



Consolidated Annual Financial Report and Independent Auditors' Report

For the Year Ended August 31, 2017

**UNIVERSITY OF NORTH TEXAS
SYSTEM**

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

For the fiscal year ended August 31, 2017

DALLAS, TEXAS

Lesa Roe, Chancellor



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UNIVERSITY OF NORTH TEXAS SYSTEM

ORGANIZATIONAL DATA

August 31, 2017

BOARD OF REGENTS

Donald Potts (Term expires 5-22-17)* Dallas
Al Silva..... (Term expires 5-22-17)* San Antonio
Milton B. Lee..... (Term expires 5-22-17)* San Antonio

Rusty Reid (Term expires 5-22-19) Ft. Worth
Gwyn Shea (Term expires 5-22-19) Irving
B. Glen Whitley (Term expires 5-22-19)Hurst

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

STUDENT REGENT

Haley Leverett..... (Term expires 5-31-18)North Richland Hills

OFFICERS OF THE BOARD

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

ADMINISTRATIVE OFFICERS

Lesa Roe Chancellor
Bob Brown Interim Vice Chancellor for Finance

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



February 22, 2018

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

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

We are pleased to submit the audited Consolidated Annual Financial Report (CAFR) of the University of North Texas System (UNTS) for the fiscal year ended August 31, 2017. This report is in compliance with TEX. GOV'T CODE ANN 2101.011 and in accordance with the requirements established by the Comptroller of Public Accounts and Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In fiscal year 2017, the University of North Texas System employed over 10,000 people, had combined enrollment of nearly 44,000 students, and awarded more than 9,200 degrees. With a total annual economic impact of nearly \$5.2 billion, the System is a robust contributor to the vitality and growth of the region, and to the prosperity and culture of the state. Rooted in the 125-year history of our flagship institution in Denton, UNTS continues to innovate, excel, and serve.

The University of North Texas, renowned for its arts and music programs and built on a history of teacher training, business education, and liberal arts, is also ranked among the 115 top-tier research universities by the Carnegie Classification. The university has been named one of America's 100 Best College Buys for 20 consecutive years, a ranking based on having a high-achieving freshman class and affordable tuition. *The Princeton Review* continually names UNT as a Best in the West school and Forbes has listed UNT as an America's Top College for eight consecutive years. UNT has 15 programs ranked in the Top 100 in the nation by U.S. News & World Report.

UNT Health Science Center at Fort Worth is one of the nation's premier graduate academic medical centers and is composed of five schools that specialize in patient-centered education, research and health care. UNTHSC's dedication to primary care has received national recognition for the 15th consecutive year in U.S. News & World Report's annual ranking of medical schools. The university invests \$40 million in annual research expenditures – a figure that has approximately doubled since 2006.

UNT Dallas, the only public, doctoral granting comprehensive university in the City of Dallas – the hub of the State’s most densely populated region – offers bachelors, masters and a juris doctor degree. Enrollment has increased since its inception and now includes the UNT Dallas College of Law, a distinctive new school dedicated to providing affordable access to education with an annual tuition that is significantly lower than all other law schools, public or private, in Texas.

In 2017, while facing a significant budget shortfall due to the downturn in the oil and gas industry, the 85th Texas Legislature passed a budget that included \$14.083 million in funding for higher education, a \$220 million (1.6%) increase over the 2016-2017 biennium. This increase was primarily the result of increases passed in the prior Legislative session, such as increases to the allocations in Higher Education Assistant Fund (HEAF) that some institutions receive, increases in student enrollment, and increased funding for Health Related Institutions. Formula funding for General Academic Institutions was reduced by \$47.7 million from prior biennium levels. Special Items, now known as “Non-formula Support,” were a major topic of discussion and were reduced statewide by \$261.1 million. The session culminated in a two-year appropriations decrease to the System institutions of \$16.7 million from 2016-2017 levels.

We are committed to being good stewards of the resources entrusted to us by the State of Texas and by students and their families, and we hold ourselves accountable for the wise and appropriate use of those resources. UNT System’s externally-audited consolidated annual 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 important to us as our academic services themselves.

Respectfully,



Bob Brown
Interim Vice Chancellor for Finance, UNT System

cc: Lesa B. Roe, Chancellor
Dr. Neal Smatresk, President UNT
Dr. Michael Williams, President UNTHSC
Robert Mong, President UNT Dallas
Greg Anderson, Executive Vice President and CFO, UNTHSC
Dan Edelman, Executive Vice President and CFO, UNT Dallas
Tracy Grunig, Chief Audit Executive, UNT System
Nancy Footer, Vice Chancellor and General Counsel, UNT System



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Regents
University of North Texas System

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Report on the financial statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the University of North Texas System (the “System”) as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the System’s basic financial statements as listed in the table of contents.

Management’s responsibility for the financial statements

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

Auditor’s responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the System as of August 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 11 through 21, and Required Supplemental Information on page 67, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 22, 2018, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

GRANT THORNTON LLP

Dallas, Texas
February 22, 2018

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2017

Introduction

The University of North Texas System (the "System") was established by the 76th Legislature and legislative funding was provided for the fiscal year beginning September 1, 1999. The System is an agency of the State of Texas and is currently comprised of the University of North Texas System Administration ("System Administration"), established 1999, and three academic institutions funded by the Legislature: the University of North Texas ("UNT"), established 1890; the University of North Texas Health Science Center at Fort Worth ("HSC"), established 1970; and the University of North Texas at Dallas ("UNTD"), established 2010.

The System serves the North Texas area, boosting economic activity in the region by over \$5.2 billion annually. The UNT System has a \$1.2 billion annual consolidated budget and employs roughly 10,000 people at its various locations within the robust North Texas Region. In Fall 2016, over 43,000 students enrolled in undergraduate, graduate and professional programs at UNT System institutions. The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas State Senate. Three members are appointed every odd-numbered year for six-year terms. In addition, the Governor appoints a non-voting Student Regent for a one-year term.

Financial Highlights and Overview of the Financial Statements

The objective of Management's Discussion and Analysis (the "MD&A") is to provide an overview of the financial position and activities of the System as of and for the year ended August 31, 2017, with selected comparative information as of and for the year ended August 31, 2016. The MD&A was prepared by management and should be read in conjunction with the accompanying financial statements and notes. The emphasis of discussion about these financial statements will focus on current year data. Unless otherwise indicated, years in the MD&A refer to the fiscal years ended August 31.

The System consolidated financial report includes three primary financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. The financial statements of the System have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB").

In addition, the System consolidated financial report contains the Statement of Financial Position and the Statement of Activities for the University of North Texas Foundation, Inc. (the "Foundation"), a discretely presented component unit. The Foundation is a separate nonprofit organization which is an essential component of the University of North Texas program for university advancement and for the development of private sources of funding for capital acquisition, operations, endowments, and other purposes relating to the mission of the University of North Texas. The financial statements of the Foundation have been prepared in accordance with GAAP as prescribed by the Financial Accounting Standards Board ("FASB").

Financial Highlights

- Total assets and deferred outflows of resources of the System exceeded its total liabilities and deferred inflows of resources in 2017, resulting in a net position of \$825.8 million. Unrestricted net position, which may be used to meet the System's future obligations, was \$228.0 million, or 27.6% of total net position at year end.
- In 2017, the System concluded the fiscal year with a positive change in net position of \$82.9 million, compared to a \$47.4 million change in 2016. Major contributing factors related to this \$35.5 million increase include a \$39.6 million increase in legislative transfers in related to tuition revenue bond funding and capital appropriations from general revenue and the Higher Education Fund ("HEF"). Tuition and fee revenue, net of discounts and allowances, increased by \$16.4 million over the prior year. Additionally, the System had a \$3.8 million net increase in the fair value of the System's investments in 2017 and an \$8.8

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2017

million increase in investment income as compared to the prior year. These increases were offset by investments in plant operations that were not capitalizable, reflected in an increase in repairs and maintenance expense of \$5.6 million. Further, an increase of \$11.0 million in scholarship expenses funded from both internal and external sources increased operating expenses.

- The System continues to make significant investments, \$118.5 million in 2017 alone, in numerous capital projects across all institutions to strategically benefit students, faculty, and staff. The System has also committed \$407.6 million to fund, with assistance from State supported debt financing and HEF capital appropriations, future capital asset additions and improvements over the next several years. These projects are currently in various stages of completion. The "Capital Asset and Debt Administration" section of the MD&A provides more details pertaining to these strategic investments.

Overview of the Financial Statements

These statements are prepared applying the following principles and standards:

- Reporting is on the full accrual basis of accounting. All current year revenues and expenses are recognized when earned or incurred, regardless of when the cash is received or disbursed.
- Depreciation and amortization expense on capital assets is reported as an operating expense on the Statement of Revenues, Expenses and Changes in Net Position. The historical cost of capital assets, net of accumulated depreciation and amortization, is reported on the Statement of Net Position.
- Revenues and expenses are categorized as operating or nonoperating. Revenues from state appropriations, gifts, and investment income are reported as nonoperating revenue in accordance with GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended.

Statement of Net Position

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

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows 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, 2017

The following table reflects the Condensed Comparative Statement of Net Position for the System as of August 31, 2017 and 2016:

Condensed Comparative Statement of Net Position			
As of August 31, 2017 and 2016			
(in thousands of dollars)			
	<u>2017</u>	<u>2016</u>	<u>% Increase (Decrease)</u>
Assets and Deferred Outflows of Resources			
Current Assets	\$ 733,234	\$ 544,986	34.5%
Non-Current Assets:			
Capital Assets, Net	1,070,890	1,025,004	4.5%
Other Non-Current Assets	324,759	233,585	39.0%
Deferred Outflows of Resources	43,570	25,854	68.5%
Total Assets and Deferred Outflows of Resources	<u>\$ 2,172,453</u>	<u>\$ 1,829,429</u>	<u>18.8%</u>
Liabilities and Deferred Inflows of Resources			
Current Liabilities	\$ 435,674	\$ 407,949	6.8%
Non-Current Liabilities:			
Bonded Indebtedness	731,380	514,046	42.3%
Other Non-Current Liabilities	144,960	142,377	1.8%
Deferred Inflows of Resources	34,634	22,123	56.6%
Total Liabilities and Deferred Inflows of Resources	<u>\$ 1,346,648</u>	<u>\$ 1,086,495</u>	<u>23.9%</u>
Net Position			
Net Investment in Capital Assets	\$ 483,233	\$ 465,252	3.9%
Restricted:			
Funds Held as Permanent Investments:			
Non-Expendable	47,683	46,960	1.5%
Expendable	26,655	18,161	46.8%
Other Restricted	40,247	39,135	2.8%
Total Restricted	114,585	104,256	9.9%
Unrestricted	227,987	173,426	31.5%
Total Net Position	<u>\$ 825,805</u>	<u>\$ 742,934</u>	<u>11.2%</u>
Total Liabilities and Net Position	<u>\$ 2,172,453</u>	<u>\$ 1,829,429</u>	<u>18.8%</u>

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 \$188.2 million, or 34.5%, in 2017 primarily as a result of a \$5.5 million increase in legislative appropriation receivables and a \$182.9 million increase in cash equivalents and short-term investments, which are mainly unspent bond proceeds.

Non-Current Assets: Net Capital Assets

Net capital assets increased \$45.9 million, or 4.5%, in 2017 as a result of an increase in capital and intangible assets. This increase was primarily attributable to approximately \$118.5 million of capital improvements offset by depreciation and amortization expense of \$69.1 million. Major capital improvements included \$6.9 million in renovation to the UNT Science Research Building, \$10.6 million for the UNT College of Visual Arts & Design Building, \$35.9 million for the HSC Interdisciplinary Research and Education Building, \$6.5 million for the UNT Dallas Wisdom Residence Hall, \$2.8 million for the UNT Dallas Student Learning and Success Center, \$3.5 million for renovating the Dallas Municipal Building, \$18.1 million in equipment, vehicle and library purchases, \$1.7 million for capitalized software costs, and other additions to depreciable capital assets.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2017

Other Non-Current Assets

The System's other non-current assets increased by \$91.2 million, or 39.0%, primarily due to a \$72.3 million increase in investments resulting from increases in long-term investment pool over the prior year and the creation of the intermediate investment pool. Additionally, restricted investments increased by \$17.3 million due to new investments held in conjunction with the 2017 bond issuance.

Deferred Outflows

Deferred outflows increased \$17.7 million, or 68.5%, in 2017, primarily due to the recognition of deferred outflows of resources related to pension obligations, primarily attributable to the difference between projected and actual investment return for the measurement period. The issuance of the 2017A and 2017B refunding bonds in 2017 also resulted in an increase over the prior year.

Total Liabilities and Deferred Inflows

Current Liabilities

The System's current liabilities increased \$27.7 million, or 6.8%, in 2017 primarily due to an increase of \$5.1 million in short-term commercial paper reported under notes and loans payable and a \$13.7 million increase in current revenue bonds payable. Unearned revenue increased \$5.1 million, or 2.2%, primarily related to increased tuition and fees associated with student enrollment and increases in tuition and fee rates.

