 | \$ 54,366,812.55 | \$ 572,978.18 | \$ (58,000.00) | \$ 26,831,288.29 | \$ (8,341,936.29) | \$ 2,262,965,852.08 |
| Less Accumulated Depreciation for: | | | | | | | | |
| Buildings and Building Improvements | \$ (672,757,784.09) | \$ - | \$ - | - | - | \$(70,894,430.06) | \$ - | \$ (743,652,214.15) |
| Infrastructure | (28,049,227.54) | - | - | - | - | (2,776,069.95) | - | (30,825,297.49) |
| Facilities and Other Improvements | (42,436,917.78) | - | - | - | - | (4,645,030.37) | - | (47,081,948.15) |
| Furniture and Equipment | (133,888,974.09) | - | - | (572,978.18) | 31,761.94 | (14,355,872.31) | 7,455,121.88 | (141,330,940.76) |
| Vehicles, Boats and Aircraft | (8,798,821.37) | - | - | - | - | (877,558.00) | 401,624.32 | (9,274,755.05) |
| Other Capital Assets | (77,075,542.70) | - | - | - | - | (5,447,045.82) | 86,617.19 | (82,435,971.33) |
| Total Accumulated Depreciation | \$(963,007,267.57) | \$ - | \$ - | \$(572,978.18) | \$ 31,761.94 | \$(98,996,006.51) | \$ 7,943,363.39 | \$(1,054,601,126.93) |
| Total Depreciable Assets, Net | \$1,218,937,648.03 | \$ 7,649,793.75 | \$ 54,366,812.55 | \$ - | \$ (26,238.06) | \$(72,164,718.22) | \$ (398,572.90) | \$ 1,208,364,725.15 |
| Amortizable Assets - Intangibles: | | | | | | | | |
| Computer Software | \$ 35,166,622.30 | \$ - | \$ - | - | - | \$ 215,325.00 | \$(266,024.00) | \$ 35,115,923.30 |
| Other Intangible Capital Assets | - | - | - | - | - | 415,142.00 | (415,142.00) | - |
| Total Amortizable Assets - Intangibles | \$ 35,166,622.30 | \$ - | \$ - | \$ - | \$ - | \$ 630,467.00 | \$(681,166.00) | \$ 35,115,923.30 |
| Less Accumulated Amortization for: | | | | | | | | |
| Computer Software | \$ (29,072,008.97) | \$ - | \$ - | - | - | \$(3,335,130.22) | \$ 266,024.00 | \$(32,141,115.19) |
| Other Intangible Capital Assets | - | - | - | - | - | (38,320.80) | 38,320.80 | - |
| Total Accumulated Amortization | \$(29,072,008.97) | \$ - | \$ - | \$ - | \$ - | \$(3,373,451.02) | \$ 304,344.80 | \$(32,141,115.19) |
| Amortizable Assets - Intangibles, Net | \$ 6,094,613.33 | \$ - | \$ - | \$ - | \$ - | \$(2,742,984.02) | \$(376,821.20) | \$ 2,974,808.11 |
| Total Capital Assets, Net | \$1,420,051,564.86 | \$ - | \$ - | \$ - | \$(26,238.06) | \$(2,115,405.88) | \$(775,844.10) | \$ 1,417,134,076.82 |

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Note 3: Cash, Cash Equivalents and Investments

Deposits of Cash in Bank

As of August 31, 2021, the carrying amount of deposits was \$20,217,021.93 as presented below:

| | | |
|--|-----------|-----------------------------|
| Cash in Bank Carrying Value | \$ | 20,217,021.93 |
| Cash in Bank per Statement of Net Position | \$ | <u>20,217,021.93</u> |
| | | |
| Proprietary Funds Current Assets Cash in Bank | \$ | 15,768,852.89 |
| Proprietary Funds Current Assets Restricted Cash in Bank | | <u>4,448,169.04</u> |
| Cash in Bank per Statement of Net Position | \$ | <u>20,217,021.93</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 \$245,908,276.89 that is invested in cash equivalents. The remainder of the cash and cash equivalents balance of \$28,322,238.41 is comprised of cash on hand, cash in transit or reimbursement from the Treasury, and cash in the State Treasury.

As of August 31, 2021, the total bank balance was \$28,384,483.88.

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, 2021 was \$16,220,771.00. As of August 31, 2021, the total bank balance was \$989,327.00.

The carrying amount of deposits for the System’s discretely presented component unit, UNTHSC Foundation, reported on the UNTHSC Foundation Statement of Net Position as of August 31, 2021 was \$1,302,331.00. As of August 31, 2021, the total bank balance was \$1,300,831.00.

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, 2021, 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,

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

of the Texas Constitution. This standard provides that the System Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements and other circumstances of the fund then prevailing, taking into consideration the investment of all of the assets of the fund rather than a single investment. 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, 2021, the System's investments are presented below. Included in this amount is \$245,908,276.89 classified as cash equivalents.

| Investments and Cash Equivalents | As of August 31, 2021 |
|--|------------------------------|
| Equity | \$ 124,263,897.55 |
| Repurchase Accounts | 17,249,833.22 |
| Hedge Funds | 29,976,530.78 |
| Domestic Mutual Funds | 118,118,700.17 |
| International Mutual Funds | 49,110,148.97 |
| Fixed Income Money Market and Mutual Funds | 239,870,032.77 |
| Other Commingled Funds | 93,820,396.59 |
| Other Commingled Funds (TexPool) | 16,134,282.99 |
| Real Estate Index Fund | 12,100,118.94 |
| Miscellaneous (limited partnerships, guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD) | 16,238,467.72 |
| Total Investments and Cash Equivalents | \$ 716,882,409.70 |

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, 2021, 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 | Unrated | Total |
| 05 | 0001 | Equity | \$ - | \$ 124,263,897.55 | \$ 124,263,897.55 |
| 05 | 0001 | Repurchase Accounts | - | 17,249,833.22 | 17,249,833.22 |
| 05 | 0001 | Hedge Funds | - | 29,976,530.78 | 29,976,530.78 |
| 05 | 0001 | Domestic Mutual Funds | - | 118,118,700.17 | 118,118,700.17 |
| 05 | 0001 | International Mutual Funds | - | 49,110,148.97 | 49,110,148.97 |
| 05 | 0001 | Fixed Income Money Market and Bond Mutual Funds | 125,141,303.26 | 114,728,729.51 | 239,870,032.77 |
| 05 | 0001 | Other Commingled Funds | 87,382,857.42 | 6,437,539.17 | 93,820,396.59 |
| 05 | 0001 | Commingled Funds (TEXPOOL) | 16,134,282.99 | - | 16,134,282.99 |
| 05 | 0001 | Real Estate Index Fund | - | 12,100,118.94 | 12,100,118.94 |
| 05 | 0001 | Private Equity | - | 16,238,467.72 | 16,238,467.72 |
| 05 | 0001 | Total | \$ 228,658,443.67 | \$ 488,223,966.03 | \$ 716,882,409.70 |

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Concentration of Credit Risk

As of August 31, 2021, the System did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the System's fixed income investments. The System's investment regulation does not provide specific requirements and limitations regarding concentration of credit.

Custodial Credit Risk - 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, 2021, 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, 2021, 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, 2021, 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 Pools

UNT Foundation Internal Investment Pool

The UNT Foundation holds and invests certain funds in trust on behalf of UNT and UNTD. For UNT, pursuant to an investment management agreement dated August 24, 2012, certain UNT endowment assets have been placed with the UNT Foundation and invested in the UNT Foundation's Consolidated Investment Pool ("UNT Foundation Pool"). The initial term of the agreement ended August 31, 2013, with a provision to automatically renew annually thereafter. On September 11, 2019 the agreement was re-written with an effective date of September 1, 2019 and the initial term ending date of August 31, 2027, with a provision to automatically renew and extend for additional five-year terms. Effective December 1, 2020, the UNT Foundation entered into an investment management agreement with the UNTD to manage certain of its endowment assets in the UNT Foundation Pool. The initial term of the agreement ends August 31, 2030, with a provision to automatically renew and extend for additional five-year terms. UNTD may terminate the agreement with 90 days' notice if it determines that its own foundation is operationally capable of performing the investment and management of the UNTD endowments prior to expiration of the agreement.

The UNT Foundation Pool is invested with external investment managers who invest in equity, fixed income and alternative investment funds, both domestic and international. The UNT 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 UNT 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 UNT Foundation can be obtained from <https://endow.unt.edu/>.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

As of August 31, 2021, total investments held by the UNT Foundation, including the System portion, consisted of the following investment types:

| Investment | Fair Value |
|---|--------------------------|
| Equity | \$ 24,875,776.80 |
| Domestic Mutual Funds | 92,315,407.62 |
| International Other Commingled Funds | 22,120,645.88 |
| International Mutual Funds | 74,209,752.00 |
| Fixed Income Money Market and Bond Mutual Funds | 58,033,017.52 |
| Hedge Funds | 15,514,047.52 |
| Private Debt/Equity | 25,995,556.22 |
| Miscellaneous | 2,566,523.47 |
| Total investments | \$ 315,630,727.03 |

The System's portion of the UNT Foundation Pool of investments as of August 31, 2021 is \$89,199,036.02.

The UNT Foundation Pool's investments are not rated by Standard & Poor's. As of August 31, 2021, the UNT Foundation 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 UNT Foundation Pool's investments. The UNT Foundation Pool did not have investments exposed to custodial credit risk. The UNT Foundation Pool's investments 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, 2021, the System's investments in the UNT Foundation 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.

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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Alternative Investments

Alternative investments consist of hedge funds, real estate, private debt 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.

UNTHSC Foundation Internal Investment Pool

Certain investments of the System are managed by the UNTHSC Foundation in its internal long-term investment pool (the "UNTHSC Foundation Pool"). The UNTHSC Foundation Pool is invested with external investment managers who invest in equity, mutual funds and alternative investment funds, both domestic and international. The primary investment objective of the UNTHSC Foundation is long-term growth of capital. It is recognized that short-term fluctuations in the capital markets may result in the loss of capital on occasion (i.e., negative rates of return). However, the total asset value of the UNTHSC Foundation Pool, exclusive of contributions or withdrawals, should grow in the long-run. It should earn, through a combination of investment income and capital appreciation, a rate of return in excess of a balanced market index while incurring less risk than such index. The Board and/or the Investment Committee of the UNTHSC Foundation intends to maximize the portfolio's total return comprising income and net realized and unrealized gains and losses. This objective is to be accomplished by assuming a prudent level of risk in the investment of the UNTHSC Foundation assets. Complete audited financial statements of the UNTHSC Foundation can be obtained by writing to UNTHSC Foundation at 3500 Camp Bowie Boulevard Suite 802, Fort Worth, Texas, 76107.

As of August 31, 2021, total investments held by the UNTHSC Foundation, including the System portion, consisted of the following investment types:

| Investment | Fair Value |
|--------------------------|--------------------------|
| Equity | \$ 62,135,583.00 |
| International Equity | 26,993,941.00 |
| Domestic Mutual Funds | 37,131,106.00 |
| Miscellaneous | 5,311,013.00 |
| Total investments | \$ 131,571,643.00 |

The System's portion of the UNTHSC Foundation Pool of investments as of August 31, 2021 is \$105,566,135.30.

The UNTHSC Foundation Pool's investments are not rated by Standard & Poor's. As of August 31, 2021, the UNTHSC Foundation 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 UNTHSC Foundation Pool's investments. The UNTHSC Foundation Pool did not have investments exposed to custodial credit risk. The UNTHSC Foundation Pool's investments 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, 2021, the System's investments in the UNTHSC Foundation 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.

International Equity

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

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Domestic Mutual Funds

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

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.