Non-Current Liabilities

Non-current liabilities consist primarily of non-current portions of notes and loans payable; revenue bonds payable; net pension liability; employees' compensable leave payable; and capital lease obligations. In total, non-current liabilities increased \$219.9 million, or 33.5%, primarily due to a \$217.3 million increase in revenue bonds payable due to issuance of Tuition Revenue Bonds ("TRB") for 2017A and 2017B that also refunded the 2009A bonds and a portion of commercial paper liability. In addition, there was an increase of \$1.3 million to net pension liability related to underperformance of actual investment returns as compared to the expected return for the Teacher Retirement System of Texas ("TRS") Plan measurement period ended August 31, 2016. The overall increase in non-current liabilities was also impacted by a \$0.2 million increase in employees' compensable leave and a \$0.8 million increase in capital lease obligations.

Deferred Inflows

Deferred inflows increased \$12.5 million, or 56.6%, in 2017 primarily due to deferred inflows of resources related to pension obligations and the netting requirement to net deferred outflows and inflows across measurement periods arising from the difference between projected and actual investment return.

Total Net Position

Total net position represents the residual interest in the System's total assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position increased by \$82.9 million, or 11.2%, in 2017.

Net Investment in Capital Assets

Net investment in capital assets represents the System's capital and intangible assets, net of accumulated depreciation and amortization and outstanding debt obligations attributable to the acquisition, construction or improvement of those assets. The net \$18.0 million, or 3.9%, increase in net investment in capital assets in 2017 primarily resulted from an increase of \$118.5 million of capital additions, reduced by \$69.1 million of depreciation and amortization. The net increase was offset by notes and bonds payable, capital lease obligations, and deferred outflows and inflows of resources related to unamortized gains and losses on refunded bonds.

Restricted Net Position

Restricted net position primarily includes the System's permanent investments subject to externally imposed restrictions governing their use. In total, restricted net position increased by \$10.3 million, or 9.9%, in 2017 primarily due to increased fair market value of restricted investments, investment income, and positive fundraising efforts resulting in an increase in restricted contributions across the System.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management’s Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2017

Unrestricted Net Position

Unrestricted net position increased by \$54.6 million, or 31.5%, primarily due to a \$20.1 million increase in legislative appropriations, additional appropriations and capital appropriations from general revenue and HEF. Tuition and fee revenue also increased net of discounts and allowances by \$16.4 million. Investment income, gift, and fair market value increase on investments all increased over the prior year by \$20.9 million.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the System’s revenues earned and the expenses incurred during 2017, regardless of when cash is received or paid. Activities are reported as either operating or nonoperating. Generally, operating revenues are earned in exchange for providing goods and services. Operating expenses are incurred in the normal operation of the System, including a provision for depreciation and amortization on capital assets. Certain revenue sources the System relies on for operations include state appropriations, gifts, grants and investment income which are required by GASB Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended, to be classified as nonoperating revenues. Revenues are reported by major source, and expenses are reported on the face of the statement by functional (programmatic) categories as defined by the National Association of College and University Business Officers (“NACUBO”).

The following table reflects the System’s Condensed Comparative Statement of Revenues, Expenses and Changes in Net Position for the years ended August 31, 2017 and 2016:

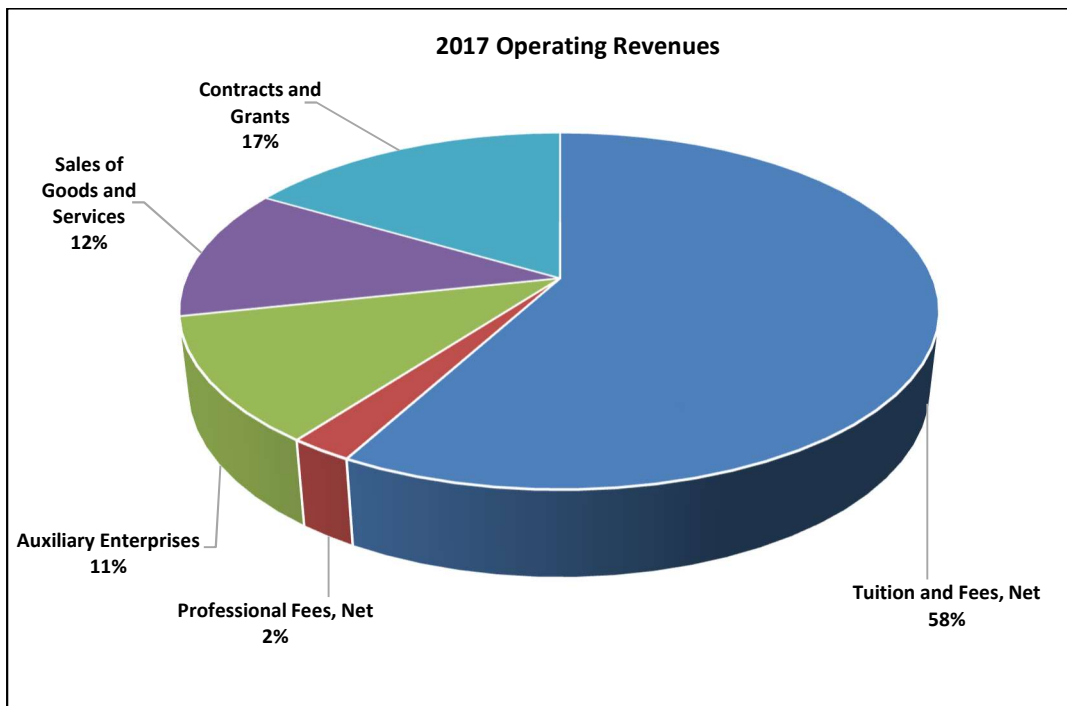
Condensed Comparative Statement of Revenues, Expenses and Changes in Net Position			
For the Years Ended August 31, 2017 and 2016			
(in thousands of dollars)			
	<u>2017</u>	<u>2016</u>	% Increase (Decrease)
Operating Revenues	\$ 619,860	\$ 631,994	(1.9%)
Operating Expenses	951,772	934,303	1.9%
Operating Income (Loss)	\$ (331,912)	\$ (302,309)	9.8%
Nonoperating Revenues (Expenses)	336,694	308,123	9.3%
Income (Loss) Before Other Revenues, Expenses and Transfers	\$ 4,782	\$ 5,814	(17.8%)
Other Revenues, Expenses and Transfers	78,089	41,604	87.7%
Change in Net Position	\$ 82,871	\$ 47,418	74.8%
Net Position, Beginning of Year	\$ 742,934	\$ 695,516	6.8%
Net Position, End of Year	\$ 825,805	\$ 742,934	11.2%

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2017

Operating Revenues

Operating revenues totaled \$619.9 million in 2017, a decrease of \$12.1 million, or 1.9%, over 2016. The System's primary sources of operating revenues are tuition and fees, and federal, state, local, and private grants. Net tuition and fees, representing 58% of operating revenues, are reflected in the financial statements with associated discounts and allowances shown separately. Net tuition and fees increased \$16.4 million, or 4.8%, as a result of increased enrollment and increased tuition rates throughout the System. Federal, state, local, and private grant revenues, representing 17% of operating revenues, are primarily from governmental and private sources and are related to research programs that normally provide for the recovery of direct and indirect costs. The overall operating revenue decrease is primarily attributable to a \$27.1 million net decrease in professional fees revenue due to the outsourcing of clinical operations at HSC.

The pie chart below shows operating revenues by major source for the year ended August 31, 2017:



Operating Expenses

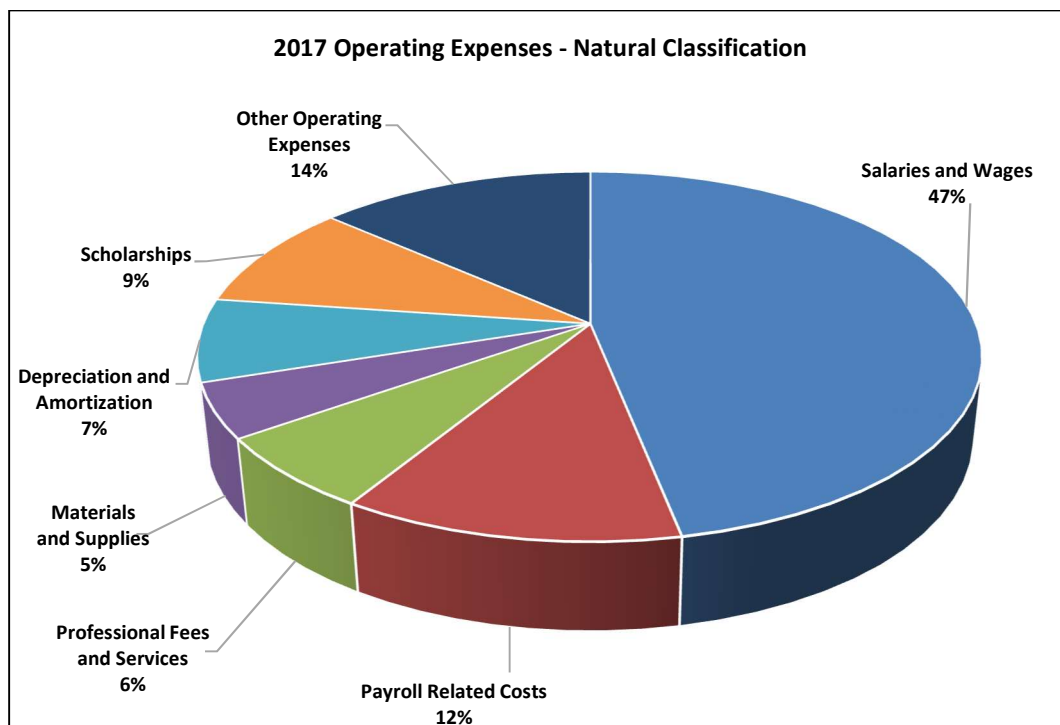
Operating expenses totaled \$951.8 million in 2017, an increase of \$17.5 million, or 1.9%, over 2016. The increase is primarily due to an \$11.0 million, or 14.2%, increase in scholarship expenses from both internal and external sources. Additionally, repairs and maintenance increased by \$5.6 million, or 16.7%, due to several renovation projects that were completed in 2017.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2017

The table below shows the amount and percentage change of operating expenses based on natural classification for the year ended August 31, 2017:

Operating Expenses - Natural Classification			
For the Years Ended August 31, 2017 and 2016			
(in thousands of dollars)			
	<u>2017</u>	<u>2016</u>	<u>% Increase (Decrease)</u>
Operating Expenses			
Cost of Goods Sold	\$ 7,932	\$ 3,813	108.0%
Salaries and Wages	446,122	453,084	(1.5%)
Payroll Related Costs	113,268	109,045	3.9%
Professional Fees and Services	61,124	63,196	(3.3%)
Federal Pass-Through Expenses	976	824	18.5%
State Pass-Through Expenses	212	206	2.7%
Travel	11,971	12,395	(3.4%)
Materials and Supplies	45,309	44,466	1.9%
Communications and Utilities	17,902	19,761	(9.4%)
Repairs and Maintenance	38,981	33,393	16.7%
Rentals and Leases	14,484	14,573	(0.6%)
Printing and Reproduction	6,300	5,556	13.4%
Depreciation and Amortization	69,095	65,900	4.8%
Scholarships	88,420	77,452	14.2%
Claims and Losses	(24)	842	(102.8%)
Other Operating Expenses	29,700	29,797	(0.3%)
Total Operating Expenses	<u>\$ 951,772</u>	<u>\$ 934,303</u>	<u>1.9%</u>

The pie chart below shows the percentage of total operating expenses pertaining to each type of operating expense based on natural classification for the year ended August 31, 2017:

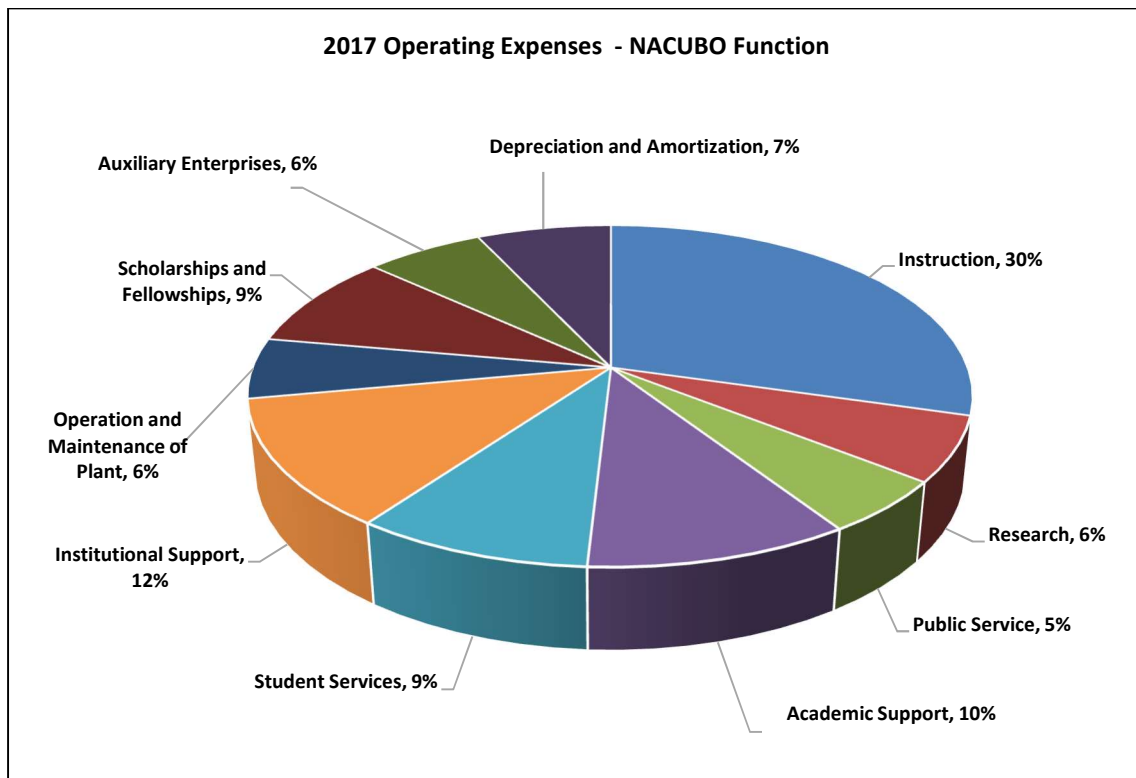


UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2017

The table below shows the amount and percentage change of operating expenses based on NACUBO functional (programmatic) classification for the year ended August 31, 2017:

Operating Expenses - NACUBO Function			
For the Years Ended August 31, 2017 and 2016			
(in thousands of dollars)			
	2017	2016	% Increase (Decrease)
Operating Expenses			
Instruction	\$ 282,720	\$ 307,062	(7.9%)
Research	59,115	56,796	4.1%
Public Service	49,278	44,302	11.2%
Academic Support	87,565	90,221	(2.9%)
Student Services	87,264	66,491	31.2%
Institutional Support	116,114	118,619	(2.1%)
Operation and Maintenance of Plant	55,065	55,655	(1.1%)
Scholarships and Fellowships	86,138	74,234	16.0%
Auxiliary Enterprises	59,418	55,023	8.0%
Depreciation and Amortization	69,095	65,900	4.8%
Total Operating Expenses	\$ 951,772	\$ 934,303	1.9%

The pie chart below shows the percentage of total operating expenses pertaining to each type of operating expense based on NACUBO functional (programmatic) classification for the year ended August 31, 2017:



UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2017

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. Gift revenue increased \$8.3 million, or 71.5%, between 2016 and 2017 due mainly to UNT having a record year in gifts received from donors. Additionally, investment income increased by \$8.8 million, or 165.4%, and the fair value of the System's investments increased by \$3.8 million primarily due to favorable market conditions for the long-term investment pool and endowments professionally managed by the Foundation. Interest expense and fiscal charges on capital asset financings decreased by \$2.4 million from \$20.7 million in 2016 to \$18.3 million in 2017 due to savings realized through advance debt refunding from the 2017 issuances.

Other Revenues, Expenses and Transfers

Other revenues, expenses and transfers is comprised of capital and endowment related additions and transfers, which increased \$36.5 million, or 87.7%, in 2017. HEF comprises the majority of the activity. Annual HEF-related revenue totaled \$56.8 million, an increase of \$18.9 million over prior year. HEF is reported as capital appropriations rather than operating or nonoperating revenue. In addition to HEF, all components received increased legislative transfer in funding to pay for tuition revenue bonds funded by the State of Texas, which resulted in an increase of \$20.6 million over the prior year.

Capital Asset and Debt Administration

Investments in capital asset additions were \$118.5 million in 2017. Major capital project activity included:

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

The System has committed \$407.6 million to capital asset additions and improvements which are currently in various stages of completion. These additions and improvements primarily consist of new buildings or renovations to existing buildings, including the Interdisciplinary Research Building at HSC, the College of Visual Arts and Design at UNT, residence and dining halls at UNT, the Dallas Municipal Building for the future use by UNT Dallas College of Law, and the Student Learning and Success Center at UNT Dallas. More detailed information regarding the System's capital additions and commitments is provided in Note 2, *Capital Assets*, and Note 10, *Contingencies and Commitments*, in the Notes to the Consolidated Financial Statements.

Revenue bonds payable represents the largest portion of the System's liabilities. Current and non-current revenue bonds payable increased \$231.1 million to \$778.9 million in 2017. 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 Consolidated Financial Statements.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management’s Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2017

Economic Outlook

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

For 2018, net tuition and fees revenues are budgeted at an increase of \$10.1 million, or 2.8%, over 2017. This revenue increase is the result of full-time student equivalent enrollment growth. Between fall 2015 and fall 2017, enrollment increased 5.0% system-wide.

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

Fiscal year 2018 budgeted legislative appropriation revenues for the System are \$3.0 million, or 1.1%, higher than 2017. Budgeted amounts include continued funding for specialized initiatives and unique programs recognized as deserving state support. These areas of excellence include the University of North Texas Health Science Center’s (HSC) Institute for Patient Safety and Preventable Harm, HSC’s Texas Missing Persons and Human Identification Program, University of North Texas’s (UNT) Texas Academy of Mathematics and Science, and the University of North Texas Dallas College of Law (College of Law).

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

UNT’s four established Research Institutes of Excellence are a pipeline for bringing UNT’s research to industry and the marketplace. It is one of the nation’s 115 top-tier research universities by the Carnegie Classification. Strategic initiatives for growth and revenue include expanding off-site educational opportunities for working professionals—delivering UNT degrees in new locations and modalities. UNT’s New College at Frisco, the Collin Higher Education Center in McKinney, the Universities Center in the heart of downtown Dallas, and the North Central Texas College’s Gainesville campus are carefully identified locations UNT has chosen to deliver site-directed, workforce-informed degrees and continuing professional education to local industry, including Fortune 500, and 1,000 corporations in the region.

UNTD had record enrollment in Fall 2017. The institution’s first residence hall, Wisdom Hall, completed construction and opened to students for the Fall 2017 semester. The Dallas Area Rapid Transit (“DART”) station adjacent to campus, which links the university directly to the downtown corridor and to the rest of the metro area, opened in October 2016. The historic Dallas Municipal Building is currently undergoing an estimated \$72 million renovation and is expected to house the College of Law beginning in 2019. In June of 2017, the College of Law was granted provisional accreditation by the American Bar Association.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2017

The HSC continues to expand some of its most recent initiatives including graduating the inaugural cohort of their College of Pharmacy students; furthering the Fort Worth M.D. School's accreditation, a partnership with Texas Christian University ("TCU") whose first class of 60 students will begin in Fall 2019; and advancing the Institute for Patient Safety and Preventable Harm's mission by creating patient safety projects, providing community education programs and offering grant funding opportunities. To strengthen HSC's position for long-term viability, the institution has incorporated continuous improvement as part of the planning and management initiatives. New positions will be created to further this effort. Additionally, HSC is making strides in philanthropy, by reaching donors who have expressed increased interest.

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**CONSOLIDATED
FINANCIAL STATEMENTS**

of the

UNIVERSITY OF NORTH TEXAS SYSTEM

DALLAS, TEXAS

For the Year Ended August 31, 2017

UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED
Statement of Net Position
As of August 31, 2017

	August 31,
	2017
ASSETS	
Current Assets	
Cash and Cash Equivalents:	
Cash on Hand	\$ 116,412.14
Cash in Bank	30,214,844.28
Cash in Transit/Reimburse from Treasury	357,067.67
Cash in State Treasury	18,724,496.41
Cash Equivalents	160,662,285.79
Restricted Cash and Cash Equivalents:	
Cash on Hand	7,700.00
Cash in Bank	3,056,481.51
Cash Equivalents	97,269,820.56
Short Term Investments	121,251,019.96
Legislative Appropriations	108,585,408.56
Receivables From:	
Accounts Receivable, net	84,278,663.88
Federal, net	33,336,762.64
Other Intergovernmental	1,005,858.22
Clinical Practice	5,237,351.05
Gifts, Pledges and Donations, net	2,025,717.68
Interest and Dividends	3,065,747.95
Other Receivables, net	2,397,519.59
Due From Other Agencies	9,046,501.14
Consumable Inventories	436,889.96
Merchandise Inventories	2,858,630.27
Prepaid Items	45,648,976.89
Loans and Contracts, net	3,649,715.30
Total Current Assets	\$ 733,233,871.45
Non-Current Assets	
Restricted Investments	\$ 77,639,966.88
Loans and Contracts, net	4,282,540.68
Investments	238,819,166.29
Gifts, Pledges and Donations, net	4,016,977.87
Capital Assets:	
Non-Depreciable or Non-Amortizable	192,428,351.13
Depreciable or Amortizable, Net	878,462,055.87
Total Non-Current Assets	\$ 1,395,649,058.72
Total Assets	\$ 2,128,882,930.17
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources	\$ 43,569,663.47
Total Deferred Outflows of Resources	\$ 43,569,663.47
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,172,452,593.64

Continued on Next Page

UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED
Statement of Net Position
As of August 31, 2017

	August 31, 2017
LIABILITIES	
Current Liabilities	
Payables From:	
Accounts Payable	\$ 66,624,367.90
Payroll Payable	35,218,564.41
Other Payables	5,396,825.17
Interest	11,414,410.20
Due To Other Agencies	264,244.66
Unearned Revenue	235,123,834.72
Notes and Loans Payable	25,275,000.00
Revenue Bonds Payable	47,563,311.45
Claims and Judgments	556,263.00
Employees' Compensable Leave	4,461,520.24
Capital Lease Obligations	2,044,736.61
Funds Held for Others	1,731,288.81
Total Current Liabilities	\$ 435,674,367.17
Non-Current Liabilities	
Revenue Bonds Payable	\$ 731,379,868.60
Claims and Judgments	1,173,661.00
Employees' Compensable Leave	20,614,399.16
Capital Lease Obligations	3,461,533.05
Net Pension Liability	119,709,644.00
Total Non-Current Liabilities	\$ 876,339,105.81
Total Liabilities	\$ 1,312,013,472.98
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources	\$ 34,634,479.70
Total Deferred Inflows of Resources	\$ 34,634,479.70
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	\$ 1,346,647,952.68
NET POSITION	
Net Investment in Capital Assets	\$ 483,232,746.97
Restricted For:	
Funds Held as Permanent Investments	
Non-Expendable	47,682,581.95
Expendable	26,654,792.36
Other Restricted	40,247,404.24
Unrestricted	227,987,115.44
Total Net Position	\$ 825,804,640.96

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UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Statement of Financial Position
As of August 31, 2017

	August 31,
	2017
ASSETS	
Cash and Cash Equivalents	\$ 11,937,989
Investments	315,567,378
Contributions and Other Receivables	3,390,557
Prepaid Expenses	92
Real Property	24,839
Other Assets	7,500
Cash Value - Life Insurance Policies	523,376
Assets Held Under Trust and Annuity Agreements	5,422,955
Total Assets	\$ 336,874,686
LIABILITIES	
Accounts Payable and Accrued Expenses	\$ 1,639,105
Agency Funds	398,052
Trust and Annuity Obligations	2,451,999
Assets Held for Others	197,551,807
Total Liabilities	\$ 202,040,963
NET ASSETS	
Unrestricted:	
Board Designated for Reserves	\$ 1,746,303
Fair Value of Endowments Below Historical Cost	(466,529)
Undesignated	1,112,192
Total Unrestricted	2,391,966
Temporarily Restricted	29,355,122
Permanently Restricted	103,086,635
Total Net Assets	\$ 134,833,723
TOTAL LIABILITIES & NET ASSETS	\$ 336,874,686

See Accompanying Notes to the Consolidated Financial Statements

UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended August 31, 2017

	August 31, 2017
OPERATING REVENUES	
Tuition and Fees	\$ 458,534,384.92
Discounts and Allowances	(100,581,327.43)
Professional Fees	31,744,092.55
Discounts and Allowances	(17,538,032.44)
Auxiliary Enterprises	70,279,592.96
Sales of Goods and Services	73,615,297.97
Federal Grant Revenue	51,515,754.67
Federal Pass-Through Revenue	1,470,366.48
State Grant Revenue	2,551,143.19
State Grant Pass-Through Revenue	32,193,654.95
Other Contracts and Grants	14,159,704.93
Other Operating Revenues	1,915,022.93
Total Operating Revenues	\$ 619,859,655.68
OPERATING EXPENSES ⁽¹⁾	
Instruction	\$ 282,719,234.38
Research	59,115,158.74
Public Service	49,277,710.06
Academic Support	87,565,062.37
Student Services	87,264,238.79
Institutional Support	116,113,724.02
Operation and Maintenance of Plant	55,065,031.51
Scholarships and Fellowships	86,138,022.36
Auxiliary Enterprises	59,418,207.81
Depreciation and Amortization	69,095,321.75
Total Operating Expenses	\$ 951,771,711.79
Operating Loss	\$ (331,912,056.11)
NONOPERATING REVENUES (EXPENSES)	
Legislative Appropriations (GR)	\$ 212,805,700.00
Additional Appropriations (GR)	44,945,185.50
Federal Revenue	55,437,966.90
Gifts	19,873,084.70
Investment Income	14,185,392.22
Interest Expense and Fiscal Charges	(18,269,697.39)
Loss on Sale of Capital Assets	(633,441.75)
Net Increase in Fair Value of Investments	14,524,215.97
Other Nonoperating Revenues	440,973.42
Other Nonoperating Expenses	(6,615,541.35)
Total Nonoperating Revenues (Expenses)	\$ 336,693,838.22
Income Before Other Revenues, Expenses and Transfers	\$ 4,781,782.11
OTHER REVENUES, EXPENSES AND TRANSFERS	
Capital Contributions	\$ 2,230,608.37
Capital Appropriations (HEF)	56,766,916.00
Contributions To Permanent and Term Endowments	343,127.18
Interagency Transfers of Capital Assets - Decrease	(157,484.73)
Transfers From Other State Agencies	643,771.00
Transfers To Other State Agencies	(4,634.00)
Legislative Transfers In	21,921,015.00
Legislative Transfers Out	(212,784.00)
Legislative Appropriation Lapses	(3,441,293.63)
Total Other Revenues, Expenses and Transfers	\$ 78,089,241.19
CHANGE IN NET POSITION	\$ 82,871,023.30
Beginning Net Position	\$ 742,933,617.66
ENDING NET POSITION	\$ 825,804,640.96