Fair Value Measurements

The System's investments are recorded at fair value as of August 31, 2021, 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, 2021:

| | 8/31/2021 | Fair Value Measurements Using | | |
|--|--------------------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by Fair Value Level | | | | |
| Equity | \$ 45,453,370.35 | \$ 45,453,370.35 | \$ - | \$ - |
| Domestic Mutual Funds | 61,686,885.86 | 61,686,885.86 | - | - |
| International Mutual Funds | 27,513,664.48 | 27,513,664.48 | - | - |
| Fixed Income Money Market and Bond Mutual Funds | 222,172,080.60 | 222,172,080.60 | - | - |
| Real Estate Index Fund | 12,100,118.94 | 12,100,118.94 | - | - |
| Miscellaneous | 32,424,144.52 | | 25,461,640.52 | 6,962,504.00 |
| Total Investments at Fair Value | \$ 401,350,264.75 | \$ 368,926,120.23 | \$ 25,461,640.52 | \$ 6,962,504.00 |
| Investments and Cash Equivalents Measured at NAV | | | | |
| Other Commingled Funds (TexStar) | \$ 27,596,699.25 | | | |
| Externally Managed Investments - Foundation Managed Pools | 194,765,171.32 | | | |
| Total Investments at NAV | \$ 222,361,870.57 | | | |
| Total Investments at Fair Value | \$ 623,712,135.32 | | | |
| Investments and Cash Equivalents not Measured at Fair Value | | | | |
| Repurchase Accounts | \$ 17,249,833.22 | | | |
| Other Commingled Funds (TexTERM) | 32,260,623.39 | | | |
| Other Commingled Funds (TexPool) | 16,134,282.99 | | | |
| Other Commingled Funds (TexasCLASS) | 27,525,534.78 | | | |
| Total Investments not Measured at Fair Value | \$ 93,170,274.38 | | | |
| Total Investments | \$ 716,882,409.70 | | | |

Investments classified in Level 1 of the fair value hierarchy, totaling \$368,926,120.23 for the year ended August 31, 2021, are valued using quoted prices in active markets. Fair values for hedge funds using level 2 inputs are based

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

on daily valuations of assets and reported to investors on a monthly basis. Investments may include less liquid securities, direct loans or debt securities, and distressed debt combined with the use of derivatives and leverage. Valuations not directly observable may be determined by pricing and performance models. Fair values for private equity funds using level 3 inputs are often not directly observable. Fair valuations published by general partners for the use of limited partner investors are often determined by the best information available and audited by outside third party auditors. Investments are typically valued on a quarterly basis.

\$89,199,036.02 of the System's externally managed investments are managed by the UNT Foundation. The UNT Foundation Pool has the following recurring fair value measurements as of August 31, 2021:

| | 8/31/2021 | 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 | \$ 24,875,776.80 | \$ 24,875,776.80 | \$ - | \$ - |
| Domestic Mutual Funds | 92,315,407.62 | 92,315,407.62 | - | - |
| International Mutual Funds | 74,209,752.00 | 74,209,752.00 | - | - |
| Fixed Income Money Market and Bond Mutual Funds | 58,033,017.52 | 58,033,017.52 | - | - |
| US Private Company Common Stock | 11,330,631.00 | - | - | 11,330,631.00 |
| Total Investments at Fair Value | \$ 260,764,584.94 | \$249,433,953.94 | \$ - | \$11,330,631.00 |
| Investments and Cash Equivalents Measured at NAV | | | | |
| International Other Commingled Funds | \$ 22,120,645.88 | | | |
| Hedge Funds | 15,514,047.52 | | | |
| Private Debt/Equity | 14,664,925.22 | | | |
| Miscellaneous | 2,566,523.47 | | | |
| Total Investments at NAV | \$ 54,866,142.09 | | | |
| Total Investments | \$ 315,630,727.03 | | | |

\$105,566,135.30 of the System's externally managed investments are managed by the UNTHSC Foundation. The UNTHSC Foundation Pool has assets with the following recurring fair value measurements as of August 31, 2021:

| | 8/31/2021 | 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 - US Large Cap | \$ 50,350,783.00 | \$ 50,350,783.00 | \$ - | \$ - |
| Equity - US Mid/Small Cap | 2,884,189.00 | 2,884,189.00 | - | - |
| Equity - Global | 379,146.00 | 379,146.00 | - | - |
| Equity - Foreign | 26,614,795.00 | 26,614,795.00 | - | - |
| Emerging Markets | 8,900,611.00 | 8,900,611.00 | - | - |
| Mutual Funds - Bonds | 37,131,106.00 | 37,131,106.00 | - | - |
| Alternative Assets | 543,820.00 | 543,820.00 | - | - |
| Total Investments at Fair Value | \$ 126,804,450.00 | \$ 126,804,450.00 | \$ - | \$ - |
| Investments and Cash Equivalents not Measured at Fair Value | | | | |
| Cash Equivalents | \$ 1,281,352.00 | | | |
| Alternative Investments | 3,485,841.00 | | | |
| Total Investments not Measured at Fair Value | \$ 4,767,193.00 | | | |
| Total Investments | \$ 131,571,643.00 | | | |

Within the pools, 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 Hedge Funds and Real Estate Funds (REITs) are determined by third-party valuations.

Other Commingled Funds consists of funds invested with TexStar, TexPool, TexasTERM, and TexasCLASS. 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

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

of \$1.00, although this cannot be fully guaranteed. The System reports its investment with TexStar of \$27,596,699.25 at fair value and reports its investment with TexPool, TexasTERM, and TexasCLASS of \$75,920,441.16 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 – UNT Foundation and UNTHSC Foundation managed endowments

The System records its unitized portion of the UNT Foundation and UNTHSC Foundation-held investments using NAV. As of August 31, 2021, \$194,765,171.32 of the System's externally managed investments are managed by the UNT Foundation and the UNTHSC Foundation.

| Fair Value | Fair Value | Frequency | Frequency | Notice | Notice | Unfunded Commitment |
|------------------|--------------------------|-------------|--------------|-------------|--------------|---------------------|
| | | Range - Low | Range - High | Range - Low | Range - High | |
| Hedge Funds | \$ 4,514,890.26 | Quarterly | Quarterly | 45 Days | 180 Days | \$0 |
| Equity Funds | 78,810,527.21 | Daily | Monthly | 1 Day | 60 Days | 0 |
| Mutual Funds | 95,726,250.96 | Daily | Monthly | 1 Day | 60 Days | 0 |
| Commingled Funds | 6,437,539.17 | Monthly | Monthly | 10 Day | 30 Days | 0 |
| Private Debt | 4,267,779.11 | N/A | N/A | N/A | N/A | 0 |
| Miscellaneous | 5,008,184.61 | N/A | N/A | N/A | N/A | 0 |
| Total | \$ 194,765,171.32 | | | | | |

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, 2021 is as follows:

| | September 1, 2020 | Additions | Reductions | August 31, 2021 |
|-------------------------------|-------------------------|-------------------------|------------------------|-------------------------|
| Series A Commercial Paper | \$ 37,330,000.00 | \$ 15,847,000.00 | \$ 3,177,000.00 | \$ 50,000,000.00 |
| Series B Commercial Paper | 7,735,000.00 | 18,400,000.00 | - | 26,135,000.00 |
| Total Commercial Paper | \$ 45,065,000.00 | \$ 34,247,000.00 | \$ 3,177,000.00 | \$ 76,135,000.00 |

The outstanding balance of commercial paper at August 31, 2021 was \$76,135,000.00 at an average interest rate of 0.14%. Average commercial paper maturity during the year ended August 31, 2021 was approximately 38 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 commercial paper programs do not have (1) unused lines of credits, (2) assets pledged as collateral, or (3) terms specified in debt agreements related to significant (i) events of default with finance-related consequences, (ii) termination events with finance-related consequences, and (iii) subjective acceleration clauses.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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.

Note 5: Long-Term Liabilities

Changes in Long-Term Liabilities

The following changes occurred in long-term liabilities during the year ended August 31, 2021:

| | September 1, 2020 | Additions | Reductions | August 31, 2021 | Amounts Due Within One Year | Amounts Due Thereafter |
|--|----------------------------|--------------------------|--------------------------|----------------------------|-----------------------------|----------------------------|
| Bonds Payable: | | | | | | |
| Revenue Bonds Payable | \$ 757,940,000.00 | \$ - | \$ 42,445,000.00 | \$ 715,495,000.00 | \$ 46,345,000.00 | \$ 669,150,000.00 |
| Unamortized Net Premiums | 58,870,798.33 | - | 6,747,863.80 | 52,122,934.53 | 6,264,215.75 | 45,858,718.78 |
| Direct Placement Revenue Bonds Payable | 17,565,000.00 | - | 2,465,000.00 | 15,100,000.00 | 2,525,000.00 | 12,575,000.00 |
| Total Revenue Bonds Payable | \$ 834,375,798.33 | \$ - | \$ 51,657,863.80 | \$ 782,717,934.53 | \$ 55,134,215.75 | \$ 727,583,718.78 |
| Capital Lease Obligations: | | | | | | |
| Capital Lease Obligations | \$ 945,829.26 | \$ 48,878.95 | \$ 250,707.61 | \$ 744,000.60 | \$ 303,799.29 | \$ 440,201.31 |
| Direct Borrowing Capital Leases | 4,423,089.07 | - | 1,595,723.04 | 2,827,366.03 | 1,494,180.85 | 1,333,185.18 |
| Total Capital Lease Obligations | \$ 5,368,918.33 | \$ 48,878.95 | \$ 1,846,430.65 | \$ 3,571,366.63 | \$ 1,797,980.14 | \$ 1,773,386.49 |
| Claims and Judgments | | | | | | |
| Claims and Judgments | \$ 1,576,965.00 | \$ 521,000.00 | \$ 588,232.00 | \$ 1,509,733.00 | \$ 473,815.00 | \$ 1,035,918.00 |
| Employees' Compensable Leave | 29,820,824.07 | 4,603,427.66 | 3,959,410.91 | 30,464,840.82 | 4,623,136.21 | 25,841,704.61 |
| Asset Retirement Obligation | 2,480,625.00 | 120,375.00 | - | 2,601,000.00 | - | 2,601,000.00 |
| Net Pension Liability | 180,478,041.00 | 24,054,648.00 | 15,344,836.00 | 189,187,853.00 | - | 189,187,853.00 |
| Net OPEB Liability | 451,684,314.00 | 98,634,069.00 | 61,094,582.00 | 489,223,801.00 | 16,318,756.00 | 472,905,045.00 |
| Other Non-Current Liabilities | 3,261,377.97 | 266,589.16 | 786,906.72 | 2,741,060.41 | 1,577,413.30 | 1,163,647.11 |
| Total Long-Term Liabilities | \$ 1,509,046,863.70 | \$ 128,248,987.77 | \$ 135,278,262.08 | \$ 1,502,017,589.39 | \$ 79,925,316.40 | \$ 1,422,092,272.99 |

Revenue Bonds Payable

Scheduled principal and interest payments for revenue bonds issued and outstanding as of August 31, 2021 are as follows:

| Year | Principal | Interest | Total |
|--------------|--------------------------|--------------------------|----------------------------|
| 2022 | \$ 46,345,000.00 | \$ 30,840,851.16 | \$ 77,185,851.16 |
| 2023 | 40,430,000.00 | 28,983,424.10 | 69,413,424.10 |
| 2024 | 43,635,000.00 | 27,438,011.02 | 71,073,011.02 |
| 2025 | 41,795,000.00 | 25,833,241.68 | 67,628,241.68 |
| 2026 | 40,590,000.00 | 24,155,973.90 | 64,745,973.90 |
| 2027-2031 | 215,400,000.00 | 94,215,263.80 | 309,615,263.80 |
| 2032-2036 | 129,055,000.00 | 51,957,925.80 | 181,012,925.80 |
| 2037-2041 | 86,140,000.00 | 27,337,200.90 | 113,477,200.90 |
| 2042-2046 | 49,435,000.00 | 10,714,085.20 | 60,149,085.20 |
| 2047-2050 | 22,670,000.00 | 2,063,777.10 | 24,733,777.10 |
| Total | \$ 715,495,000.00 | \$ 323,539,754.66 | \$ 1,039,034,754.66 |

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Direct Placement Revenue Bonds Payable

Scheduled principal and interest payments for direct placement revenue bonds issued and outstanding as of August 31, 2021 are as follows:

| Year | Principal | Interest | Total |
|--------------|-------------------------|------------------------|-------------------------|
| 2022 | \$ 2,525,000.00 | \$ 362,400.00 | \$ 2,887,400.00 |
| 2023 | 2,585,000.00 | 301,800.00 | 2,886,800.00 |
| 2024 | 2,650,000.00 | 239,760.00 | 2,889,760.00 |
| 2025 | 2,710,000.00 | 176,160.00 | 2,886,160.00 |
| 2026 | 2,775,000.00 | 111,120.00 | 2,886,120.00 |
| 2027 | 1,855,000.00 | 44,520.00 | 1,899,520.00 |
| Total | \$ 15,100,000.00 | \$ 1,235,760.00 | \$ 16,335,760.00 |

At August 31, 2021, the System had outstanding revenue bonds payable from direct placements of \$15,100,000.00. The direct placement revenue bonds do not have existing provisions related to early terminations or payment accelerations. As of August 31, 2021, the System has no unused lines of credit. The Series 2018 Bond includes the following provision: For so long as this bond is outstanding, if the issuer defaults in the timely payment of principal or interest on this bond when due, this bond shall bear interest at the rate of 8.00% per annum, until such time as the payment default is cured.

Total interest paid during 2021 for revenue bonds and direct placement revenue bonds amounted to \$32,030,663.48. Total interest and fiscal charges incurred for the year ended August 31, 2021 was \$32,363,447.72. In addition, the System recorded (\$6,747,863.80) and \$439,505.84 to interest expense relating to the amortization of premiums and deferred inflows and outflows of resources from bond refundings, respectively. The resulting amount of \$26,055,089.76 was reported as interest expense and fiscal charges for the year ended August 31, 2021.