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

UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED
Matrix of Operating Expenses Reported by Function
For the Year Ended August 31, 2017

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 Operating Expenses
Cost of Goods Sold	\$ 10,876.43	\$ 2,644.74	\$ 145,469.86	\$ 149,592.45	\$ 422,776.03	\$ 495,497.57	\$ 12,993.58	\$ -	\$ 6,691,805.83	\$ -	\$ 7,931,656.49
Salaries and Wages	203,171,729.23	27,686,167.28	17,357,565.31	45,129,739.13	46,103,625.06	69,219,340.73	17,239,010.10	62,760.30	20,152,286.17	-	446,122,223.31
Payroll Related Costs	49,649,491.02	6,205,861.03	4,199,108.56	9,748,319.64	10,912,582.13	21,808,417.27	4,985,615.18	864.32	5,757,699.20	-	113,267,958.35
Professional Fees and Services	6,064,672.83	10,110,201.09	23,038,780.80	6,297,713.53	5,369,832.34	5,695,658.38	1,613,044.81	255,790.84	2,678,539.21	-	61,124,233.83
Federal Pass-Through Expenses	-	935,331.17	40,811.62	-	-	-	-	-	-	-	976,142.79
State Pass-Through Expenses	-	193,865.16	5,497.70	-	-	-	12,150.00	-	-	-	211,512.86
Travel	2,862,359.14	1,659,066.80	404,823.53	2,096,720.40	4,232,862.46	643,198.49	39,774.11	1,538.42	30,380.11	-	11,970,723.46
Materials and Supplies	8,177,886.62	7,251,405.88	1,944,279.33	11,480,687.73	5,815,439.13	1,858,105.72	4,737,147.95	2,835.87	4,040,731.98	-	45,308,520.21
Communications and Utilities	733,252.90	76,931.74	70,746.88	809,816.02	1,535,550.43	2,433,243.73	6,686,329.62	-	5,556,383.25	-	17,902,254.57
Repairs and Maintenance	2,349,157.99	1,344,595.07	246,366.77	4,049,529.39	2,300,157.36	3,507,029.61	15,783,252.67	-	9,401,457.84	-	38,981,546.70
Rentals and Leases	1,478,588.34	385,879.92	310,469.89	2,165,876.13	2,336,720.38	3,424,571.37	3,231,694.77	-	1,150,111.19	-	14,483,911.99
Printing and Reproduction	753,180.25	459,371.89	171,404.99	695,573.26	1,951,218.56	1,687,601.59	167,848.69	113.51	413,403.51	-	6,299,716.25
Depreciation and Amortization	-	-	-	-	-	-	-	-	-	69,095,321.75	69,095,321.75
Scholarships	1,381,216.78	881,434.23	294,490.64	41,829.49	23,195.01	-	1,553.80	85,796,098.98	-	-	88,419,818.93
Claims and Losses	(41,000.00)	-	-	10,123.88	-	(3,779.88)	-	-	10,787.02	-	(23,868.98)
Other Operating Expenses	6,127,822.85	1,922,402.74	1,047,894.18	4,889,541.32	6,260,279.90	5,344,839.44	554,616.23	18,020.12	3,534,622.50	-	29,700,039.28
Total Operating Expenses	\$ 282,719,234.38	\$ 59,115,158.74	\$ 49,277,710.06	\$ 87,565,062.37	\$ 87,264,238.79	\$ 116,113,724.02	\$ 55,065,031.51	\$ 86,138,022.36	\$ 59,418,207.81	\$ 69,095,321.75	\$ 951,771,711.79

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UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Statement of Activities
For the Year Ended August 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended August 31, 2017 Total
REVENUES, GAINS AND OTHER SUPPORT:				
Contributions	\$ 42,265	\$ 381,760	\$ 9,228,203	\$ 9,652,228
Investment Income	45,463	1,549,605	-	1,595,068
Grant Revenue	570,000			570,000
Management Fee Income	1,725,431	-	-	1,725,431
Other Income	-	54,891	-	54,891
Realized and Unrealized Gain (Loss) on Market Value of Investments	-	9,891,954	-	9,891,954
Actuarial Gain on Annuity Obligations	-	-	698,633	698,633
Increase in Cash Value - Life Insurance	-	-	9,398	9,398
TOTAL REVENUES, GAINS AND OTHER SUPPORT	\$ 2,383,159	\$ 11,878,210	\$ 9,936,234	\$ 24,197,603
NET ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS:				
Net Assets Released from Restrictions	\$ 6,527,993	\$ (6,493,125)	\$ (34,868)	\$ -
Transfers/Changes in Donor Restrictions	1,411,744	(2,595,881)	1,184,137	-
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS	\$ 7,939,737	\$ (9,089,006)	\$ 1,149,269	\$ -
PROGRAM SERVICES:				
Internal Management Fee	\$ 1,202,055	\$ -	\$ -	\$ 1,202,055
Scholarships and Awards	1,931,668	-	-	1,931,668
Grant Support to UNT	570,000			570,000
Expense Reimbursements	8,246	-	-	8,246
Services for Programs	670,516	-	-	670,516
Distributions to UNT	2,681,336	-	-	2,681,336
Grant to University President	70,000	-	-	70,000
Distributions to Other Institutions	23,000	-	-	23,000
Life Insurance Premiums	14,434	-	-	14,434
Total Program Services	\$ 7,171,255	\$ -	\$ -	\$ 7,171,255
MANAGEMENT AND GENERAL EXPENSES:				
Salaries and Benefits	\$ 1,043,307	\$ -	\$ -	\$ 1,043,307
Consulting Fees	47,571	-	-	47,571
Professional Services	50,139	-	-	50,139
Travel	7,095	-	-	7,095
Administrative and Other	27,694	-	-	27,694
Bank and Credit Card Charges	348	-	-	348
Office and Computer Equipment	20,902	-	-	20,902
Insurance	26,781	-	-	26,781
Professional Development and Memberships	21,004	-	-	21,004
Strategic Planning	8,603	-	-	8,603
Total Management and General Expenses	\$ 1,253,444	\$ -	\$ -	\$ 1,253,444
TOTAL PROGRAM SERVICES AND EXPENSES	\$ 8,424,699	\$ -	\$ -	\$ 8,424,699
CHANGE IN NET ASSETS	\$ 1,898,197	\$ 2,789,204	\$ 11,085,503	\$ 15,772,904
Net Assets, Beginning of Year	\$ 493,769	\$ 26,565,918	\$ 92,001,132	\$ 119,060,819
NET ASSETS END OF PERIOD	\$ 2,391,966	\$ 29,355,122	\$ 103,086,635	\$ 134,833,723

See Accompanying Notes to the Consolidated Financial Statements

UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED
Statement of Cash Flows
For the Year Ended August 31, 2017

	August 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds from Customers	\$ 94,950,523.94
Proceeds from Tuition and Fees	358,221,873.53
Proceeds from Research Grants and Contracts	101,235,777.72
Proceeds from Loan Programs	191,261.90
Proceeds from Auxiliaries	70,279,592.96
Proceeds from Other Revenues	1,915,022.93
Payments to Suppliers for Goods and Services	(242,826,285.52)
Payments to Employees	(542,140,111.22)
Payments for Loans Provided	(282,820.60)
Payments for Other Expenses	(89,431,431.02)
Net Cash Used by Operating Activities	\$ (247,886,595.38)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from State Appropriations	\$ 222,829,080.79
Proceeds from Gifts	17,717,137.91
Proceeds from Endowments	343,127.18
Proceeds from Transfers from Other Agencies	643,771.00
Proceeds from Legislative Transfers	21,921,015.00
Proceeds from Grant Receipts	55,437,966.90
Proceeds from Other Revenues	440,973.42
Payments for Legislative Transfers	(212,784.00)
Payments for Transfers to Other Agencies	(4,634.00)
Payments for Legislative Appropriation Lapses	(3,441,293.63)
Payments for Other Uses	(174,983.30)
Net Cash Provided by Noncapital Financing Activities	\$ 315,499,377.27
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Sale of Capital Assets	\$ 121,132.74
Proceeds from State Appropriations	56,766,916.00
Proceeds from Debt Issuance	437,461,220.05
Proceeds from Capital Contributions	1,250,000.00
Payments for Additions to Capital Assets	(103,998,862.17)
Payments for Capital Leases	(1,573,148.45)
Payments of Principal on Debt Issuance	(189,335,000.00)
Payments of Other Costs of Debt Issuance	(2,083,170.64)
Payments of Interest on Debt Issuance	(21,501,175.46)
Net Cash Provided by Capital and Related Financing Activities	\$ 177,107,912.07
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sale of Investments	\$ 309,395,776.30
Proceeds from Interest and Investment Income	13,282,149.39
Payments to Acquire Investments	(460,643,855.72)
Net Cash Used by Investing Activities	\$ (137,965,930.03)
Net Increase in Cash and Cash Equivalents	\$ 106,754,763.93
Cash and Cash Equivalents, September 1, 2016	\$ 203,654,344.43
Cash and Cash Equivalents, August 31, 2017	\$ 310,409,108.36
Cash and Cash Equivalents	\$ 210,075,106.29
Restricted Cash and Cash Equivalents	100,334,002.07
	\$ 310,409,108.36

See Accompanying Notes to the Consolidated Financial Statements

UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED
Statement of Cash Flows
For the Year Ended August 31, 2017

	August 31,
	2017
RECONCILIATION OF OPERATING LOSS TO NET CASH USED	
BY OPERATING ACTIVITIES	
Operating Loss	\$ (331,912,056.11)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation and Amortization	\$ 69,095,321.75
Pension Expense	11,267,960.00
Cash Flow Classification Differences from GASB68	(10,659,862.00)
Employee Benefits Paid by State	29,435,889.98
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	1,638,750.05
(Increase) Decrease in Inventories	(108,482.92)
(Increase) Decrease in Loans and Contracts	(91,558.70)
(Increase) Decrease in Prepaid Expenses	140,337.92
Increase (Decrease) in Payables	(21,334,430.58)
Increase (Decrease) in Unearned Revenue	5,104,385.37
Increase (Decrease) in Other Liabilities	(462,850.14)
Total Adjustments	<u>\$ 84,025,460.73</u>
Net Cash Used by Operating Activities	<u>\$ (247,886,595.38)</u>
NON-CASH TRANSACTIONS	
Net Increase in Fair Value of Investments	\$ 14,524,215.97
Donation of Capital Assets	980,608.37
Borrowing Under Capital Lease Purchase	2,843,289.75
Loss on Sale of Capital Assets	(633,441.75)
Amortization of Bond Premiums (Discounts)	5,958,245.85
Amortization of Deferred Inflows/Outflows from Refunding Bonds	(610,526.92)
Capital Assets Acquired with Payables	18,435,839.77

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**NOTES TO THE
CONSOLIDATED FINANCIAL STATEMENTS**

of the

UNIVERSITY OF NORTH TEXAS SYSTEM

DALLAS, TEXAS

For the Year Ended August 31, 2017

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

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

The System is composed of the System Administration and three academic institutions as follows: the University of North Texas ("UNT"), the University of North Texas Health Science Center at Fort Worth ("HSC"), and the University of North Texas at Dallas ("UNTD"). The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas State Senate. Three members are appointed every odd-numbered year for six-year terms. In addition, the Governor appoints a nonvoting student Regent for a one-year term. The System has one discrete component unit. Information on the component unit can be found in Note 12, *Financial Reporting Entity*.

Basis of Accounting

The consolidated 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.