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 the sales of receivables and future revenues, versus the pledging of receivables or future revenues to repay a borrowing (a collateralized borrowing).

Total pledged revenues consist of available pledged revenues, which include the gross revenues of the Revenue Financing System (“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:

| | Revenue Bonds | Direct Placement Revenue Bonds |
|--|---------------------|--------------------------------|
| Pledged Revenue Required for Future | | |
| Principal and Interest on Existing Debt | \$ 1,039,034,754.66 | \$ 16,335,760.00 |
| Term of Commitment Year Ending 8/31 | 2050 | 2027 |
| Percentage of Pledged Revenue | 100.0% | 100.0% |
| Current Year Pledged Revenue | \$ 1,046,196,663.90 | \$ 1,046,196,663.90 |
| Current Year Principal and Interest Paid | \$ 74,054,103.48 | \$ 2,886,560.00 |

Capital Lease Obligations and Direct Borrowing Capital Lease Obligations

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

Claims and Judgments

As of August 31, 2021, the Claims and Judgments liability accrual is comprised of incurred but not reported (“IBNR”) activity associated with HSC and a legal settlement. 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 11,

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Contingencies and Commitments, and Note 13, *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 vacation 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.

Asset Retirement Obligation

As of August 31, 2021, the System held two radioactive material licenses associated with facilities at UNT and HSC. The estimated remaining useful life of the associated tangible capital assets is 238 months and 154 months, respectively. Licensing of Radioactive Materials is regulated by the State of Texas via Texas Administrative Code Title 25 Health Services, Part 289 Radiation Control, Subpart 252 Licensing of Radioactive Materials. The System estimated the obligation amount using best-estimate current value based on settlement amount and recorded the initial measurement as a deferred outflow and a non-current liability. The System will assess the ARO account balances annually for any significant changes in current value and make all necessary adjustments. ARO balances are reduced annually by the amount of actual expenditures to retire the asset. In accordance with TAX Title 25, Part 289, subpart 201(c), the System is exempted from posting the financial instruments specifically based upon being a state funded academic facility actively working to reduce the amount of radioactive material authorized on its licenses.

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.

Other Non-Current Liabilities

The System reported balances in Other Non-Current Liabilities in fiscal year 2021 related to other liabilities, including the wind down of the Perkins Loan Program. Specifically, the federal share to be returned in proportion to the total excess liquid capital of the Perkins Loan Program was recorded as an other non-current liability in 2021.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Note 6: Bonded Indebtedness

At August 31, 2021, the System had revenue bonds principal outstanding of \$730,595,000.00. 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, 2021 is summarized in the table below:

| Bond | Purpose | Issue Date | Interest Rates | Amount Issued | Total Principal Outstanding as of 8/31/21 |
|---|--|------------|-------------------|----------------------------------|---|
| Public Offerings | | | | | |
| 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 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 | \$ 4,320,000.00 |
| 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 | 205,000.00 |
| 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 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 | 101,260,000.00 |
| 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 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 | 46,405,000.00 |
| 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 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 | 162,370,000.00 |
| 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 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 | 131,045,000.00 |
| RFS Refunding Bonds, Series 2018A | To provide funds for the purposes of constructing, improving, renovating, and equipping property; refunding a portion of the outstanding commercial paper notes; and paying certain costs of issuing the bonds | 9/11/2018 | 3.0000%-5.0000% | 149,425,000.00 | 149,265,000.00 |
| RFS Forward Refunding Bonds, Series 2018B | To provide funds for the purposes of constructing, improving, renovating, and equipping property; refunding a portion of the outstanding commercial paper notes; and paying certain costs of issuing the bonds | 9/11/2018 | 2.3000%-3.5500% | 22,685,000.00 | 14,965,000.00 |
| RFS Refunding Bonds, Series 2020A | To provide funds for the purposes of refunding a portion of the Revenue Financing System Bonds Series 2010, 2015, and 2015C for constructing, improving, renovating, and equipping property; and paying certain costs of issuing the bonds | 7/2/2020 | 2.0000% - 5.0000% | 59,475,000.00 | 51,040,000.00 |
| RFS Refunding Bonds, Taxable Series 2020B | To provide funds for the purposes of refunding a portion of the Revenue Financing System Bonds Series 2012A and 2012B; a portion of the outstanding commercial paper notes; for constructing, improving, renovating, and equipping property; and paying certain costs of issuing the bonds | 7/2/2020 | 0.6450% - 3.0020% | 55,240,000.00 | 54,620,000.00 |
| | | | | Total Public Offerings | \$ 906,170,000.00 |
| Direct Borrowings | | | | | |
| 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 | \$ 15,100,000.00 |
| | | | | Total Direct Placements | \$ 22,845,000.00 |
| | | | | Total Bonded Indebtedness | \$ 929,015,000.00 |

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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, 2021, the par value outstanding on cash defeased bonds was \$2,335,000.00.

In 2020, the System advanced refunded a portion of the Series 2012A bonds and Series 2012B bonds. As of August 31, 2021, the par value outstanding on advanced refunded bonds were \$33,650,000.00 for Series 2012A and \$3,080,000.00 for Series 2012B. The par value outstanding represents the portion that is outstanding but will be paid from escrow.

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 \$4,465,943.94 in 2021. The lease terms typically range from 12 to 60 months, where some lease terms contain optional renewals. There were no contingent payments for the period ended August 31, 2021. Future minimum lease payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2021, were as follows:

| Fiscal Year | Lease Payments |
|--|-------------------------|
| 2022 | \$ 4,847,833.24 |
| 2023 | 3,586,484.47 |
| 2024 | 971,563.37 |
| 2025 | 160,088.26 |
| 2026 | 132,980.84 |
| 2027 – 2031 | 587,379.80 |
| 2032 – 2036 | 587,379.80 |
| 2037 – 2041 | 587,379.80 |
| 2042 – 2046 | 587,379.80 |
| 2047 – 2051 | 399,879.92 |
| 2052 – 2093 | 2,308,992.00 |
| Total Future Minimum Operating Lease Payments | \$ 14,757,341.30 |

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, 2021, were as follows:

| Assets Leased | 2021 |
|--------------------------------|-------------------------|
| Buildings: | |
| Cost | \$ 64,606,643.18 |
| Less: Accumulated Depreciation | (20,646,221.73) |
| Carrying Value | \$ 43,960,421.45 |
| Parking Garage: | |
| Cost | \$ 16,569,524.80 |
| Less: Accumulated Depreciation | (7,559,656.93) |
| Carrying Value | \$ 9,009,867.87 |
| Total Carrying Value | \$ 52,970,289.32 |

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Rental income for operating leases was \$4,768,322.76 in 2021. There were no contingent rentals for the period ended August 31, 2021. Future minimum lease income under non-cancelable operating leases as of August 31, 2021, was as follows:

| Year | Lease Income |
|-----------------------------------|-------------------------|
| 2022 | \$ 6,455,691.53 |
| 2023 | 2,922,155.25 |
| 2024 | 2,772,931.67 |
| 2025 | 2,357,598.27 |
| 2026 | 2,003,378.28 |
| 2027 – 2031 | 4,123,274.51 |
| Total Minimum Lease Income | \$ 20,635,029.51 |

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. GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, requires the reclassification of certain capital leases as direct borrowings. For fiscal year 2021, the System has leases that qualify as a financed purchase, which are presented as direct borrowing capital lease obligations herein. The leases do not have (1) unused lines of credits, (2) assets pledged as collateral, or (3) terms specified in debt agreements related to significant (i) events of default with finance-related consequences, (ii) termination events with finance-related consequences, and (iii) subjective acceleration clauses. A summary of original capitalized costs and accumulated depreciation of all assets under capital lease as of August 31, 2021, is presented below:

| Assets Under Capital Lease or Direct Borrowing | Capital Lease | Direct Borrowing |
|---|----------------------|------------------------|
| Equipment: | | |
| Cost | \$ 1,443,522.52 | \$ 7,128,696.41 |
| Less: Accumulated Depreciation | (945,163.55) | (3,814,427.74) |
| Carrying Value | \$ 498,358.97 | \$ 3,314,268.67 |
| Vehicles: | | |
| Cost | \$ 597,339.21 | \$ - |
| Less: Accumulated Depreciation | (376,620.12) | - |
| Carrying Value | \$ 220,719.09 | \$ - |
| Total Carrying Value as of August 31, 2021 | \$ 719,078.06 | \$ 3,314,268.67 |

Capital lease obligations are due in monthly, quarterly or annual installments. Future minimum lease payments for assets under capital lease at August 31, 2021, were as follows:

| Year | Principal | Interest |
|--|----------------------|---------------------|
| 2022 | \$ 303,799.29 | \$ 10,717.93 |
| 2023 | 269,085.06 | 5,503.62 |
| 2024 | 144,481.30 | 1,096.85 |
| 2025 | 25,814.49 | 72.60 |
| 2026 | 820.46 | - |
| Total Future Minimum Lease Payments | \$ 744,000.60 | \$ 17,391.00 |

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

The direct borrowing capital lease obligations are due in annual installments. Future minimum lease payments for the asset under direct borrowing capital lease obligations at August 31, 2021, were as follows:

| Year | Principal | Interest |
|--|------------------------|--------------------|
| 2022 | \$ 1,494,180.85 | \$ 5,826.24 |
| 2023 | 1,333,185.18 | 2,821.91 |
| Total Future Minimum Lease Payments | \$ 2,827,366.03 | \$ 8,648.15 |

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. All employees of public, state-supported education institutions in Texas who are employed for one-half or more of the standard workload and not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the TRS Plan. 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 Annual Comprehensive 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.

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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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 2020 for fiscal 2021 reporting, the amount of the System's contributions recognized by the plan was \$14,574,757.00. 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 2020. Depending upon the source of funding for the employee's compensation, the State or the System contributes a percentage of participant salaries totaling 7.5% of annual compensation for during the measurement period of 2020.

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 2020 Annual Comprehensive Financial Report.

At August 31, 2021, the System reported a liability of \$189,187,853.00 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, 2020 (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 0.3532394693%, which was an increase of 0.0060536533% from the 0.3471858160% 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, 2019 through August 31, 2020 (the "measurement period"). During the measurement period, the amount of the System's contributions reported by the State was \$4,816,349.03. The State's proportionate share for those contributions was 0.0011673091%. The amount of net pension liability related to the System reported by the State was \$62,518,691.27. The amount reported by the state is related to on-behalf contributions, which are recognized as State appropriation general revenue on the System's financial statements in the fiscal year that the State contributed the amounts to TRS on the System's behalf.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

For the year ended August 31, 2021, the System recognized pension expense of \$24,405,784.00. At August 31, 2021, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Contributions subsequent to the measurement date | \$ 14,795,803.00 | \$ - |
| Changes of assumptions | 43,898,313.00 | 18,665,257.00 |
| Difference between expected and actual experience | 345,442.00 | 5,279,731.00 |
| Change in proportion and contribution difference | 20,702,254.00 | 17,660,108.00 |
| Net difference between projected and actual investment return | 3,829,945.00 | - |
| Total | \$ 83,571,757.00 | \$ 41,605,096.00 |

The \$14,795,803.00 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 2022. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year | Expense |
|--------------|-------------------------|
| 2022 | \$ 2,737,175.00 |
| 2023 | 10,807,535.00 |
| 2024 | 11,126,773.00 |
| 2025 | 3,857,824.00 |
| 2026 | (1,440,106.00) |
| Thereafter | 81,657.00 |
| Total | \$ 27,170,858.00 |

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, 2020 measurement date:

| Actuarial Methods and Assumptions | TRS Plan |
|--|---|
| Actuarial Valuation Date | August 31, 2019 rolled forward to August 31, 2020 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Amortization Method | Level Percentage of Payroll, Floating |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Discount Rate | 7.25% |
| Investment Rate of Return | 7.25% |
| Long-term Expected Rate of Return | 7.25% |
| Municipal Bond Rate as of August 2020 | 2.33% |
| Inflation | 2.30% |
| Salary Increase | 3.05% to 9.05% including inflation |
| Mortality | |
| Active | 90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality |
| Post-Retirement | 2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale U-MP |
| Ad Hoc Post-Employment Benefit Changes | None |

The source for the municipal bond rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

The actuarial assumptions used in the valuation were primarily based on the result of an actuarial experience study for the three-year period ended August 31, 2017 and adopted in July 2018. The mortality rates were based on 90% of the RP 2014 employee Mortality Tables for males and females. The Post-retirement mortality rates were based on 2018 TRS Healthy Pensioner Mortality Tables with full generation projection using Scale U-MP. The actuarial assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of Aug. 31, 2019 with no changes since the prior measurement date.

There have been no changes to the benefit provisions of the TRS Plan since the prior measurement date. The discount rate of 7.25% was applied to measure the total net pension liability. The discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projected cash flows into and out of the TRS Plan assumed that active members, employers, and the non-employer contributing entity make their contributions at the statutorily required rates. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% over the next several years. This includes a factor for all employer and state contributions for active and rehired retirees. Based on these assumptions, the TRS Plan's fiduciary net position and future contributions were sufficient to finance the benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all 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 in which best estimate ranges of expected future real rates of return (net of pension plan 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. | 18.00% | 3.90% |
| Non-U.S. Developed | 13.00% | 5.10% |
| Emerging Markets | 9.00% | 5.60% |
| Private Equity | 14.00% | 6.70% |
| Stable Value | | |
| U.S. Treasury | 16.00% | -0.70% |
| Absolute Return | | 1.80% |
| Stable Value Hedge Funds | 5.00% | 1.90% |
| Real Return | | |
| Real Assets | 15.00% | 4.60% |
| Energy, Natural Resources and Infrastructure | 6.00% | 6.00% |
| Commodities | | 0.80% |
| Risk Parity | | |
| Risk Parity | 8.00% | 3.00% |
| Asset Allocation Leverage Cash | 2.00% | -1.50% |
| Asset Allocation Leverage | -6.00% | -1.30% |
| Total | <u>100.00%</u> | |

* Target allocations are based on a fiscal year 2020 policy model.

** Capital Market assumptions come from Aon Hewitt (as of 8/31/2020).

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

The following presents the System’s proportionate share of the net pension liability calculated using the discount rate of 7.25%, 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 one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

| 1.0% Decrease (6.25%) | Current Discount Rate (7.25%) | 1.0% Increase (8.25%) |
|----------------------------------|--|----------------------------------|
| \$ 291,724,284.00 | \$ 189,187,853.00 | \$ 105,879,250.00 |

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 participation.

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 2021 plus any local supplement for a maximum 8.50% of annual compensation) for the year ended August 31, 2021, is provided in the following table:

| ORP Participation | |
|--------------------------|-------------------------|
| Member Contributions | \$ 8,766,448.21 |
| Employer Contributions | 9,192,417.36 |
| Total | \$ 17,958,865.57 |

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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. Detailed information about the ERS Plan's fiduciary net position is available in a separately issued Annual Comprehensive 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, vision and dental insurance benefits to eligible 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 for an expected period of 4.5 months or more are eligible for partial health benefits under ERS. UNTS employees that work 30 or more hours for an expected period of 4.5 months or more are eligible for full health benefits under ERS. Employees may retire at age 65 with 10 years of service with an employer who participated in the ERS Plan or any combination of age plus 10 years of service with an employer who participated in the ERS Plan 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 2020 for fiscal 2021 reporting, the amount of the System's contributions recognized by the plan for retirees was \$11,638,254.00. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution.

Contributions to ERS for the year ended August 31, 2021 for active and retired employees were as follows:

| ERS Participation | |
|-------------------------------|-------------------------|
| Member Contributions | \$ 17,729,948.52 |
| State On-Behalf Contributions | 23,899,323.00 |
| Employer Contributions | 43,932,177.06 |
| Total | \$ 85,561,448.58 |

The contribution requirements for the state and the members in the measurement period are presented below:

| Employer Contribution Rates | |
|--|-------------|
| Retiree Health and Basic Life Premium | |
| Retiree Only | \$ 624.82 |
| Retiree & Spouse | \$ 1,340.82 |
| Retiree & Children | \$ 1,104.22 |
| Retiree & Family | \$ 1,820.22 |

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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 of the Other Employee Benefit Trust Fund are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. 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 2020 ACFR.

At August 31, 2021, the System reported a liability of \$489,223,801.00 for its proportionate share of the collective net OPEB liability of the ERS Plan. The non-current portion of the liability was \$472,905,045.00 and the current portion was \$16,318,756.00. The collective net OPEB liability was measured as of August 31, 2020 (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 1.480494034%, which was an increase of 0.173638254% from the 1.306855780% measured at the prior measurement date. 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 entity to the ERS Plan for the period September 1, 2019 through August 31, 2020 (the "measurement period").

For the year ended August 31, 2021, the System recognized OPEB expense of \$82,625,186.00. At August 31, 2021, 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 | \$ 3,617,598.00 | \$ - |
| Changes of assumptions | 28,322,657.00 | 105,407,568.00 |
| Difference between expected and actual experience | - | 19,133,787.00 |
| Change in proportion and contribution difference | 264,006,285.00 | 17,280,725.00 |
| Net difference between projected and actual investment return | 146,007.00 | - |
| Total | \$ 296,092,547.00 | \$ 141,822,080.00 |

The \$3,617,598.00 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 the year ending August 31, 2022. 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> |
|--------------|--------------------------|
| 2022 | \$ 44,021,243.00 |
| 2023 | 58,051,518.00 |
| 2024 | 43,589,303.00 |
| 2025 | 3,878,628.00 |
| 2026 | 1,112,177.00 |
| Total | \$ 150,652,869.00 |

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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, 2020 measurement date:

| Actuarial Methods and Assumptions | <u>ERS Plan</u> |
|--|---|
| Actuarial Valuation Date | August 31, 2020 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Percent of Payroll, Open |
| Remaining Amortization Period | 30 Years |
| Actuarial Assumptions: | |
| Discount Rate | 2.20% |
| Inflation | 2.30% |
| Salary Increase | 2.30% to 9.05% including inflation |
| Healthcare Cost and Trend Rate | |
| HealthSelect | 8.80% for FY 2022, 5.25% for FY 2023, 5.00% for FY 2024, 4.75% for FY 2025, 4.60% for FY 2026, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY 2029 and later years |
| HealthSelect Medicare Advantage | (53.30%) for FY 2022, 0.00% for FY 2023, 66.67% for FY 2024, 24.00% for FY 2025, 4.60% for FY 2026, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY 2029 and later years |
| Pharmacy | 10.00% for FY 2022 and FY 2023, decreasing 100 basis points per year to 5.00% for FY 2028, and 4.30% for FY 2029 and later years |
| Aggregate Payroll Growth | 2.70% |
| 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 | 2020 State Retirees of Texas Mortality table with a 1 year set forward for male Certified Peace Officers/Custodial Officers ("CPO/CO") members and Ultimate MP Projection Scale projected from the year 2020 |
| Disabled Retirees | 2020 State Retirees of Texas Mortality table with a 3 year set forward for males and females with minimum rates at all ages of 3.0% for males and 2.5% for females, respectively, and Ultimate MP Projection Scale projected from the year 2020 |
| Active Members | Pub-2010 General Employees Active Member Mortality table for non-CPO/CO members and Pub-2010 Public Safety Active Member Mortality table for CPO/CO members with Ultimate MP Projection Scale from the year 2010 |
| Higher Education Members | |
| Service Retirees, Survivors and Other Inactive Members | Tables based on TRS experience with Ultimate MP Projection Scale from the year 2018 |
| Disabled Retirees | Tables based on TRS experience with Ultimate MP Projection Scale from year 2018 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 Ultimate MP Projection Scale from the year 2014 |
| Ad Hoc Post-Employment Benefit Changes | None |

The source of the municipal bond rate is the Bond Buyer Index of general obligations bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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, 2014 to August 31, 2019 for state agency members and for the period September 1, 2010 to August 31, 2017 for higher education members. The mortality rates were based on the tables identified in the above table titled *Actuarial Methods and Assumptions*.

The following assumptions and other inputs have been adopted since the prior valuation to reflect plan experience and trends as expected by ERS and the actuaries attesting to the results of the valuation:

- a. Demographic assumptions (including rates of preretirement and post-disability mortality for all state agency members; assumed rates of termination and retirement for certain members who are CPO/CO; and assumed salary, aggregate payroll increases and the assumed rate of general inflation) have been updated to reflect assumptions recently adopted by the ERS' Board of Trustees;
- b. Assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent experience and its effects on short-term expectations;
- c. The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence. The percentage of future female retirees assumed to be married and electing coverage for their spouse;
- d. The proportion of future retirees assumed to cover dependent children have been updated to reflect recent plan experience and expected trends. Moreover, the Patient-Centered Outcome Research Institute fees payable under the ACA have been updated to reflect IRS Notice 2020-44; and,
- e. The discount rate was changed from 2.97% as of Aug. 31, 2019 to 2.20% as of Aug. 31, 2020 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The only benefit revisions that have been adopted since the prior valuation for retirees and dependents are minor benefit changes that will become effective Jan. 1, 2021, since these changes were communicated to plan members in advance of the preparation of this report. These changes are not expected to have a significant impact on plan costs for fiscal year 2021 and are provided for in the 2021 Assumed Per Capital Health Benefit Costs.

The discount rate used to measure the total net OPEB liability was the municipal bond rate of 2.20%, a decrease of 0.77% from the 2.97% used in the prior year. 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 2.97%.

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 2.20%, 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 one percentage point lower (1.20%) or one percentage point higher (3.20%) than the current rate:

| 1.0% Decrease (1.20%) | Current Discount Rate (2.20%) | 1.0% Increase (3.20%) |
|--------------------------|----------------------------------|--------------------------|
| \$ 581,476,992.00 | \$ 489,223,801.00 | \$ 416,951,698.00 |

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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 one percentage point lower or one percentage point higher than the current rates:

| 1.0% Decrease HS/HSMA/Pharmacy (7.80/-54.30/9.00% decreasing to 3.30%) | Current Healthcare Cost Trend Rates HS/HSMA/Pharmacy (8.80/-53.30/10.00% decreasing to 4.30%) | 1.0% Increase HS/HSMA/Pharmacy (9.80/-52.30/11.00% decreasing to 5.30%) |
|---|---|--|
| \$ 409,448,138.00 | \$ 489,223,801.00 | \$ 593,801,364.00 |

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, 2021.

Note 11: 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.

Contingencies

As a result of the COVID-19 global pandemic, economic uncertainties have arisen which may negatively affect the net position of the System. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Young Conservatives of Texas Foundation v. University of North Texas, University of North Texas System, Neal Smatresk, President of the University of North Texas and Shannon Goodman, Vice President for Enrollment of the University of North Texas. Case No. 20-9524-442, 442nd Judicial District Court, Denton County, Texas. Declaratory Judgment. On November 16, 2020, the Young Conservatives of Texas Foundation filed suit challenging the constitutional validity of a state law that allows aliens who are not lawfully in the United States to pay in-state tuition while requiring U.S. citizens who are not Texas residents to pay higher out-of-state tuition. The suit seeks a judicial declaration that requires the State of Texas to allow U.S. citizens who are not Texas residents to pay in-state tuition if aliens who are not lawfully in the U.S. are charged in-state tuition. The likelihood of an unfavorable outcome is reasonably possible. The plaintiff is not seeking money damages. However, absent legislative action, UNT System would lose approximately \$10 million to \$11 million per academic year in tuition income.

Eminent Domain Matters. Probate Court, Denton County, Texas. In February 2019, the Board of Regents authorized eminent domain action for four parcels of land generally described as the UNT Gateway properties. As the last step prior to initiating eminent domain litigation, final offer letters were sent to the owners in late June 2019 offering the following amounts: (1) 1000 Avenue C, \$500,000; (2) 906 Avenue C, \$700,000; (3) 902 Avenue C, \$800,000; and (4) 903 Kendolph Street, \$500,000. The purchase of 906 Avenue C was concluded for a negotiated purchase price of \$1,400,000 in April 2020. Negotiations with the three remaining property owners have not been successful.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Commitments

The System continues to implement capital improvements to upgrade facilities. Approximately \$283.2 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: 73% Revenue Financing System Bonds, 20% HEF, 2% from gifts/donations, 2% Auxiliary Reserves, 2% cash and 1% commercial paper. Approximately \$133.6 million of the commitment, or roughly 47%, is expected to be spent in 2022.

Private investments are invested in limited partnerships with external investment managers or general partners who invest primarily in private equity transactions. These investments, both domestic and international, are illiquid and may not be realized for a period of several years after the investments are made. There are certain risks associated with these investments, some of which are liquidity risk, market risk, event risk and investment manager risk. As of August 31, 2021, the University of North Texas System has committed \$36,330,000.00 to various private investments, including \$19,330,000.00 committed to hedge funds. Of this amount, \$8,281,038.84 is unfunded.

Note 12: Subsequent Events

Capital Construction Assistance Projects State Funding

The Texas legislature passed Senate Bill 52 during its third special session, authorizing more than \$3.3 billion in revenue bonds to colleges and universities across the state to accommodate growth. The legislation changes the name of “tuition revenue bonds” to “capital construction assistance projects,” and allocates \$273 million to the UNT System, including \$113 million to UNT for a Science and Technology Research Building, \$100 million to UNT Dallas for a Science Building, and approximately \$60 million to HSC for campus optimization and space realignment to repurpose outdated space into flexible, multi-purpose rooms more useful for activities requiring skill-based educational components.