Assets, Liabilities, Deferred Outflows and Inflows of Resources, and Net Position

Assets

Cash and Cash Equivalents

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

It is the System's policy to exclude items that meet this definition if they are part of an investment pool, which has an investment horizon of one year or greater. Therefore, highly liquid investments that are part of the Foundation-managed long-term investment pool are not considered cash and cash equivalents. Additionally, endowments invested in money market accounts are also excluded from cash and cash equivalents as the intent is to invest these funds for more than one year. Cash held in the State Treasury is considered cash and cash equivalents. Restricted cash and cash equivalents include restricted sources of funds used for construction of capital assets as well as funds held for debt service. The System holds bond proceeds in restricted investment accounts to be disbursed to its institutions to support capital projects.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

Legislative Appropriations

The appropriation of revenues by the Texas Legislature (the "Legislature") is in the form of general revenue. When the Legislature meets during the odd-numbered years, they approve a two-year budget (biennial) for all State agencies. The general revenue appropriation to the System supports the instruction, research and operation of the System. Appropriations also include payments made by the State on behalf of the System for benefits related to salaries funded by state appropriations. There is no assurance that the Legislature will continue its state appropriations to the System in future years; however, the System expects that the Legislature will continue to do so. Higher Education Funds ("HEF") are general revenue appropriations received from the State designated for the acquisition of certain capital assets and capital projects. As of August 31, 2017, the unexpended amount was approximately \$94.8 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 \$31.9 million of the outstanding accounts receivable balance at August 31, 2017. The System has adopted a policy of reserving for account receivables based on collections history over the previous five years. Any amount outstanding after five years is reserved at 100% per state requirements.

Federal receivables include federal grants and education scholarships.

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

Clinical practice receivables are comprised of the remaining receivables after the close out of clinical practices at HSC, which were transferred to a third party in fiscal year 2017. UNT System has reduced the accounts receivable balance by the amount deemed not collectible. One hundred percent of the remaining outstanding balance is anticipated to be collected. As such, no allowance is recorded against these receivables as of August 31, 2017.

Gift receivables include amounts pledged to the System by donors, net of allowances. The allowance for gift pledges is approximately \$1.6 million at August 31, 2017. 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, 2017 is approximately \$4.1 million.

Investments

The System accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. Changes in realized gain (loss) on the carrying value of investments are reported as a component of investment income. Restricted investments include investments restricted by legal or contractual requirements, including those related to donors and constitutional restrictions.

Capital and Intangible Assets

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

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

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

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

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

Deferred Outflows of Resources Related to Debt Refunding

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

Deferred Outflows of Resources Related to Pensions

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

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

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

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 \$226.0 million of tuition revenue related to the semesters that have not been completed as of August 31, 2017. 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 10, *Contingencies and Commitments*, and Note 11, *Risk Management*, for information on risk management, claims and judgments.

Employees' Compensable Leave

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

Capital Lease Obligations

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

Funds Held for Others

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

Net Pension Liability

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

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

Deferred Inflows of Resources

Deferred inflows of resources relate to unamortized gains on refunding of debt and pensions.

Deferred Inflows of Resources Related to Debt Refunding

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

Deferred Inflows of Resources Related to Pensions

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

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

Net Position

Net Investment in Capital Assets

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

Restricted Net Position

Restricted net position primarily consists of permanent investments subject to restrictions externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

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

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

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

Unrestricted Net Position

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

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

Revenues and Expenses

Operating Revenues and Expenses

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

Professional Fees Revenue

HSC has agreements with third parties that provide for reimbursement to HSC at amounts different from its established rates. Contractual adjustments under third party reimbursement programs represent the difference between HSC's established rates for services and the amounts reimbursed by third parties. HSC's more significant third parties are the Medicare and Medicaid programs. Medicare outpatient services are reimbursed on a prospective basis through ambulatory payment classifications, which are based on clinical resources used in performing the procedure. Medicaid outpatient services are paid based on a fee schedule or blended rates.

Scholarship Allowances and Student Aid

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

Nonoperating Revenues and Expenses

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

Upcoming Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, also has the same objective as Statement No's. 73 and 74; however, this statement specifically replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Because this statement addresses the employer's portion of OPEB, the System anticipates a significant impact to the financial statements. The statement will be implemented in fiscal year 2018. The System will await guidance from the State Comptroller's Office as to how to implement and at what agency level this will be reported.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for governments which are a beneficiary of such agreements. This statement will be implemented in fiscal year 2018. The System anticipates minimal impact to the financial statements, as no System institution has irrevocable split-interest agreements. The System's discretely presented component unit, UNT Foundation, does have such agreements. However, UNT Foundation is a nonprofit entity that reports in accordance with FASB.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement will be implemented in fiscal year 2018. The System anticipates minimal to no impact to the consolidated financial statements.

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

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. This statement will be implemented in fiscal year 2020. The System has not yet evaluated the impact this will have to the consolidated financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for transactions in which cash and other monetary assets acquired with existing resources, other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement will be implemented in fiscal year 2018. The System anticipates minimal impact to the consolidated financial statements.

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

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

Note 2: Capital Assets

A summary of changes in capital assets for the year ended August 31, 2017 is presented below:

	Balance September 1, 2016	Reclassification of Completed Construction In Progress	Decrease Interagency Transfers	Additions	Deletions	Balance August 31, 2017
Non-Depreciable or Non-Amortizable Assets:						
Land and Land Improvements	\$ 79,053,424.89	\$ -	\$ -	\$ 1,734,625.38	\$ (112,210.00)	\$ 80,675,840.27
Construction in Progress	36,960,540.35	(24,079,788.77)	-	73,651,372.67	-	86,532,124.25
Other Tangible Capital Assets	25,407,425.61	-	-	66,661.00	(253,700.00)	25,220,386.61
Total Non-Depreciable or Non-Amortizable Assets:	\$ 141,421,390.85	\$ (24,079,788.77)	\$ -	\$ 75,452,659.05	\$ (365,910.00)	\$ 192,428,351.13
Depreciable Assets:						
Buildings and Building Improvements	\$ 1,104,383,528.60	\$ 17,133,036.40	\$ -	\$ 21,143,890.75	\$ (1,224,340.72)	\$ 1,141,436,115.03
Infrastructure	65,219,516.61	-	-	1,521,570.62	-	66,741,087.23
Facilities and Other Improvements	124,990,779.81	1,900,306.33	-	535,297.70	-	127,426,383.84
Furniture and Equipment	152,075,681.28	715,489.94	(296,574.43)	16,034,739.60	(6,399,014.56)	162,130,321.83
Vehicles, Boats and Aircraft	13,432,680.84	-	-	1,099,421.88	(770,978.33)	13,761,124.39
Other Capital Assets	97,898,516.56	4,330,956.10	-	1,000,793.60	(78,424.38)	103,151,841.88
Total Depreciable Assets:	\$ 1,558,000,703.70	\$ 24,079,788.77	\$ (296,574.43)	\$ 41,335,714.15	\$ (8,472,757.99)	\$ 1,614,646,874.20
Less Accumulated Depreciation for:						
Buildings and Building Improvements	\$ (465,499,436.16)	\$ -	\$ -	\$ (42,826,390.89)	\$ 669,697.21	\$ (507,656,129.84)
Infrastructure	(18,391,509.46)	-	-	(2,359,224.31)	-	(20,750,733.77)
Facilities and Other Improvements	(27,112,187.43)	-	-	(3,652,876.83)	-	(30,765,064.26)
Furniture and Equipment	(108,171,795.55)	-	139,089.70	(12,538,694.54)	4,357,413.16	(116,213,987.23)
Vehicles, Boats and Aircraft	(8,270,684.72)	-	-	(1,082,482.50)	556,705.22	(8,796,462.00)
Other Capital Assets	(58,615,012.27)	-	-	(4,427,885.67)	-	(63,042,897.94)
Total Accumulated Depreciation	\$ (686,060,625.59)	\$ -	\$ 139,089.70	\$ (66,887,554.74)	\$ 5,583,815.59	\$ (747,225,275.04)
Total Depreciable Assets, Net	\$ 871,940,078.11	\$ 24,079,788.77	\$ (157,484.73)	\$ (25,551,840.59)	\$ (2,888,942.40)	\$ 867,421,599.16
Amortizable Assets - Intangibles:						
Computer Software	\$ 29,934,319.63	\$ -	\$ -	\$ 1,696,123.63	\$ (415,808.40)	\$ 31,214,634.86
Total Amortizable Assets - Intangibles	\$ 29,934,319.63	\$ -	\$ -	\$ 1,696,123.63	\$ (415,808.40)	\$ 31,214,634.86
Less Accumulated Amortization for:						
Computer Software	\$ (18,291,371.44)	\$ -	\$ -	\$ (2,207,767.01)	\$ 324,960.30	\$ (20,174,178.15)
Total Accumulated Amortization	\$ (18,291,371.44)	\$ -	\$ -	\$ (2,207,767.01)	\$ 324,960.30	\$ (20,174,178.15)
Amortizable Assets - Intangibles, Net	\$ 11,642,948.19	\$ -	\$ -	\$ (511,643.38)	\$ (90,848.10)	\$ 11,040,456.71
Total Capital Assets, Net	\$ 1,025,004,417.15	\$ -	\$ (157,484.73)	\$ 49,389,175.08	\$ (3,345,700.50)	\$ 1,070,890,407.00

A summary of interest costs related to Capital Assets for the year ended August 31, 2017 is presented below:

	Interest Charged to Expense	Interest Capitalized	Total Interest Cost Incurred
Non-Depreciable or Non-Amortizable Assets:			
Construction in Progress	\$ 4,849,262.21	\$ 444,711.71	\$ 5,293,973.92
Total Non-Depreciable or Non-Amortizable Assets:	\$ 4,849,262.21	\$ 444,711.71	\$ 5,293,973.92
Depreciable Assets:			
Buildings and Building Improvements	\$ 17,918,084.12	\$ 1,422,163.39	\$ 19,340,247.51
Infrastructure	35,059.21	1,844.20	36,903.41
Facilities and Other Improvements	838,243.52	-	838,243.52
Furniture and Equipment	138,680.10	-	138,680.10
Vehicles, Boats and Aircraft	14,674.82	-	14,674.82
Total Depreciable Assets:	\$ 18,944,741.77	\$ 1,424,007.59	\$ 20,368,749.36
Total Capital Assets, Net:	\$ 23,794,003.98	\$ 1,868,719.30	\$ 25,662,723.28

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

Note 3: Cash, Cash Equivalents and Investments

Deposits of Cash in Bank

As of August 31, 2017, the carrying amount of deposits was \$33,271,325.79 as presented below:

Cash In Bank Carrying Value	\$ 33,271,325.79
Cash in Bank per Statement of Net Position	\$ 33,271,325.79
Proprietary Funds Current Assets Cash in Bank	\$ 30,214,844.28
Proprietary Funds Current Assets Restricted Cash in Bank	3,056,481.51
Cash in Bank per Statement of Net Position	\$ 33,271,325.79

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 \$257,932,106.35 that is invested in cash equivalents. The remainder of the cash and cash equivalents balance of \$19,205,676.22 is comprised of cash on hand, cash in transit or reimbursement from the Treasury, and cash in the State Treasury.

As of August 31, 2017, the total bank balance was \$13,511,397.33.

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, 2017, the System had no bank balances that were exposed to custodial credit risk.

Investments

Each institution of the System adopts an endowment investment policy that must be reviewed and approved by the System Board of Regents annually. The policy authorizes the following types of investments: U.S. Government obligations, U.S. Government Agency obligations, other government obligations, corporate obligations, corporate asset-backed and mortgage-backed securities, equity, international obligations, international equity, certificates of deposit, banker’s acceptances, money market mutual funds, mutual funds, repurchase agreements, private equity, hedge funds, Real Estate Investment Trusts (“REITs”), derivatives, energy and real estate.

The System’s cash management objective is to retain appropriate liquidity to meet daily operating demands while seeking higher yield on cash reserves through an appropriately diversified long-term investment portfolio. The System obtained permission from the Attorney General’s office for the Board of Regents of the System to invest funds under its control that are held and managed by the System’s institutions under section 51.0031(c) of the Texas Education Code. Section 51.0031 of the Texas Education Code authorizes the System Board of Regents, subject to procedures and restrictions it establishes, to invest System funds in any kind of investment and in amounts it considers appropriate, provided that it adheres to the prudent person standard described in Article VII, Section 11b, of the Texas Constitution. This standard provides that the System Board of Regents, in making investments, may acquire, exchange, sell, supervise, manage or retain, through procedures and subject to restrictions it establishes and in amounts it considers appropriate, any kind of investment that prudent investors, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements and other 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

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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, 2017, the System's investments are presented below. Included in this amount is \$257,932,106.35 classified as cash equivalents.

Investments and Cash Equivalents	As of August 31, 2017
U.S. Government Agency Obligations	\$ 22,438,273.27
Equity	438,656.70
Repurchase Agreement	3,102,026.65
Fixed Income Money Market and Bond Mutual Funds	133,754,978.85
Other Commingled Funds	287,304,473.07
Other Commingled Funds (TexPool)	10,258,799.83
Externally Managed Investments – Domestic (1)	238,064,051.28
Miscellaneous (limited partnerships, guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)	280,999.83
Total Investments and Cash Equivalents	\$ 695,642,259.48

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

Credit Risk – Investments

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

As of August 31, 2017, the System's credit quality distribution for securities with credit risk exposure was as follows:

Fund Type	GAAP Fund	Investment Type	Standard and Poor's			
			AAA	AA	Unrated	Total
05	0001	U.S. Government Agency Obligations	\$ -	\$ 22,438,273.27	\$ -	\$ 22,438,273.27
05	0001	Equity	-	-	438,656.70	438,656.70
05	0001	Repurchase Agreement	-	-	3,102,026.65	3,102,026.65
05	0001	Fixed Income Money Market and Bond Mutual Fund	7,455,612.93	-	126,299,365.92	133,754,978.85
05	0001	Other Commingled Funds	287,304,473.07	-	-	287,304,473.07
05	0001	Commingled Funds (TEXPOOL)	10,258,799.83	-	-	10,258,799.83
05	0001	Externally Managed Investments	-	-	238,064,051.28	238,064,051.28
05	0001	Miscellaneous	-	-	280,999.83	280,999.83
05	0001	Total	\$ 305,018,885.83	\$ 22,438,273.27	\$ 368,185,100.38	\$ 695,642,259.48

Concentration of Credit Risk

As of August 31, 2017, 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

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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, 2017, 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, 2017, 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, 2017, the System’s investments were all denominated in U.S. dollars. The System’s investment policy does not provide specific requirements and limitations regarding investments in foreign currency.

Internal Investment Pool

Certain investments of the System are managed by the Foundation in its internal long-term investment pool (the “Pool”). The Pool is invested with external investment managers who invest in equity, fixed income and alternative investment funds, both domestic and international. The Foundation’s investment policy allows for the asset allocation to be maintained within the following tactical ranges: 50-70% growth assets (U.S. and international equities), 20-40% risk reduction assets (U.S. and global fixed income funds and cash), and 5-15% inflation protection assets (real assets). The Foundation’s investment committee is responsible for monitoring and rebalancing to the strategic target allocation ranges, and within the tactical ranges, has discretionary authority for setting, monitoring, and making reallocations to the portfolio’s specific underlying assets. Complete audited financial statements of the Foundation can be obtained from <https://endow.unt.edu/>.

As of August 31, 2017, total investments in the Pool, including the System portion, consisted of the following investment types:

Investment	<u>Fair Value</u>
Equity	\$ 14,073,430.47
Domestic Mutual Funds	101,708,801.39
International Other Commingled Funds	22,673,286.81
International Mutual Funds	69,603,053.49
Other Commingled Funds	15,414,376.82
Fixed Income Money Market & Bond Mutual Funds	46,323,385.96
Alternative Investments	45,288,938.85
Miscellaneous	482,104.14
Total investments	<u><u>\$ 315,567,377.93</u></u>

The System’s portion of the Pool’s investments as of August 31, 2017 is \$196,200,631.04.

The Pool’s investments are not rated by Standard & Poor’s. As of August 31, 2017, the Pool did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the Pool’s investments. The Pool did not have investments exposed to custodial credit risk. The Pool’s investments subject to interest rate risk – fixed income money market and bond mutual funds – have a weighted average maturity of less than one year and approximately eight years, respectively.

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As of August 31, 2017, the System's investments in the Pool consisted of the following investment types:

Equity

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

Domestic Mutual Funds

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

International Other Commingled Funds

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

International Mutual Funds

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

Other Commingled Funds

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

Fixed Income Money Market & Bond Mutual Funds

Money market mutual funds are open-end mutual funds registered with the Securities and Exchange Commission ("SEC") that must comply with the SEC's "Rule 2a-7," which imposes certain restrictions, such as a requirement that the fund's board must attempt to maintain a stable net asset value per share or stable price per share, limits on the maximum maturity of any individual security in the fund's portfolio, and limits on the maximum weighted-average portfolio maturity and life. Money market funds typically attempt to maintain a net asset value or price of \$1.00 per share. Bond mutual funds are publicly-traded open-end mutual funds that primarily invest in fixed income securities of the U.S. government and agencies, U.S. corporations, and international fixed income securities.

Alternative Investments

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

Fair Value Measurements

The System's investments are recorded at fair value as of August 31, 2017, 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

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The System has the following recurring fair value measurements as of August 31, 2017:

	8/31/2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
U.S. Government Agency Obligations	\$ 22,438,273.27	\$ -	\$ 22,438,273.27	\$ -
Equity	438,656.70	438,656.70	-	-
Bond Mutual Funds	55,359,697.67	55,359,697.67	-	-
Externally Managed Investments - Other	41,863,420.24	41,767,446.55	-	95,973.69
Total Investments at Fair Value	<u>\$ 120,100,047.88</u>	<u>\$ 97,565,800.92</u>	<u>\$ 22,438,273.27</u>	<u>\$ 95,973.69</u>
Investments and Cash Equivalents Measured at NAV				
Other Commingled Funds (TexStar)	\$ 38,840,174.62			
Externally Managed Investments - Foundation Managed Pool	196,200,631.04			
Total Investments at the NAV	<u>\$ 235,040,805.66</u>			
Total Investments at Fair Value	<u>\$ 355,140,853.54</u>			
Investments and Cash Equivalents not Measured at Fair Value				
Repurchase Agreements	\$ 3,102,026.65			
Fixed Income Money Market and Bond Mutual Funds	78,395,281.18			
Other Commingled Funds (TexTERM)	248,464,298.45			
Other Commingled Funds (TexPool)	10,258,799.83			
Miscellaneous	280,999.83			
Total Investments not Measured at Fair Value	<u>\$ 340,501,405.94</u>			
Total Investments	<u>\$ 695,642,259.48</u>			

Investments classified in Level 1 of the fair value hierarchy, totaling \$97,565,800.92 for the year ended August 31, 2017, are valued using quoted prices in active markets.

U.S. government agency obligations totaling \$22,438,273.27 classified in Level 2 of the fair value hierarchy are valued using matrix pricing techniques maintained by pricing vendors. Matrix pricing is used to value securities based on benchmark quoted prices of assets with similar attributes. These prices are obtained from pricing sources by the System's custodial bank.

\$196,200,631.04 of the System's externally managed investments are managed by the Foundation in the long term pool. The Foundation pool has the following recurring fair value measurements as of August 31, 2017:

	8/31/2017	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	\$ 14,073,430.47	\$ 14,033,346.62	\$ 40,083.85	\$ -
Domestic Mutual Funds	101,702,204.89	101,702,204.89	-	-
International Commingled Funds	22,673,286.81	-	22,673,286.81	-
International Mutual Funds	69,603,053.49	69,603,053.49	-	-
Other Commingled Funds	15,414,376.82	-	15,414,376.82	-
Fixed Income Money Market and Bond Mutual Fund	46,323,385.96	-	46,323,385.96	-
Externally Managed Investments (Hedge Funds)	45,288,938.85	-	18,577,708.65	26,711,230.20
Real Estate Funds (REITs)	6,596.50	-	-	6,596.50
Miscellaneous	482,104.14	-	482,104.14	-
Total Investments at Fair Value	<u>\$ 315,567,377.93</u>	<u>\$ 185,338,605.00</u>	<u>\$ 103,510,946.23</u>	<u>\$ 26,717,826.70</u>

Within the pool, financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Fair values for mutual funds valued using Level 2 inputs are based on published daily valuations. Fair values for the Externally Managed Investments (Hedge Funds) and Real Estate Funds (REITs) are determined by third-party valuations of the investments. See Foundation Note 11 for further information regarding the fair value of pool investments.

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Other Commingled Funds consists of funds invested with TexPool, TexStar, and TexTERM. These commingled funds were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. They are structured somewhat like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. In addition, interest rates are also adjusted on a daily basis and the funds seek to maintain a constant net asset value of \$1.00, although this cannot be fully guaranteed. The System reports its investment with TexStar of \$38,840,174.62 at fair value and reports its investment with TexPool and TexTERM of \$258,723,098.28 at amortized cost in accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Please refer to *the Investments Reported at NAV* section below for further information regarding commingled funds reported at fair value. For commingled funds reported at amortized cost, there are no limitations or restrictions on withdrawals and maximum transaction amounts.

Investments Reported at NAV

Other Commingled funds

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

Externally Managed Investments – Foundation managed long term investment pool

The System records its unitized portion of the Foundation’s long term pool investments using NAV. As of August 31, 2017, \$196,200,631.04 of the System’s externally managed investments are managed by the Foundation in the long term pool.

Fair Value	Fair Value	Frequency Range - Low	Frequency Range - High	Notice Range - Low	Notice Range - High	Unfunded Commitment
Alternative	\$ 13,749,573.05	N/A	N/A	N/A	N/A	\$0
Hedge Funds	22,926,258.86	Quarterly	Quarterly	45 Days	180 Days	\$0
Mutual Funds	159,518,202.63	Daily	Monthly	1 Day	60 Days	\$0
Real Estate	6,596.50	N/A	N/A	N/A	N/A	\$0
Total	\$ 196,200,631.04					

Note 4: Short-Term Debt

Commercial Paper

At the November 18, 2016 meeting, the University of North Texas System Board of Regents authorized and approved the Twenty-Fourth Supplemental Resolution to the Master Resolution. The Twenty-Fourth Resolution amended the UNT System Revenue Financing System Commercial Paper Program Series A by reducing the maximum amount of Series A commercial paper notes to \$75,000,000.00 that may be outstanding at any one time. Additionally, 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, 2017 is as follows:

	September 1, 2016	Additions	Reductions	August 31, 2017
Series A Commercial Paper	\$ 20,150,000.00	\$ 31,467,000.00	\$ 39,317,000.00	\$ 12,300,000.00
Series B Commercial Paper	-	13,168,000.00	193,000.00	12,975,000.00
Total Commercial Paper	\$ 20,150,000.00	\$ 44,635,000.00	\$ 39,510,000.00	\$ 25,275,000.00

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The outstanding balance of commercial paper at August 31, 2017 was \$25,275,000.00 at an average interest rate of 0.84%. Average commercial paper maturity during the year ended August 31, 2017 was approximately 37 days. The System will provide liquidity support for \$75,000,000.00 in commercial paper notes by utilizing available funds of the System in lieu of or in addition to bank liquidity support. The maximum maturity for commercial paper is 270 days. In practice, the System rolls, pays off, and/or issues new commercial paper at each maturity. Commercial paper will continue to be used as interim funding until long-term bonds are approved and issued or gifts or institutional funds are received to retire the commercial paper debt.

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

Note 5: Long-Term Liabilities

Changes in Long-Term Liabilities

The following changes occurred in long-term liabilities during the year ended August 31, 2017:

	September 1, 2016	Additions	Reductions	August 31, 2017	Amounts Due Within One Year	Amounts Due Thereafter
Bonds Payable:						
Revenue Bonds Payable	\$ 515,305,000.00	\$ 360,470,000.00	\$ 149,825,000.00	\$ 725,950,000.00	\$ 42,065,000.00	\$ 683,885,000.00
Unamortized Net Premiums	32,584,759.14	32,356,220.05	11,947,799.14	52,993,180.05	5,498,311.45	47,494,868.60
Total Bonds Payable	\$ 547,889,759.14	\$ 392,826,220.05	\$ 161,772,799.14	\$ 778,943,180.05	\$ 47,563,311.45	\$ 731,379,868.60
Claims and Judgments	\$ 1,850,924.00	\$ 61,194.00	\$ 182,194.00	\$ 1,729,924.00	\$ 556,263.00	\$ 1,173,661.00
Compensable Leave	24,681,716.47	2,187,766.33	1,793,563.40	25,075,919.40	4,461,520.24	20,614,399.16
Capital Lease Obligations	3,912,526.72	2,843,289.75	1,249,546.81	5,506,269.66	2,044,736.61	3,461,533.05
Net Pension Liability	118,374,598.00	11,420,236.00	10,085,190.00	119,709,644.00	-	119,709,644.00
Total Long-Term Liabilities	\$ 696,709,524.33	\$ 409,338,706.13	\$ 175,083,293.35	\$ 930,964,937.11	\$ 54,625,831.30	\$ 876,339,105.81

Revenue Bonds Payable

Scheduled principal and interest payments for revenue bonds issued and outstanding as of August 31, 2017 are as follows:

Year	Principal	Interest	Total
2018	\$ 42,065,000.00	\$ 30,126,903.04	\$ 72,191,903.04
2019	42,890,000.00	28,692,940.49	71,582,940.49
2020	41,735,000.00	27,203,701.91	68,938,701.91
2021	43,180,000.00	25,753,726.04	68,933,726.04
2022	44,800,000.00	24,120,743.33	68,920,743.33
2023-2027	194,910,000.00	97,912,232.62	292,822,232.62
2028-2032	186,640,000.00	59,601,514.14	246,241,514.14
2033-2037	67,625,000.00	23,818,384.10	91,443,384.10
2038-2042	45,285,000.00	9,851,879.40	55,136,879.40
2043-2045	16,820,000.00	1,655,140.20	18,475,140.20
Total	\$ 725,950,000.00	\$ 328,737,165.27	\$ 1,054,687,165.27

Interest paid during 2017, net of capitalized interest, amounted to \$20,610,264.92. Total interest and fiscal charges incurred for the year ended August 31, 2017 was \$31,475,690.00. Of this total, the System capitalized \$1,868,719.30 associated with financing capital projects during the construction phase. In addition, the System recorded \$11,947,799.14 and (\$610,525.83) relating to the amortization of premiums and deferred outflows of resources

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from bond refundings, respectively. The remaining amount of \$18,269,697.39 was reported as interest expense and fiscal charges for the year ended August 31, 2017.