UNT System Chancellor

In November 2021, UNT Health Science Center President Dr. Michael R. Williams was selected as sole finalist to become the next UNT System Chancellor. Dr. Williams, a Health Science Center alumnus and former UNT System Regent, begins his new appointment on January 1, 2022.

Note 13: 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 11,

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Contingencies and Commitments. The System did not have any losses or settlements that exceeded insurance policy limits within the last three years.

Self-Insurance Arrangements

Health Care Professional Malpractice Self-Insurance Plan

HSC manages a health care malpractice self-insurance plan for its health care professionals. Effective September 1, 2020, the self-insurance plan eligibility for malpractice liability coverage was expanded from only physicians to all health care professionals. As of August 31, 2021, 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. Health care professional liability coverage is purchased for health care 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 for legal expenses but a \$5,000 deductible per claim for professional liability coverage damages only.

The following claims, judgments, and Incurred But Not Reported (“IBNR”) activity was determined for the year ended August 31, 2021 and August 31, 2020, respectively:

| | August 31, 2020 | Additions | Reductions | August 31, 2021 |
|--|------------------------|------------------|-------------------|------------------------|
| Incurred But Not Reported Self-Insurance Claims (HSC) ⁽¹⁾ | \$ 1,576,965.00 | \$ - | \$ 588,232.00 | \$ 988,733.00 |
| Claims and Judgments | \$ - | \$ 528,219.38 | \$ 7,219.38 | \$ 521,000.00 |
| | August 31, 2019 | Additions | Reductions | August 31, 2020 |
| Incurred But Not Reported Self-Insurance Claims (HSC) ⁽¹⁾ | \$ 834,543.00 | \$ 742,422.00 | \$ - | \$ 1,576,965.00 |
| Claims and Judgments | \$ - | \$ 104,029.22 | \$ 104,029.22 | \$ - |

⁽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 2021 was \$500,000. For the year ended August 31, 2021, 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, 2021, 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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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.

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 \$500,000,000 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, 2021, the System does maintain policies for out-of-state employees who reside in other states outside of Texas.

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 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, 2021.

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, 2021. Health benefits are provided through the various state contracts administered by the Employee Retirement System.

Miscellaneous

Other lines of insurance purchased include: camp accident/medical, commercial crime, fine arts, inland marine, foreign liability, global medical, kidnap and extortion, and professional liability for North Texas Regional Institutional Review Board.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Note 14: 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, 2021, the University of North Texas Foundation and the University of North Texas Health Sciences Center Foundation met the criteria for inclusion in the System's financial statements.

Discretely Presented Component Units

University of North Texas Foundation

The University of North Texas Foundation, Inc. is reported as a discrete component unit. The UNT Foundation's fiscal year end is August 31, consistent with the System. The UNT 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 UNT Foundation; furthermore, the UNT 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 UNT Foundation and the control and disposition of its assets are vested in the Board of Directors of the UNT Foundation. The System has no liability with regard to the UNT Foundation, its operations or liabilities. The majority of endowments supporting university scholarships and other System programs are owned by the UNT Foundation; therefore, including the UNT Foundation's financial reports is important to obtain a full understanding of the System's financial position and resources.

The UNT 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 UNT 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 UNT Foundation's Chief Executive Officer.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

An amended agreement was approved by the UNT 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 President for Advancement serves as the UNT Foundation's Director of Development and oversees, coordinates and exercises decision-making authority over the fundraising activities of both UNT and the UNT 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 UNT Foundation or expenditure of funds by the UNT 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 UNT Foundation as a discrete component unit in the System's financial statements.

University of North Texas Health Science Center Foundation

The UNTHSC Foundation is reported as a discrete component unit. The UNTHSC Foundation's fiscal year end is August 31, consistent with the System. The UNTHSC 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 Health Science Center. 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 UNTHSC Foundation. 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 UNTHSC Foundation and the control and disposition of its assets are vested in the Board of Directors of the UNTHSC Foundation. The System has no liability with regard to the UNTHSC Foundation, its operations or liabilities. A portion of the endowments supporting scholarships or programs/operations of the Health Science Center is owned by the UNTHSC Foundation, while another portion of the endowments is owned by the Health Science Center and placed with the UNTHSC Foundation for investment under terms of Management Agreements. Therefore, including the UNTHSC Foundation's financial reports is important to obtain a full understanding of the System's financial position and resources.

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

In February 2017, UNT Health Science Center updated its affiliation agreement with the UNTHSC Foundation to better define the relationship between the two entities and to comply with the statutory requirements of Chapter 2255 of the Texas Governance Code. The 2017 agreement provided clarity as to the relationships between the two parties, and the mutual responsibilities of each, separately and jointly, to advance the mission and work of the UNT Health Science Center.

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, 2021 related to state pass-through grants were \$35,357,469.89 and \$0.00 respectively.

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

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

Note 15: 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 | \$ 29,700,177.37 | Restricted Expendable |

⁽¹⁾ There was a positive fair value adjustment totaling \$10,078,632.20 for fiscal year 2021 related to true endowments. As of August 31, 2021, the System did not have any term endowments to report.

Discretely Presented Component Units

University of North Texas Foundation

The University of North Texas 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 UNT Foundation's Board of Directors, the target annual distribution rate shall be 4% of the average unit market value: for fiscal year 2021 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 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 UNT Foundation, a discrete component unit of the University of North Texas System.

| Endowment Type | Amount of Cumulative Net Appreciation ⁽¹⁾ | Reported in Net Assets |
|-----------------------|---|--|
| True Endowments | \$ 53,134,550.59 | Net Assets with Donor Restrictions Held in Perpetuity |

⁽¹⁾ There was a positive fair value adjustment totaling \$28,799,112.89 for fiscal year 2021 related to true endowments. As of August 31, 2021, the UNT Foundation did not have any term endowments to report.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

University of North Texas Health Science Center Foundation

The University of North Texas Health Science Center Foundation’s spending policy for 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 year.

The target distribution of spendable income to each unit of the endowment fund will be 4% of the moving average market value of the endowment fund for the preceding 12 quarters. Unless otherwise determined by the UNTHSC Foundation's Board of Directors, the target annual distribution rate shall be 4% of the average unit market value. For fiscal year 2021, the distribution rate was 4%. Distribution shall be made annually. This distribution amount shall be recalculated each year 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 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 UNTHSC Foundation, a discrete component unit of the University of North Texas System.

| Endowment Type | Amount of Cumulative Net Appreciation ⁽¹⁾ | Reported in Net Assets |
|-----------------------|---|---|
| True Endowments | \$ 15,532,448.00 | Net Assets with Donor Restrictions Held in Perpetuity |

⁽¹⁾ There was a positive fair value adjustment totaling \$3,563,563.00 for fiscal year 2021 related to true endowments. As of August 31, 2021, the UNTHSC Foundation did not have any term endowments to report.

Note 16: Termination Benefits

Health Care Related Termination Benefits

If a benefits eligible employee is enrolled in the Employees Retirement System of Texas health plan, he or she is eligible for Consolidated Omnibus Budget Reconciliation Act (“COBRA”) upon termination of employment. UNT System does not administer the COBRA plan as it is managed through ERS.

Non-Health Care Related Termination Benefits

UNT Health Science Center offered a Voluntary Separation Incentive Program (“VSIP”) to eligible full-time faculty members in fiscal year 2020 as part of the continuing efforts to prioritize funding for investment in strategic and operational initiatives. This program provides HSC a strategy towards reducing its overall operating costs while remaining committed to its mission, vision, and values. There were two options available. The 15 employees who elected to participate in the VSIP with an ending employment date on or before December 31, 2020 received one lump-sum payment equal to \$120,000.00 for Associate Professors, and \$150,000.00 for Professors less all required federal and state taxes and deductions as required by law (additional funding to support insurance coverage, if applicable). The 2 employees who elected to participate in the VSIP with an ending employment date on or before June 30, 2021 received one lump-sum payment equal to \$60,000.00 for Associate Professors, and \$75,000.00 for Professors less all required federal and state taxes and deductions as required by law (additional funding to support insurance coverage, if applicable). The total amount paid out to employees during fiscal year 2021 was \$1,800,664.00.

UNT announced a Voluntary Separation Program (“VSP”) for tenured faculty and administrators (with tenured faculty appointments in fiscal year 2020). The 20 employees who elected to participate in the VSP with an ending employment date no later than August 31, 2020 received a one-time payment representing one year of annual base salary. All federal and state taxes were withheld as required by law. This VSP allowed the university to reduce expenses and align operating costs with its strategic investments, priorities and goals. The total amount paid out to employees during fiscal year 2021 was \$2,065,805.18.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Comprehensive Financial Statements
For the Year Ended August 31, 2021

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, 2021 is presented below:

| | <u>Total</u> |
|---|---------------------------------|
| Deferred Outflows of Resources | |
| Unamortized Losses on Refunding of Debt | \$ 4,526,074.24 |
| Unamortized Losses on Refunding of Direct Placement Debt | 363,021.16 |
| Deferred Outflows of Resources Related to Asset Retirement Obligation | 1,805,955.93 |
| Deferred Outflows of Resources Related to Pensions | 83,571,757.00 |
| Deferred Outflows of Resources Related to OPEB | 296,092,547.00 |
| Total Deferred Outflows of Resources | <u>\$ 386,359,355.33</u> |
| Deferred Inflows of Resources | |
| Unamortized Gains on Refunding of Debt | \$ 1,054,803.14 |
| Deferred Inflows of Resources Related to Pensions | 41,605,096.00 |
| Deferred Inflows of Resources Related to OPEB | 141,822,080.00 |
| Total Deferred Inflows of Resources | <u>\$ 184,481,979.14</u> |

See Note 1, *Summary of Significant Accounting Policies*, Note 5, *Long Term Liabilities*, 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, asset retirement obligation, pensions, and OPEB.

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**NOTES TO THE
FINANCIAL STATEMENTS**

of the

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

DENTON, TEXAS

For the Year Ended August 31, 2021

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended August 31, 2021

Note 1: Principal Activity and Significant Accounting Policies

Organization

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

Basis of Presentation

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

Contributions

Contributions are generally 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 restricted support if they are received with donor stipulations that limit the use of the donated assets.

Endowment contributions are permanently restricted by the donor. Investment income available for distribution is recorded as donor 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 net assets with donor restrictions.

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for operating reserves and board-designated endowments.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Functional Allocation of Expenses

The costs of program and supporting services activities have been reported on a functional basis in the statements of activities in order to present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended August 31, 2021

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, 2021 and 2020, there was \$4,235,368 and \$9,852,958, respectively, of cash and cash equivalents in the UNT Foundation's investment accounts awaiting investment.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Real Property

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

Other Assets

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

Agency Funds

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

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and those differences could be material.

Subsequent Events

Subsequent events were evaluated through November 22, 2021, the date the financial statements were available to be issued.

Assets Held and Liabilities Under Split-Interest Agreements

Charitable Trusts

The UNT Foundation acts as trustee for various irrevocable trusts. These trusts are governed by the respective trust agreements, which generally provide for either an income stream or a future distribution of cash or other assets to us, in whole or in part, for a specified period or upon the occurrence of a specific event, respectively. If a trust is revocable, or if the maker of the trust reserves the right to replace us as the beneficiary of the trust, we record the assets placed in trust at fair value, with an equal and offsetting liability until such time that we receive distributions from the trust in accordance with its terms. If the trust is irrevocable, the trust assets are recorded at fair value, and a related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques. The excess of contributed assets over the trust liability is recorded as a contribution with donor restrictions until such amount is received via trust distribution or is expended in satisfaction of the donor-restricted purpose stipulated by the trust agreement, or both, if any. At that time, net assets with donor-imposed time or purpose restrictions are released to net assets without restrictions, and net assets with donor restrictions that are perpetual in nature are transferred to the endowment. In subsequent years, the liability for future trust payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the trust, the remaining liability is removed and recognized as income.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended August 31, 2021

Charitable Gift Annuities

Under charitable gift annuity contracts, we receive immediate title to contributed assets and agree to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques. The excess of contributed assets over the annuity liability is recorded as a contribution with donor restrictions. In subsequent years, the liability for future annuity payments is reduced by payments made to the specified beneficiaries and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income.

Note 2: Liquidity and Availability

Financial assets available for general expenditure without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

| | |
|--|---------------------|
| Cash and cash equivalents | \$ 16,220,771 |
| Less cash and cash equivalents included in the investment pool | (4,235,368) |
| Operating investments | 671,365 |
| Cash and cash equivalents included in donor restricted funds | (4,672,356) |
| Board designated reserves | (4,009,372) |
| | <u>\$ 3,975,040</u> |

Our endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes. Donor-restricted endowment funds are not available for general expenditure.

Our board-designated endowments of \$882,551 provide for annual distributions to the University of North Texas. Although we do not intend to spend from these board-designated endowments for general expenditures, these amounts could be made available if necessary.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments and money market funds.