Capital Lease Obligations

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

Claims and Judgments

As of August 31, 2017, the Claims and Judgments liability accrual is comprised of incurred but not reported (“IBNR”) activity associated with HSC. According to authoritative GASB guidance, liabilities should be recognized when the possibility of loss is probable and the amount of loss is reasonably estimable. See Note 10, *Contingencies and Commitments*, and Note 11, *Risk Management*, for more information on the claims and judgments against the System.

Net Pension Liability

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

Employees’ Compensable Leave

According to the Texas Human Resources Management Statutes Inventory provided by the State Auditor’s Office, state agency employees who have accrued six months of continuous state employment are entitled to be paid for the accrued balance of the employee’s vacation leave as of the date of separation if the employee is not reemployed by a state agency or institution of higher education with no break in state service to a position which accrues vacation leave. Substantially all full-time System employees earn between eight and twenty-one hours of annual leave per month depending upon the respective employee’s years of state employment. State law permits employees to carry accrued leave forward from one fiscal year to another, up to a maximum of 532 hours for those employees with 35 or more years of state service. Eligible part-time employees’ annual leave accrual rate and maximum carryover are proportional to the number of hours appointed to work. Employees with at least six months of continuous State service who terminate their employment are entitled to payment for all accumulated annual leave. Sick leave, the accumulation of which is unlimited, is earned at the rate of eight hours per month and is paid only when an employee is off due to personal or family illness or to the estate of an employee in the event of his/her death. The maximum sick leave that may be paid to an employee’s estate is one-half of the employee’s accumulated sick leave or 336 hours, whichever is less. Eligible part-time employees’ sick leave accrual rate is proportional to the number of hours they are appointed to work. This obligation is generally paid from the same funding source as the employee’s salary or wage compensation is paid. An expense and a liability are recorded as the benefits accrue to employees, and the liability is reduced as the accrued leave is taken. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Note 6: Bonded Indebtedness

At August 31, 2017, the System had principal outstanding related to revenue bonds of \$725,950,000.00. Revenue Financing System (“RFS”) debt is secured by and payable from pledged revenues as defined in the Master Resolution establishing the RFS. Pledged revenues consist of all lawfully available revenues, funds and balances, with certain exceptions, pledged to secure revenue-supported indebtedness issued under the Master Resolution as set forth by the State.

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General information related to revenue bonds outstanding as of August 31, 2017, is summarized in the following table:

Bond	Purpose	Issue Date	Interest Rates	Amount Issued	Total Principal Outstanding as of 8/31/17
RFS Bonds, Series 2009	To provide funds for the purposes of refunding commercial paper notes, constructing and equipping buildings, and paying certain costs of issuing the bonds	2/19/2009	3.0000% - 5.2500%	\$ 38,650,000.00	\$ 23,860,000.00
RFS Bonds, Series 2009A	To provide funds for the purposes of constructing and equipping buildings, and for paying certain costs of issuing the bonds	12/2/2009	3.0000% - 5.0000%	159,310,000.00	9,870,000.00
RFS Refunding Bonds, Series 2009B	To provide funds for the purposes of refunding outstanding Consolidated University Revenue Bonds Series 1994, Revenue Financing System Bonds Series 1999A, and Revenue Financing System Bonds Series 2001 and for paying costs of issuing the bonds	12/2/2009	3.0000% - 4.7500%	15,800,000.00	4,615,000.00
RFS Refunding Bonds, Series 2010	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2001, Revenue Financing System Bonds Series 2002, Revenue Financing System Bonds Series 2002A, and paying certain costs of issuing the bonds	7/23/2010	3.0000% - 5.0000%	57,625,000.00	35,290,000.00
RFS Refunding and Improvement Bonds, Series 2012A	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2003; a portion of the Board's outstanding commercial paper notes; for purchasing, constructing, improving, renovating, enlarging, and equipping property and infrastructure; and paying certain costs of issuing the bonds	6/1/2012	2.0000% - 5.0000%	75,890,000.00	53,480,000.00
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	4,055,000.00
RFS Refunding Bonds, Series 2015	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2003A and 2005 Bonds and paying certain costs of issuing the bonds	4/30/2015	1.9500% - 1.9500%	38,265,000.00	24,495,000.00
RFS Refunding Bonds, Series 2015A	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2014 Private Placement Arrangement, for refunding a portion of the Board's commercial paper notes and provide funding for constructing and equipping buildings, and paying certain costs of issuing the bonds	10/21/2015	2.0000%-5.0000%	105,130,000.00	103,600,000.00
RFS Refunding Bonds, Series 2015B	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2014 Private Placement Arrangement, for refunding a portion of the Board's commercial paper notes, provide	10/21/2015	0.3000%-4.8380%	73,035,000.00	66,120,000.00
RFS Refunding Bonds, Series 2015C	To provide funds for the purposes of refunding Revenue Financing System Bonds Series 2007 Bonds and and paying certain costs of issuing the bonds	3/1/2016	2.4460%-10.0000%	45,865,000.00	43,785,000.00
RFS Refunding Bonds, Series 2017A	To provide funds for the purposes of refunding a portion of the Revenue Financing System Bonds Series 2009A; a portion of the Board's outstanding commercial paper notes; for constructing, improving, renovating, and equipping property; and paying certain costs of issuing the bonds	1/31/2017	1.0000%-5.0000%	196,165,000.00	194,420,000.00
RFS Refunding Bonds, Series 2017B	To provide funds for the purposes of refunding a portion of the Revenue Financing System Bonds Series 2009A; a portion of the Board's outstanding commercial paper notes; for constructing, improving, renovating, and equipping property; and paying certain costs of issuing the bonds	1/31/2017	0.9000%-4.1220%	164,305,000.00	162,360,000.00
Total				<u>\$ 974,860,000.00</u>	<u>\$ 725,950,000.00</u>

UNIVERSITY OF NORTH TEXAS SYSTEM
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Early Extinguishments in 2017

The System advance refunded \$58,525,000.00 of the RFS Series 2009A bonds with a portion of the RFS Series 2017A bonds:

- RFS Refunding Bonds, Series 2017A, were issued on January 1, 2017 to advance refund \$58,525,000.00 of the RFS Series 2009A Bonds; to refund a portion of the Board’s outstanding commercial paper notes; to fund construction, improvements, renovations and equipping property; and pay certain costs of issuing the bonds.
- Series 2017A Bonds were issued at a premium of \$32,356,220.05 and par value of \$196,165,000.00.
- Net proceeds of \$64,132,835.57 – after payment of \$1,102,495.31 in issuance cost and underwriting fees and \$374.97 of cash were used to purchase U.S. Government Securities. The proceeds and cash were deposited in an irrevocable trust with an escrow agent to provide for future debt payments on the 2009A bonds.
- Advance refunding the Series 2009A bonds with a portion of the Series 2017A bonds reduced the System’s debt service payments over the next 20 years by approximately \$5.7 million.
- Economic gain of \$4,567,836.26 is the difference between the net present value of the old and new debt service payments. In addition, the deferred amount of \$4,038,659.39 was recorded as deferred outflows from the Series 2017A portion of the advance refunding.

Advance refunded \$57,070,000.00 of the RFS Series 2009A bonds with a portion of the RFS Series 2017B bonds:

- RFS Refunding Bonds, Series 2017B, were issued on January 1, 2017 to advance refund \$57,070,000.00 of the RFS Series 2009A Bonds; to refund a portion of the Board’s outstanding commercial paper notes; to fund construction, improvements, renovations and equipping property; and pay certain costs of issuing the bonds.
- Series 2017B Bonds were issued at a par.
- Net proceeds of \$62,538,600.49 – after payment of \$918,569.61 in underwriting fees and issuance costs and \$106.85 of cash were used to purchase U.S. Government Securities. The proceeds and cash were deposited in an irrevocable trust with an escrow agent to provide for future debt payments on the 2009A bonds.
- Advance refunding the Series 2009A bonds with a portion of the Series 2017B bonds reduced the System’s debt service payments over the next 20 years by approximately \$3.1 million.
- Economic gain of \$2,546,786.99 is the difference between the net present value of the old and new debt service payments. In addition, the deferred amount of \$1,048,705.20 was recorded as deferred outflows from the Series 2017B portion of the advance refunding.

Funds Available for Debt Service

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

Total pledged revenues consist of available pledged revenues, which include the gross revenues of the RFS, the Student Union Fee, pledged general tuition (which includes general use fees), investment income, and funds held for payment of debt service. In addition to current year pledged revenues, any unappropriated or reserve fund balances remaining at year-end are available for payment of the subsequent year debt service. System HEF reserves and Health and Loan Reserves at HSC cannot be included in total pledged revenues. The following table provides the pledged revenue information for the System’s revenue bonds:

Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	\$ 1,054,687,165.27
Term of Commitment Year Ending 8/31	2045
Percentage of Pledged Revenue	100%
Current Year Pledged Revenue	\$ 831,131,888.16
Current Year Principal and Interest Paid	\$ 56,708,984.21

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Note 7: Leases

Operating Leases

The System has entered into various operating leases for buildings, equipment, vehicles and land. Rental expenses for operating leases were \$3,330,152.37 in 2017. The lease terms typically range from 12 to 60 months, where some lease terms contain optional renewals. Future minimum lease payments under non-cancelable operating leases having an initial term in excess of one year as of August 31, 2017, were as follows:

<u>Fiscal Year</u>	<u>Lease Payments</u>
2018	\$ 2,874,874.04
2019	2,096,667.73
2020	1,650,397.90
2021	1,061,393.80
2022	62,499.96
2023 - 2027	312,499.80
2028 - 2032	312,499.80
2033 - 2037	312,499.80
2038 - 2042	312,499.80
2043 - 2047	312,499.80
2048 - 2052	62,499.96
Total Future Minimum Operating Lease Payments	\$ 9,370,832.39

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, 2017, were as follows:

<u>Assets Leased</u>	<u>2017</u>
Buildings:	
Cost	\$ 12,496,627.97
Less: Accumulated Depreciation	(4,638,665.79)
Carrying Value	<u>\$ 7,857,962.18</u>
Parking Garage:	
Cost	\$ 10,655,156.80
Less: Accumulated Depreciation	(6,016,079.19)
Carrying Value	<u>\$ 4,639,077.61</u>
Total Carrying Value	<u>\$ 12,497,039.79</u>

There were no contingent rentals for the period ended August 31, 2017. Rental income for operating leases of \$3,290,758.02 in 2017 are included in Auxiliary Enterprises in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Future minimum lease income under non-cancelable operating leases as of August 31, 2017, was as follows:

<u>Year</u>	<u>Lease Income</u>
2018	\$ 3,442,673.69
2019	700,953.15
2020	399,927.67
2021	321,667.36
2022	102,915.16
Total Minimum Lease Income	<u>\$ 4,968,137.03</u>

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Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

Capital Leases

Leases that are purchases in substance are reported as capital lease obligations. The System has entered into long-term leases for financing the purchase of certain capital assets where lease terms contain bargain purchase options. Such leases are classified as capital leases for accounting purposes, and the asset and liability are recorded at the present value of the future minimum lease payments at the inception of the lease. Amortization of the leased assets is included in depreciation expense. A summary of original capitalized costs and accumulated depreciation of all assets under capital lease as of August 31, 2017, is presented below:

Assets Under Capital Lease	August 31, 2017
Equipment:	
Cost	\$ 10,396,861.39
Less: Accumulated Depreciation	(3,458,851.46)
Carrying Value	6,938,009.93
Vehicles:	
Cost	450,594.26
Less: Accumulated Depreciation	(84,974.79)
Carrying Value	365,619.47
Total Carrying Value	\$ 7,303,629.40

Capital lease obligations are due in monthly, quarterly or annual installments. Future minimum lease payments for assets under capital lease at August 31, 2017, were as follows:

Year	Principal	Interest
2018	\$ 2,044,736.61	\$ 167,304.93
2019	2,066,222.88	93,134.32
2020	556,292.46	20,730.75
2021	278,158.43	14,232.01
2022	252,198.37	8,740.47
2023 - 2027	308,660.91	4,650.48
Total Future Minimum Lease Payments	\$ 5,506,269.66	\$ 308,792.96

Note 8: Defined Benefit Pension Plan, Defined Contribution Plan, and Health Care Benefits

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

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

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

UNIVERSITY OF NORTH TEXAS SYSTEM
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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 employed in a TRS-eligible position on a half time or greater basis that is projected to last for 4½ months or more are eligible for membership in the TRS Plan. However, students employed in positions that require student status as a condition of employment do not participate. Members with at least five years of service have a vested right to unreduced retirement benefits at age 65 or provided they have a combination of age plus years of service totaling 80 or more. However, members who began participation in the TRS Plan on or after September 1, 2007 must be age 60 to retire and members who were not vested in the TRS Plan on August 31, 2014, must be age 62 to retire under the second option. Members are fully vested after five years of service and are entitled to any reduced benefits for which the eligibility requirements have been met prior to meeting the eligibility requirements for unreduced benefits. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule.