Note 3: Fair Value Measurements and Disclosures

We report certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended August 31, 2021

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 - Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to our assessment of the quality, risk, or liquidity profile of the asset.

A significant portion of our investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values. We invest in CDs traded in the financial markets. Those CDs are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, and are classified within Level 2.

The fair value of the private company stock is based on the fair value determined by the company based on a specific valuation methodology and formula. This is considered to be a Level 3 measurement.

We use net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair values of certain hedge funds, private equity/debt funds and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

The following table presents investments measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at August 31, 2021.

Fair Value Measurements at August 31, 2021 Using

| Investments | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Investments Measured at NAV |
|--|-----------------------|---|--|--|--|
| U.S. and International Equities | | | | | |
| Securities and mutual funds | \$ 169,784,827 | \$ 169,784,827 | \$ - | \$ - | \$ - |
| Equity funds | 22,120,646 | - | - | - | 22,120,646 |
| | <u>\$ 191,905,473</u> | <u>\$ 169,784,827</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 22,120,646</u> |
| U.S. and International Fixed Income | | | | | |
| Mutual Funds | \$ 58,033,018 | \$ 58,033,018 | \$ - | \$ - | \$ - |
| Certificates of deposit | - | - | - | - | - |
| | <u>\$ 58,033,018</u> | <u>\$ 58,033,018</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Global Real Assets and Infrastructure Mutual Funds | \$ 21,616,110 | \$ 21,616,110 | \$ - | \$ - | \$ - |
| Private Real Assets | \$ 2,566,523 | \$ - | \$ - | \$ - | \$ 2,566,523 |
| Hedge Funds | \$ 15,514,047 | \$ - | \$ - | \$ - | \$ 15,514,047 |
| Private Equity/Debt Funds | \$ 14,664,925 | \$ - | \$ - | \$ - | \$ 14,664,925 |
| U.S. Private Company Common Stock | \$ 11,330,631 | \$ - | \$ - | \$ 11,330,631 | \$ - |
| Total Investments | <u>\$ 315,630,727</u> | <u>\$ 249,433,955</u> | <u>\$ -</u> | <u>\$ 11,330,631</u> | <u>\$ 54,866,141</u> |

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended August 31, 2021

The following table presents investments measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at August 31, 2020.

Fair Value Measurements at August 31, 2020 Using

| Investments | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Investments Measured at NAV |
|--|-----------------------|---|--|--|--|
| U.S. and International Equities | | | | | |
| Securities and mutual funds | \$ 134,566,144 | \$ 134,566,144 | \$ - | \$ - | \$ - |
| Equity funds | 22,147,869 | - | - | - | 22,147,869 |
| | <u>\$ 156,714,013</u> | <u>\$ 134,566,144</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 22,147,869</u> |
| U.S. and International Fixed Income | | | | | |
| Mutual Funds | \$ 40,697,214 | \$ 40,697,214 | \$ - | \$ - | \$ - |
| Certificates of deposit | 1,315,169 | - | 1,315,169 | - | - |
| | <u>\$ 42,012,383</u> | <u>\$ 40,697,214</u> | <u>\$ 1,315,169</u> | <u>\$ -</u> | <u>\$ -</u> |
| Global Real Assets and Infrastructure Mutual Funds | \$ 15,189,591 | \$ 15,189,591 | \$ - | \$ - | \$ - |
| Private Real Assets | \$ 500,409 | \$ - | \$ - | \$ - | \$ 500,409 |
| Hedge Funds | \$ 12,149,815 | \$ - | \$ - | \$ - | \$ 12,149,815 |
| Private Equity/Debt Funds | \$ 6,544,204 | \$ - | \$ - | \$ - | \$ 6,544,204 |
| U.S. Private Company Common Stock | \$ 13,979,423 | \$ - | \$ - | \$ 13,979,423 | \$ - |
| Total Investments | <u>\$ 247,089,838</u> | <u>\$ 190,452,949</u> | <u>\$ 1,315,169</u> | <u>\$ 13,979,423</u> | <u>\$ 41,342,297</u> |

The following is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable input (Level 3) for the years ended August 31, 2021 and 2020.

**Fair Value Measurements at Report Date Using
Significant Unobservable Inputs (Level 3)**

| | Investments |
|--|--|
| | US Private Company Common Stock |
| <u>Year ended August 31, 2021</u> | |
| Balance at August 31, 2020 | \$ 13,979,423 |
| Purchases/contributions of investments | - |
| Investment return, net | 1,188,935 |
| Sales | <u>(3,837,727)</u> |
| Balance at August 31, 2021 | <u>\$ 11,330,631</u> |
| <u>Year ended August 31, 2020</u> | |
| Balance at August 31, 2019 | \$ 15,753,150 |
| Purchases/contributions of investments | - |
| Investment return, net | 2,226,562 |
| Sales | <u>(4,000,289)</u> |
| Balance at August 31, 2020 | <u>\$ 13,979,423</u> |

In addition, the UNT Foundation has entered into investment agreements with several private equity, private debt, and private real estate funds that provide for capital calls in the future. The total amount of future capital committed to these investments by the UNT Foundation is \$13.48 million and \$19.34 million as of August 31, 2021 and August 31, 2020, respectively.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended August 31, 2021

Note 4: Fair Value of Financial Instruments

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

Note 5: Contributions Receivables

Contributions and other receivables as of August 31, 2021 and August 31, 2020 are as follows:

| | <u>August 31, 2021</u> | <u>August 31, 2020</u> |
|--|----------------------------|----------------------------|
| Contributions receivable in less than one year | \$ 2,260,636 | \$ 2,202,380 |
| Contributions receivable in one to five years | 7,445,618 | 9,887,704 |
| Contributions receivable in six to ten years | 509,000 | 962,000 |
| Contributions receivable in over ten years | - | - |
| Total Contributions Receivable | <u>\$ 10,215,254</u> | <u>\$ 13,052,084</u> |
| Less allowance for uncollectible amounts | (847,094) | (1,074,281) |
| Less discounts to net present value | (1,744,318) | (2,309,272) |
| Net Contributions Receivable | <u>\$ 7,623,842</u> | <u>\$ 9,668,531</u> |

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

Contributions receivable include a \$3.06 million receivable (net) as of August 31, 2021 related to a major gift received during the fiscal year ended August 31, 2019. The contribution receivable as of August 31, 2020 was \$4.08 million (net). The donor of this gift committed to a total gift to the UNT Foundation of \$30.0 million to be funded over a seven year period. The donor contributed common stock in a privately held company valued at \$25.0 million on the date of the gift (see Note 3). The gift agreement provides that a portion of the stock can be sold under a series of put options to fund the annual gift amounts. \$6.0 million worth of the stock was sold in April 2019, \$4.0 million of stock was sold in January 2020, \$3.8 million worth of stock was sold in March 2021, and up to \$4.0 million of stock will be sold each year for the next four years or until all of the stock has been sold. The donor has committed to make cash contributions to the UNT Foundation for any amount up to \$30.0 million that is not provided by the sale of the stock. The contribution receivable recorded is the current estimate of cash donations that will be required based on the current fair value of the stock.

Note 6: Net Assets without Donor Restrictions

The UNT Foundation's Board of Directors has designated \$882,551 and \$762,473 of net assets without donor restrictions as of August 31, 2021 and 2020 respectively, to fund 18 board-designated endowment funds. The funds will be used for scholarships in thirteen degree-granting institutions within the University of North Texas and five other programs within the University. During the fiscal years ended August 31, 2020, \$115,000 was added to the principal of the endowments.

Although the Board retains the right to re-designate these funds for another purpose, the intent is to offer multigenerational scholarship support to UNT students. Pursuant to FASB requirements, these endowments are included in Net Assets Without Donor Restrictions, however, these funds are not available for operating expenses.

Net assets without donor restrictions at August 31, 2021 and 2020 also include \$4,009,372 and \$2,254,945 respectively, which has been designated by the UNT Foundation's Board of Directors as a reserve for future operations.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended August 31, 2021

Note 7: Net Assets with Donor Restrictions

Net assets were restricted for the following:

| | <u>August 31, 2021</u> | <u>August 31, 2020</u> |
|---|------------------------------|------------------------------|
| UNT Department Gift & Fundraising Accounts | \$ 8,320,351 | \$ 13,709,727 |
| True Endowments according to Donor agreement | | |
| Endowments under Board Distribution Policy | 208,450,951 | 172,975,817 |
| Endowments with Donor defined distribution | 3,408,469 | 1,797,618 |
| Quasi Endowments according to Donor agreement | 12,200,489 | 9,981,915 |
| Split-interest agreements net of liabilities | 2,710,829 | 2,134,783 |
| Restricted Stock | 11,330,631 | 13,979,423 |
| Cash value of life insurance policies | 459,907 | 559,366 |
| Total Net Assets with Donor Restrictions | <u>\$ 246,881,627</u> | <u>\$ 215,138,649</u> |

Note 8: Underwater Endowments

Of the 1,009 total endowments at August 31, 2021, 4 have a market value that has fallen below historical cost. The amount that the market value is below historical cost of these 4 endowments is \$529 collectively. This compares to 13 endowments below historical cost by an amount of \$16,211 collectively at August 31, 2020.

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 UNT Foundation has been named owner and beneficiary. Premium payments made by the UNT Foundation are reimbursed by the donors of the policies. As of August 31, 2021 and 2020, there were a total of 18 and 21 such policies, respectively, with death benefits totaling \$1,569,346 and \$1,747,466 respectively, and cash values totaling \$459,907 and \$559,366 respectively.

Note 10: Income Taxes

The UNT Foundation is organized as a Texas nonprofit corporation and has been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), qualifies for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under IRC Sections 509(a)(1) and (3), respectively. The UNT Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. We have determined that the UNT Foundation is not subject to unrelated business income tax and has not filed an Exempt Organization Business Tax Return (Form 990-T) with the IRS.

Note 11: Retirement Plan

The UNT Foundation sponsors a defined contribution 403(b) retirement plan covering all full time employees of the UNT Foundation. Under the terms of the plan, the UNT 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 UNT Foundation contributions to the plan were \$95,383 and \$101,274 for the years ended August 31, 2021 and 2020, respectively.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.

Notes to the Financial Statements

For the Year Ended August 31, 2021

Note 12: Assets Held For Others

The UNT Foundation 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 UNT Foundation and invested in the UNT Foundation's Consolidated Investment Pool or the UNT Foundation's DFA Short-Term Government fund. The UNT endowment funds residing in the UNT Foundation's Consolidated Investment Pool are subject to the same investment management and distribution policies as the UNT Foundation's investments. The initial term of the agreement ended August 31, 2013, with a provision to automatically renew annually thereafter. On September 11, 2019 the agreement was re-written with an effective date of September 1, 2019, with the initial term ending on August 31, 2027 and a provision to automatically renew and extend for additional five-year terms.

Effective December 1, 2020, the UNT Foundation entered into a substantially similar investment management agreement with the University of North Texas at Dallas ("UNTD") to manage certain of its endowment assets in the UNT Foundation's Consolidated Investment Pool. The UNTD endowment funds are subject to the same investment management and distribution policies as the UNT Foundation's investments. The initial term of the agreement ends August 31, 2030, with a provision to automatically renew and extend for additional five-year terms. Additionally, if at some point, UNTD determines that its own foundation is operationally capable of performing the investment and management of the UNTD endowments prior to expiration of the agreement, it may terminate the agreement with 90 days' notice to the UNT Foundation.

The UNT Foundation also formerly held and invested 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 had been placed with the UNT Foundation and invested in the UNT Foundation's Consolidated Investment Pool. The UNTS investment funds were subject to the same investment management policy as the UNT Foundation's investments, but received monthly distributions. The initial term of the agreement effective on November 1, 2014 ended August 31, 2016 and contained 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 at August 31, 2018, and all of the funds have been transferred back to UNTS. The final distribution was made to UNTS on July 7, 2020.

UNT, UNTD, and UNTS are independent of the UNT Foundation in all respects. UNT, UNTD and UNTS are not subsidiaries or affiliates of the UNT Foundation and are not directly or indirectly controlled by the UNT Foundation. The Board of Regents of UNTS makes all decisions regarding the business and affairs of UNT, UNTD, and UNTS, and their long-term assets and endowment assets managed by the UNT Foundation are the exclusive property of UNT, UNTD, and UNTS respectively. Since the UNT Foundation does not have ownership of any of the UNT, UNTD, or UNTS 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 UNT Foundation.

A trust for which the UNT Foundation serves as Co-Trustee currently names the UNT Foundation as the remainder beneficiary; however, prior to the fiscal year ending August 31, 2021, the donor had retained the right to change the remainder beneficiary. As a result, the UNT Foundation recorded the assets held under this trust as assets held for others. Upon the donor's passing and the expiration of this right, the trust was reclassified to a trust obligation.

Assets held under these arrangements are included in the Statement of Financial Position at fair value, and the UNT Foundation realized net management fee income of \$752,800 and \$602,723, respectively, during the years ended August 31, 2021 and 2020 for its services.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2021

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

| | <u>August 31, 2021</u> | <u>August 31, 2020</u> |
|---|-----------------------------|-----------------------------|
| UNT endowment assets managed by the UNT Foundation | \$ 75,662,231 | \$ 62,763,036 |
| UNT Dallas endowment assets managed by the UNT Foundation | 13,536,806 | 972,306 |
| Trust for which beneficiary can be changed | - | 1,395,828 |
| Total Assets Held for Others | <u>\$ 89,199,037</u> | <u>\$ 65,131,170</u> |

Note 13: Finance Instruments and Credit Risk

The UNT Foundation manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, we have not experienced losses in any of these accounts. Investments are made by diversified investment managers whose performance is monitored by us and the investment committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, we and the investment committee believe that the investment policies and guidelines are prudent for the long-term welfare of the organization.

**NOTES TO THE
FINANCIAL STATEMENTS**

of the

**UNIVERSITY OF NORTH TEXAS
HEALTH SCIENCE CENTER FOUNDATION**

FORT WORTH, TEXAS

For the Year Ended August 31, 2021

UNIVERSITY OF NORTH TEXAS HEALTH SCIENCE CENTER FOUNDATION

Notes to the Financial Statements

For the Year Ended August 31, 2021

Note 1: Summary of Significant Accounting Policies

The University of North Texas Health Science Center Foundation (“UNTHSC Foundation”) was organized for charitable, educational, and scientific purposes, and to advance the mission and vision of the University of North Texas Health Science Center (“UNTHSC”) through financial support of its education, discovery and health care priorities. All income received by the UNTHSC Foundation is to be used for the future benefit of the UNT Health Science Center at the discretion of the Board of Directors.

Nature of Activities

The management of the UNTHSC Foundation is vested in the Board of Directors (“the Board”) who have discretionary authority to determine the amount, manner and times for payment of any distributions from the UNTHSC Foundation. The UNTHSC Foundation is subject to a pay-out policy which dictates scholarships and other payments made in current year. During 2021 and 2020, the UNTHSC Foundation paid \$4,061,884 and \$4,223,430 in scholarships, grants and other expenses to UNTHSC and other not-for-profit organizations.

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting, which recognizes support and revenue when earned, and expenses when incurred.

Financial Statement Presentation

The financial statements of the UNTHSC Foundation are presented in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Financial position and activities are reported according to two classes of net assets: (i) net assets without donor restrictions, and (ii) net assets with donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include, but are not limited to, the fair value of investments and the discounts applied to unconditional promises to give. It is at least reasonably possible that these estimates will change in the near term.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the UNTHSC Foundation considers cash available in the demand deposit accounts and all highly liquid short-term investments with original maturities of three months or less to be cash equivalents.

The UNTHSC Foundation maintains its cash and cash equivalents in bank deposit accounts which, at times may exceed federally insured limits. The UNTHSC Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Investments

Investments are carried at fair value or net asset value. Appreciation or depreciation in fair value is reported in support and revenue.

Contributions

Conditional promises to give received by the UNTHSC Foundation, which stipulate the occurrence of some specified event before payment will be made, are recognized when the specified future event takes place and the promise to give becomes unconditional.

UNIVERSITY OF NORTH TEXAS HEALTH SCIENCE CENTER FOUNDATION

Notes to the Financial Statements

For the Year Ended August 31, 2021

Unconditional promises to give are recorded as contributions when received and classified as net assets without donor restrictions, or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Management Fee

Management fees are recognized as revenue when received by the UNTHSC Foundation, and are charged to investments held on behalf of others based on a percentage of total investments as specified in the management agreement.

Fundraising

Fundraising revenues are recognized as revenue when all conditions are met, and the specified event has occurred.

Donor Restrictions

The UNTHSC Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Income Taxes

The UNTHSC Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the UNTHSC Foundation has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Uncertain Tax Positions

The UNTHSC Foundation recognizes in its financial statements the financial effect of a tax position, if that position is more likely than not to be sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the position.

Tax positions taken related to the UNTHSC Foundation's tax exempt status for federal tax purposes and state filing requirements have been reviewed, and management is of the opinion that material positions taken by the UNTHSC Foundation would more likely than not be sustained by examination. Accordingly, the UNTHSC Foundation has not recorded an income tax liability for uncertain tax benefits.

Functional Allocation of Expenses

The costs of providing the programs and supporting services of the UNTHSC Foundation have been summarized on a functional basis in the statements of activities. Functional expenses have been categorized as program expenses and supporting services based on the nature of the activity performed, and, as such, no costs have been allocated across the functional expense categories.

Subsequent Events

The UNTHSC Foundation has evaluated subsequent events that occurred after August 31, 2021, through December 1, 2021, the date which the financial statements were available to be issued. During this period, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

UNIVERSITY OF NORTH TEXAS HEALTH SCIENCE CENTER FOUNDATION

Notes to the Financial Statements

For the Year Ended August 31, 2021

Note 2: Fair Value Measurements

A fair value hierarchy that prioritizes the inputs to valuation techniques is used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 inputs) and the lowest priority to unobservable inputs (level 3 inputs). The three levels of the fair value of hierarchy are described below:

Level 1 inputs: Unadjusted, quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 inputs: Inputs (other than quoted market prices included within level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and fair value is determined through the use of models or other valuation techniques.

Level 3 inputs: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Fair value for these investments are determined using valuation methodologies that consider a range of factors including but not limited to the nature of the investment, market conditions, current and projected operating performance and changes in operating characteristics of the investment.

Following is a description of the valuation methodologies used for assets measured at fair value. The valuation techniques used to determine fair value have been consistently applied during the years ended August 31, 2021 and 2020.

Equity securities and mutual funds traded on active markets are carried at a value consistent with traded prices on the valuation date, representing level 1 inputs.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the UNTHSC Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth, by level, within the fair value hierarchy, the UNTHSC Foundation's investments at fair value as of August 31, 2021:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|-----------------------|----------------|----------------|-----------------------|
| Equity Securities | | | | |
| US Large Cap | \$ 50,350,782 | \$ - | \$ - | \$ 50,350,782 |
| US Mid and Small Cap | 2,884,189 | - | - | 2,884,189 |
| Global | 15,266,043 | - | - | 15,266,043 |
| Foreign | 11,727,899 | - | - | 11,727,899 |
| Emerging Markets | 8,900,612 | - | - | 8,900,612 |
| Mutual Funds - bonds | 37,131,105 | - | - | 37,131,105 |
| Total investments in the fair value hierarchy | \$ 126,260,630 | \$ - | \$ - | \$ 126,260,630 |

UNIVERSITY OF NORTH TEXAS HEALTH SCIENCE CENTER FOUNDATION
Notes to the Financial Statements
For the Year Ended August 31, 2021

The following table sets forth, by level, within the fair value hierarchy, the UNTHSC Foundation's investments at fair value as of August 31, 2020:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|-----------------------------|--------------------|--------------------|-----------------------------|
| Equity Securities | | | | |
| US Large Cap | \$ 28,174,419 | \$ - | \$ - | \$ 28,174,419 |
| US Mid and Small Cap | 2,068,160 | - | - | 2,068,160 |
| Global | 10,833,619 | - | - | 10,833,619 |
| Foreign | 4,591,269 | - | - | 4,591,269 |
| Emerging Markets | 5,561,567 | - | - | 5,561,567 |
| Mutual Funds | 29,946,068 | - | - | 29,946,068 |
| Total investments in the fair value hierarchy | <u>\$ 81,175,102</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 81,175,102</u> |

The UNTHSC Foundation also invests in investment companies that are reported at net asset value. Investments reported at net asset value are excluded from the fair value hierarchy. The following table reconciles investments reported in fair value hierarchy to investments reported on the statement of financial position as of August 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|---|------------------------------|-----------------------------|
| Total investments in the fair value hierarchy | \$ 126,260,630 | \$ 81,175,102 |
| Cash equivalents | 1,281,352 | 627,315 |
| Investment in investment companies | 4,029,661 | 1,612,646 |
| Total Investments at fair value | <u>\$ 131,571,643</u> | <u>\$ 83,415,063</u> |

Investments in investment companies consisting of off-shore investments are subject to the following redemption frequency and capital commitment at August 31, 2021:

| <u>Investment Strategy</u> | <u>Redemption Frequency</u> | <u>Remaining Capital Commitment</u> |
|----------------------------|--------------------------------------|-------------------------------------|
| Off-shore investments | Monthly, quarterly, or semi-annually | \$ 276,205 |
| Off-shore investments | Monthly, quarterly, or semi-annually | \$ 338,277 |
| Off-shore investments | Monthly, quarterly, or semi-annually | \$ 497,159 |
| Off-shore investments | Monthly, quarterly, or semi-annually | \$ 857,618 |
| Off-shore investments | Monthly, quarterly, or semi-annually | \$ 1,767,660 |
| Off-shore investments | Monthly, quarterly, or semi-annually | \$ 2,805,824 |

Investments in investment companies consisting of off-shore investments are subject to the following redemption frequency and capital commitment at August 31, 2020:

| <u>Investment Strategy</u> | <u>Redemption Frequency</u> | <u>Remaining Capital Commitment</u> |
|----------------------------|--------------------------------------|-------------------------------------|
| Off-shore investments | Monthly, quarterly, or semi-annually | \$ 412,519 |
| Off-shore investments | Monthly, quarterly, or semi-annually | \$ 486,657 |
| Off-shore investments | Monthly, quarterly, or semi-annually | \$ 692,415 |
| Off-shore investments | Monthly, quarterly, or semi-annually | \$ 882,743 |
| Off-shore investments | Monthly, quarterly, or semi-annually | \$ 1,985,322 |

No redemption restrictions or redemption notice period noted.

UNIVERSITY OF NORTH TEXAS HEALTH SCIENCE CENTER FOUNDATION

Notes to the Financial Statements

For the Year Ended August 31, 2021

Note 3: Net Assets with Donor Restrictions

Net assets with donor restrictions are made up of the following as of August 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------------|-----------------------------|
| Net assets with donor restrictions – time and purpose | \$ 10,058,259 | \$ 8,392,533 |
| Net assets with donor restrictions – held in perpetuity | 15,532,448 | 15,133,853 |
| Total Net Assets | <u>\$ 25,590,707</u> | <u>\$ 23,526,386</u> |

Net assets with donor restrictions – time and purpose are restricted for the following as of August 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|---------------------------------|-----------------------------|----------------------------|
| MD Program and related support | \$ 352,322 | \$ 900,316 |
| Departmental programs | 2,754,324 | 1,728,606 |
| Research | 678,749 | 470,428 |
| Education | 1,462,186 | 847,743 |
| Scholarships | 3,192,484 | 2,335,375 |
| Special events & general giving | 146,016 | 235,112 |
| Time | 1,223,334 | 1,766,667 |
| Other | 248,844 | 108,286 |
| Total | <u>\$ 10,058,259</u> | <u>\$ 8,392,533</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes during the years ended August 31, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|----------------------------|----------------------------|
| Distributions | \$ 543,488 | \$ 561,599 |
| Endowment scholarships | 110,273 | 83,949 |
| Gifts and other related expenses | 3,526,320 | 6,200,250 |
| Total | <u>\$ 4,180,081</u> | <u>\$ 6,845,798</u> |

Note 4: Due to Related Party

At August 31, 2021 and 2020, the UNTHSC Foundation held investments of \$105,566,672 and \$61,106,304, respectively, on behalf of UNTHSC. The investment account, in the name of the UNTHSC Foundation, was established prior to the formation of the UNTHSC Foundation. In order to maximize the benefits received from pooling investments and for simplicity, UNTHSC's portion is being held by the UNTHSC Foundation. These investments are included in investments and due to related party on the Statement of Financial Position.

Note 5: Promises to Give

Unconditional promises to give to be received by the UNTHSC Foundation for each of the years subsequent to August 31 is as follows:

| | <u>2021</u> | <u>2020</u> |
|-------------------------|----------------------------|----------------------------|
| Due in less than 1 year | \$ 812,833 | \$ 1,379,333 |
| Due within 1 to 5 years | 985,819 | 1,667,834 |
| Less discount | (6,339) | (5,655) |
| Total | <u>\$ 1,792,313</u> | <u>\$ 3,041,512</u> |

Unconditional promises to give that are expected to be collected after one year are discounted and are reported net of the discount in pledges receivable on the statement of financial position. Amortization of the discount on long-term pledges receivable is included with contributions revenue in the statement of activities. Pledges receivable are also reported net of any anticipated losses due to uncollectible accounts. The UNTHSC Foundation's policy for determining when pledges

UNIVERSITY OF NORTH TEXAS HEALTH SCIENCE CENTER FOUNDATION
Notes to the Financial Statements
For the Year Ended August 31, 2021

receivable are past due or delinquent is when all efforts to collect a pledged amount have been exhausted. An allowance for doubtful accounts is estimated by management based on information received by pledged donors and pledge receivable aging schedules. No allowance was considered necessary as of August 31, 2021 and 2020.

As of August 31, 2021, conditional promises to give to be received by the UNTHSC Foundation are \$3,500,000. \$2,500,000 is due within 1 to 5 years, and \$1,000,000 is due in more than 5 years. The conditional promises to give have not met the criteria for recognition in the financial statements as established by GAAP.

Note 6: Uniform Prudent Management of Institutional Funds Act

Net assets with donor restrictions held in perpetuity were \$15,532,448 and \$15,133,853 as of August 31, 2021 and 2020, respectively. The UNTHSC Foundation's endowment funds consist of equity securities, cash and cash equivalents and investments in investment companies. These funds consist of contributions made to establish an endowment, the earnings from which are to be used to support different restricted purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

The investment policy is issued by the Board of the UNTHSC Foundation. It articulates the principles by which the UNTHSC Foundation governs the management of its investment assets. The Board is responsible for adopting investment objectives and policies, hiring and evaluating investment managers, establishing a controlled environment, and monitoring policy implementation and investment performance. The Board exercises its responsibility according to applicable fiduciary standards and in the exclusive interest of the UNTHSC Foundation.

A reconciliation of the endowment funds' beginning and ending balances for the years ended August 31, 2021 and 2020 is as follows. There was no cumulative effect of any amounts by which net assets with donor restrictions – held in perpetuity have been reduced, or increased that were not specified by the donor, or in the absence of a donor stipulation, approved by the Board.

| | Endowment Net Assets with Donor Restrictions - Purpose | Endowment Net Assets with Donor Restrictions Held in Perpetuity | Total Endowment Net Assets |
|---|---|--|---------------------------------------|
| Endowment assets, September 1, 2020 | \$ 3,863,848 | \$ 15,133,853 | \$ 18,997,701 |
| Interest and dividends | - | - | - |
| Net appreciation (realized and unrealized) | 3,492,017 | 71,547 | 3,563,564 |
| | \$ 7,355,865 | \$ 15,205,400 | \$ 22,561,265 |
| Contributions | 39,751 | 327,048 | 366,799 |
| Appropriation of endowment assets for expenditure | (827,456) | - | (827,456) |
| Endowment assets, August 31, 2021 | \$ 6,568,160 | \$ 15,532,448 | \$ 22,100,608 |
| | \$ 2,649,689 | \$ 14,788,989 | \$ 17,438,678 |
| Endowment assets, September 1, 2019 | \$ 2,649,689 | \$ 14,788,989 | \$ 17,438,678 |
| Interest and dividends | - | - | - |
| Net appreciation (realized and unrealized) | 1,752,039 | - | 1,752,039 |
| | \$ 4,401,728 | \$ 14,788,989 | \$ 19,190,717 |
| Contributions | 44,674 | 344,864 | 389,538 |
| Appropriation of endowment assets for expenditure | (582,554) | - | (582,554) |
| Endowment assets, August 31, 2020 | \$ 3,863,848 | \$ 15,133,853 | \$ 18,997,701 |

UNIVERSITY OF NORTH TEXAS HEALTH SCIENCE CENTER FOUNDATION
Notes to the Financial Statements
For the Year Ended August 31, 2021

Endowment net asset composition by type of fund as of August 31, 2021 was as follows:

| | Endowment Net Assets with Donor Restrictions Purpose | Endowment Net Assets with Donor Restrictions Held in Perpetuity | Total Endowment Net Assets |
|--------------------|---|--|---------------------------------------|
| Donor-restricted | \$ 6,568,160 | \$ 15,532,448 | \$ 22,100,608 |
| Total funds | \$ 6,568,160 | \$ 15,532,448 | \$ 22,100,608 |

Endowment net asset composition by type of fund as of August 31, 2020 was as follows:

| | Endowment Net Assets with Donor Restrictions Purpose | Endowment Net Assets with Donor Restrictions Held in Perpetuity | Total Endowment Net Assets |
|--------------------|---|--|---------------------------------------|
| Donor-restricted | \$ 3,863,848 | \$ 15,133,853 | \$ 18,997,701 |
| Total funds | \$ 3,863,848 | \$ 15,133,853 | \$ 18,997,701 |

Investment Objectives

The UNTHSC Foundation assets are to be invested in a balanced portfolio composed of equity, fixed-income and cash equivalent securities. As such, it is intended to be more aggressive than fixed-income-oriented portfolios and less aggressive than equity-only-oriented portfolios. In this context, "aggressive" relates to such issues as expected long-term rates of return and return volatility, investment vehicles, diversification among economic and industry sectors and individual securities. Within this framework, the principal investment objectives are stated below. These objectives recognize the nature of the UNTHSC Foundation, its purpose and its beneficiaries. The basic investment objective is long-term growth of capital and preservation of capital. In pursuing the investment objective, the UNTHSC Foundation endeavors, over time, to outperform the investment return objectives. Returns must be sufficient to meet or exceed the minimum required investment rate of return for the UNTHSC Foundation as established in the spending policy plus fee of 1% of the invested accounts for services in direct connection to the UNTHSC Foundation. Returns must meet or exceed the inflation rate plus 2%, meet or exceed the rate of return of a balanced market index, and meet or exceed the Sharpe Ratio of the market index while limiting portfolio risk.

Investment Philosophy

The primary investment objective of the UNTHSC Foundation is long-term growth of capital. It is recognized that short-term fluctuations in the capital markets may result in the loss of capital on occasion (i.e., negative rates of return). However, the total asset value of the UNTHSC Foundation, exclusive of contributions or withdrawals, should grow in the long-run. It should earn, through a combination of investment income and capital appreciation, a rate of return in excess of a balanced market index while incurring less risk than such index. The long-term growth of capital should also be greater than the spending policy plus the fee for services in direct connection to the UNTHSC Foundation.

The Board and/or the Investment Committee intends to maximize the portfolio's total return comprising income and net realized and unrealized gains and losses. This objective is to be accomplished by assuming a prudent level of risk in the investment of the UNTHSC Foundation assets.

The UNTHSC Foundation will engage well-qualified investment managers registered under the Investment Advisors Act of 1940. The investment manager will perform duties with the care, skill, prudence and diligence under the prevailing circumstance that a prudent expert acting in a like capacity and familiar with such matter would use in the conduct of an enterprise of a like character and of like aims.

Underwater Endowments

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the UNTHSC Foundation to retain as a fund of perpetual duration. No deficiencies of this nature exist as of August 31, 2021 or 2020,

UNIVERSITY OF NORTH TEXAS HEALTH SCIENCE CENTER FOUNDATION

Notes to the Financial Statements

For the Year Ended August 31, 2021

respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

The UNTHSC Foundation has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

Note 7: Liquidity

As a not-for-profit entity, UNTHSC Foundation receives significant funding in the form of contributions each year from donors, which are restricted to be used in a particular manner. UNTHSC Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of managing the financial assets, UNTHSC Foundation ensures these become available when obligations come due.

The following reflects UNTHSC Foundation's financial assets as of the balance sheet date, including amounts not available within one year of the balance sheet date. Amounts not available include donor-imposed restricted contributions.

| | <u>2021</u> | <u>2020</u> |
|--|------------------------|------------------------|
| Cash | \$ 1,302,331 | \$ 1,440,631 |
| Investments, excluding amounts held on behalf of others | 25,004,971 | 22,308,759 |
| Pledges receivable, net | 1,792,313 | 3,041,512 |
| Total financial assets | \$ 28,099,615 | \$ 26,790,902 |
| Less donor restrictions | | |
| Net assets with donor restrictions – time and purpose | \$ (10,058,259) | \$ (8,392,533) |
| Net assets with donor restrictions – held in perpetuity | (15,532,448) | (15,133,853) |
| Total financial assets not available to be used within one year | \$ (25,590,707) | \$ (23,526,386) |
| Total financial assets available to meet general expenditures within one year | \$ 2,508,908 | \$ 3,264,516 |

Note 8: COVID-19

The extent of the operational and financial impact the COVID-19 pandemic may have on the UNTHSC Foundation has yet to be determined and is dependent on its duration and spread, any related operational restrictions and the overall economy. During year ended August 31, 2021, the Foundation saw reduced overall contributions received and grants made. The UNTHSC Foundation is unable to accurately predict how COVID-19 will affect the future results of its operations because the virus's severity and the duration of the pandemic are uncertain.

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**REQUIRED SUPPLEMENTARY INFORMATION FOR THE
COMPREHENSIVE FINANCIAL STATEMENTS**

of the

UNIVERSITY OF NORTH TEXAS SYSTEM

DALLAS, TEXAS

For the Year Ended August 31, 2021

UNIVERSITY OF NORTH TEXAS SYSTEM
Required Supplementary Information (Unaudited)
For the Year Ended August 31, 2021

Required Supplementary Information (RSI)

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

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| System's proportion of the net pension liability | 0.3532394693% | 0.3471858160% | 0.3482704688% | 0.3350903754% | 0.3167884475% | 0.3348771000% | 0.3870437000% |
| System's proportionate share of the net pension liability | \$189,187,853.00 | \$180,478,041.00 | \$191,696,519.00 | \$107,143,850.00 | \$119,709,644.00 | \$118,374,598.00 | \$103,405,818.19 |
| State's proportionate share of the net pension liability related to System | 62,518,691.27 | 75,864,069.56 | 52,821,707.83 | 36,183,350.73 | 34,118,016.24 | 33,917,826.43 | 40,082,328.32 |
| Total net pension liability related to System | \$251,706,544.27 | \$256,342,110.56 | \$244,518,226.83 | \$143,327,200.73 | \$153,827,660.24 | \$152,292,424.43 | \$143,488,146.51 |
| System's covered payroll ⁽¹⁾ | \$ 297,401,404.17 | \$ 282,536,645.37 | \$ 266,991,392.49 | \$ 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 | 63.61% | 63.88% | 71.80% | 42.37% | 48.09% | 50.26% | 46.47% |
| Plan fiduciary net position as a percentage of the total pension liability | 75.24% | 75.24% | 73.74% | 82.17% | 78.00% | 78.43% | 83.25% |

⁽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 Pension Contributions

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Statutorily required contributions | \$ 14,795,803.00 | \$ 14,574,757.00 | \$ 12,151,922.00 | \$ 11,732,351.00 | \$ 10,961,110.00 | \$ 10,085,190.00 | \$ 9,916,773.00 | \$ 9,870,977.18 |
| Contributions in relation to the statutorily required contributions | 14,795,803.00 | 14,574,757.00 | 12,151,922.00 | 11,732,351.00 | 10,961,110.00 | 10,085,190.00 | 9,916,773.00 | 9,870,977.18 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| System's covered payroll | \$298,594,048.48 | \$297,401,404.17 | \$282,536,645.37 | \$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 | 4.96% | 4.90% | 4.30% | 4.39% | 4.33% | 4.05% | 4.21% | 4.44% |

UNIVERSITY OF NORTH TEXAS SYSTEM
Required Supplementary Information (Unaudited)
For the Year Ended August 31, 2021

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

| | <u>2021</u> | <u>2020</u> | <u>2019⁽²⁾</u> | <u>2018</u> |
|--|-------------------|-------------------|---------------------------|------------------|
| System's proportion of the net OPEB liability | 1.48049403% | 1.30685578% | 1.36273369% | 0.25354973% |
| System's proportionate share of the net OPEB liability | \$ 489,223,801.00 | \$ 451,684,314.00 | \$ 403,883,502.00 | \$ 86,392,029.00 |
| System's covered-employee payroll ⁽¹⁾ | \$ 187,360,172.19 | \$ 161,005,000.16 | \$ 164,170,798.74 | \$ 29,780,201.94 |
| System's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll | 261.11% | 280.54% | 246.01% | 290.10% |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.32% | 0.17% | 1.27% | 2.04% |

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

⁽²⁾ For fiscal year 2019 reporting, ERS had a change in accounting methodology to include both active and retiree employee contributions in the calculation of proportionate share.

Schedule of the System's OPEB Contributions

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| Statutorily required contributions | \$ 3,617,598.00 | \$ 3,578,563.00 | \$ 1,315,809.00 | \$ 1,464,282.00 |
| Contributions in relation to the statutorily required contributions | 3,617,598.00 | 3,578,563.00 | 1,315,809.00 | 1,464,282.00 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - |
| System's covered-employee payroll | \$ 183,982,862.35 | \$ 187,360,172.19 | \$ 161,005,000.16 | \$ 164,170,798.74 |
| Contributions as a percentage of covered-employee payroll | 1.97% | 1.91% | 0.82% | 0.89% |