Contributions

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

During the measurement period of 2016 for fiscal 2017 reporting, the amount of the System's contributions recognized by the plan was \$10,085,190.00. The contribution rates are based on a percentage of the monthly gross compensation for each member. Contributions by employees were 7.2% of gross earnings during the measurement period of 2016. Depending upon the source of funding for the employee's compensation, the State or the System contributes a percentage of participant salaries totaling 6.8% of annual compensation for during the measurement period of 2016.

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 2016 Comprehensive Annual Financial Report.

At August 31, 2017, the System reported a liability of \$119,709,644.00 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, 2016 (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 0.3167884475%, which was a decrease of 0.0180886525% from the 0.3348771% measured

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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, 2015 through August 31, 2016 (the "measurement period"). During the measurement period, the amount of the System's contributions recognized by the TRS Plan, including State on-behalf contributions, was \$12,959,533.75. The State recognized \$34,118,016.24 for its proportionate share of the net pension liability related to its contributions to TRS on behalf of the System. The State's proportionate share for those contributions was 0.0902867%.

For the year ended August 31, 2017, the System recognized pension expense of \$11,267,960.00. At August 31, 2017, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions subsequent to the measurement date	\$ 10,631,245.00	\$ -
Changes of assumptions	3,648,535.00	3,318,193.00
Difference between expected and actual experience	1,877,025.00	3,574,461.00
Change in proportion and contribution difference	9,462,971.00	26,426,002.00
Net difference between projected and actual investment return	10,136,766.00	-
Total	<u>\$ 35,756,542.00</u>	<u>\$ 33,318,656.00</u>

The \$10,631,245.00 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 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year</u>	<u>Expense</u>
2018	\$ (2,304,253.00)
2019	(2,304,253.00)
2020	4,161,471.00
2021	(2,800,915.00)
2022	(4,138,202.00)
Thereafter	(807,208.00)
Total	<u>\$ (8,193,360.00)</u>

Actuarial Assumptions

The total pension liability is determined by an annual actuarial valuation. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2016 measurement date:

Actuarial Methods and Assumptions	TRS Plan
Actuarial Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Floating
Actuarial Assumptions:	
Discount Rate	8.0%
Investment Rate of Return	8.0%
Inflation	2.50%
Salary Increase	3.50% to 9.50% including inflation
Mortality	
Active	90% of the RP 2014 Employee Mortality Tables for males and females
Post-Retirement	2015 TRS Healthy Pensioner Mortality Tables
Ad Hoc Post-Employment Benefit Changes	None

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

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

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

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

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

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

1.0% Decrease (7.0%)	Current Discount Rate (8.0%)	1.0% Increase (9.0%)
\$ 185,270,202.80	\$ 119,709,644.00	\$ 64,101,036.70

Optional Retirement Program

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

The employee and employer contribution rates are established by the Legislature each biennium. Depending upon the source of funding for the employee’s compensation, the System may be required to make the employer contributions in lieu of the State. Since these are individual annuity contracts, the State and the System have no additional or unfunded liability for this program. The State provides an option for a local supplement in addition to the state base rate. Each institution within the System can decide to adopt and fund a local supplement each year to provide each ORP employee the maximum employer rate. The chancellor then approves the employer rates each fiscal year. The contributions made by participants (6.65% of annual compensation) and the employer (6.60% state base rate for 2017 plus any local supplement for a maximum 8.50% of annual compensation) for the year ended August 31, 2017, is provided in the following table:

ORP Participation	
Member Contributions	\$ 8,528,044.23
Employer Contributions	9,231,074.03
Total	\$ 17,759,118.26

Employee Retirement System

The Employee Retirement System (ERS) provides healthcare and survivor benefits for both active and retired employees. The Board of Trustees of the Employees Retirement System of Texas is the administrator of the ERS, which is considered to be a single employer defined benefit healthcare plan. UNTS employees that work at least 20 hours but less than 30 hours per week are eligible for partial health benefits under ERS. UNTS employees that work 30 or more hours are eligible for full health benefits under ERS. Employees may retire at age 65 with 10 years of service or any combination of age plus 10 years of service that is equal to or greater than 80. The premium provisions are determined by the Texas Legislature and require monthly contributions by the State, UNTS and UNTS employees. Contributions to ERS for the year ended August 31, 2017 was as follows:

ERS Participation	
Member Contributions	\$ 17,783,199.05
State On-Behalf Contributions	22,944,642.49
Employer Contributions	35,742,218.93
Total	\$ 76,470,060.47

Additional information can be obtained from the separately issued ERS Comprehensive Annual Financial Report at <http://ers.texas.gov/>.

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Note 9: 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, 2017.

Note 10: 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

Construction Litigation

Beck Warrior, a Joint Venture v. University of North Texas System. Docket No. 752-17-4372.CC, State Office of Administrative Hearings. Dispute with general contractor regarding the UNT Union renovation and expansion project. Beck Warrior seeks damages in the amount of \$6,633,591 for errors in the project architect's drawings and delays allegedly caused by UNT System. Discovery is beginning and the parties have requested that the final hearing of the matter take place the week of September 24, 2018. The likelihood of an unfavorable outcome is reasonably possible and the range of loss is estimated to be \$0 to \$250,000. Under existing law, the maximum potential loss is \$250,000. Beck Warrior can seek legislative approval to recover a larger damage award should they prevail at trial.

Healthcare Litigation

Beatrice Howard v. Texas Rehabilitation Hospital of Fort Worth, LLC. Case No. 348-294707-17, 348th Judicial District Court, Tarrant County, Texas. Health care liability claim. Plaintiff claims she was injured while in the care of a former student at HSC. HSC has not been served with the lawsuit. Plaintiff seeks damages between \$200,000 and \$1,000,000. The likelihood of an unfavorable outcome is reasonably possible and the range of loss is estimated to be \$0 to \$250,000.

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

Research Grant Repayment to National Institutes of Health

In a compliance review of 114 of HSC's NIH-funded research projects, HSC determined that weaknesses existed in its reporting and certification of time and effort performed by researchers on NIH-funded projects, which weaknesses caused HSC to be non-compliant with certain regulatory and/or sponsor-imposed obligations. In January 2017, HSC disclosed to NIH the results of its review of NIH-funded research projects, and offered to repay to NIH \$8.72 million of previously received research grant funding. NIH referred the matter to the Department of Justice in Dallas, and the parties have executed a settlement agreement that requires HSC to repay \$13,073,000 by February 25, 2018. HSC accrued a loss of \$8.72 million in fiscal year 2016 related to the repayment offer.

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Commitments

The System continues to implement capital improvements to upgrade facilities. Approximately \$408 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: 55% Tuition Revenue Bonds, 31% Revenue Financing System Bonds, 8% HEF, 3% auxiliary revenues, 2% from designated funds, and less than 1% from Commercial Paper. Approximately \$295 million of the commitment, or roughly 72%, is expected to be spent in 2018.

On May 20, 2016 the System entered into a Purchase Agreement with JP Morgan to forward refund certain maturities of the Series 2009 Bonds and close and deliver on March 14, 2018. JP Morgan agreed to purchase, at closing, the Revenue Financing System Bonds, Forward Delivery Series 2018 bearing an interest rate of 2.40% annually.

Note 11: 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 10, *Contingencies and Commitments*. The System did not have any losses or settlements that exceeded insurance policy limits within the last three years.

Self-Insurance Arrangements

Medical Professional Liability Self-Insurance Plan

HSC manages a medical malpractice self-insurance plan for its physicians. As of August 31, 2017, HSC had sufficient self-insurance reserves for known claims against its health care professionals. The policy limits for this plan are \$500,000/\$1,500,000. Medical professional liability coverage is purchased for allied health care professionals and medical students with entity coverage, which provides a maximum per incident of \$1,000,000 and an aggregate limit of \$3,000,000 with no deductible.

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The following contingencies and Incurred But Not Reported (“IBNR”) activity was determined for the year ended August 31, 2017 and August 31, 2016, respectively:

	<u>August 31, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>August 31, 2017</u>
Incurred But Not Reported Self-Insurance Claims (HSC) (1)	\$ 1,770,924.00	\$ 61,194.00	\$ 102,194.00	\$ 1,729,924.00
Contingent Liabilities	\$ 80,000.00	\$ 17,131.02	\$ 97,131.02	\$ -

	<u>August 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>August 31, 2016</u>
Incurred But Not Reported Self-Insurance Claims (HSC) (1)	\$ 1,667,984.00	\$ 343,960.00	\$ 241,020.00	\$ 1,770,924.00
Contingent Liabilities	\$ 1,910,248.00	\$ 738,965.15	\$ 2,569,213.15	\$ 80,000.00

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

Student-Athlete Accident Medical Self-Insurance Plan

The National Collegiate Athletic Association (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 2017 was \$340,000. For the year ended August 31, 2017, 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, 2017, claims against the System were below the liability limits established by the Texas Tort Claims Act, and thus immaterial.

Commercial Insurance Arrangements

Directors and Officers/Employment Practices Liability

Directors and Officers (“D&O”)/Employment Practices Liability (“EPL”) coverage insures all institutions in the System as well as all officers, employees and volunteers. The policy provides for a maximum limit of \$10,000,000 with a zero deductible per insured individual and \$50,000 deductible per insured entity for D&O; and \$100,000 deductible per insured individual, \$50,000 deductible for the entity, and a \$25,000 deductible for volunteers for EPL.

Automobile

The Texas Motor Vehicle Safety Responsibility Act requires that vehicles operated on a state highway be insured for minimum limits of liability in the amount of \$30,000/\$60,000 for bodily injury and \$25,000 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 \$250,000 and an aggregate limit of \$1,000,000 and an aggregate of \$3,000,000 with a \$5,000 deductible.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

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 \$1,500,000,000 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, 2017, the System maintains one policy for an out-of-state employee.

Unemployment Compensation

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

Unemployment compensation is on a pay-as-you-go basis through the State, with the exception of locally funded enterprises that have fund expenses and set-aside amounts based on a percentage of payroll amounts. No material outstanding claims were pending at August 31, 2017.

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, 2017. Health benefits are provided through the various state contracts administered by the Employee Retirement System.

Miscellaneous

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

Note 12: 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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

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, 2017, only the University of North Texas Foundation met the criteria for inclusion in the System's financial statements.

Discretely Presented Component Unit

University of North Texas Foundation

The University of North Texas Foundation, Inc. (the "Foundation") is reported as a discrete component unit. The Foundation's fiscal year end is August 31, consistent with the System. The Foundation is a separate nonprofit organization that is organized for various purposes, including transferring or using all or any part of the corpus or income from endowments for the benefit of the University of North Texas. Such uses are made in accordance with the general or specific purposes stipulated by the donors, grantors or testators, or in the absence of such stipulations, for such uses as may be determined by the Board of Directors of the Foundation; furthermore, the Foundation promptly distributes all net income in excess of operating requirements to promote the educational advancement of UNT. The governing board is self-perpetuating, comprised of elected members separate from the System's Board of Regents. The direction and management of the affairs of the Foundation and the control and disposition of its assets are vested in the Board of Directors of the Foundation. The System has no liability with regard to the Foundation, its operations or liabilities. The majority of endowments supporting university scholarships and other System programs are owned by the Foundation; therefore, including the Foundation's financial reports is important to obtain a full understanding of the System's financial position and resources.

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

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

An amended agreement was approved by the Foundation's Board of Directors in their June 2009 meeting, and subsequently approved by the System Board of Regents in August 2009. Under the amended agreement, UNT's Vice President for Advancement will serve as the Foundation's Director of Development and will oversee, coordinate and exercise decision-making authority over the fundraising activities of both UNT and the Foundation. In this dual position, the Vice President for Advancement/Foundation's Director of Development (the "VPA/FDD") shall have no decision-making authority in regard to governance of the Foundation or expenditure of funds by the Foundation. The VPA/FDD is an employee of UNT, and compensation for the position is the sole obligation of UNT. In consideration of this amended agreement, UNT has consistently reported the Foundation as a discrete component unit in the System's financial statements.

Related Parties

Through the normal course of operations, the System both receives funds from and provides funds to other state agencies in support of sponsored research programs. Funds received and provided during the year ended August 31, 2017 related to pass-through grants were \$32,193,654.95 and \$211,512.86 respectively.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

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

Note 13: 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	\$ 7,545,190.82	Restricted Expendable

(1) There was a positive fair value adjustment totaling \$3,485,372.35 for fiscal year 2017 related to true endowments. As of August 31, 2017, the System did not have any term endowments to report.

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 Foundation's Board of Directors, the target annual distribution rate shall be 4% of the average unit market value: for fiscal year 2017 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 Foundation, a discrete component unit of the University of North Texas System.

Endowment Type	Amount of Cumulative Net Appreciation (1)	Reported in Net Position
True Endowments	\$ 10,189,083.50	Restricted Expendable

(1) There was a positive fair value adjustment totaling \$6,565,412.71 for fiscal year 2017 related to true endowments. As of August 31, 2017, the Foundation did not have any term endowments to report.

UNIVERSITY OF NORTH TEXAS SYSTEM
Notes to the Consolidated Financial Statements
For the Year Ended August 31, 2017

Note 14: 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, 2017 is presented below:

	<u>Total</u>
Deferred Outflows of Resources	
Unamortized Losses on Refunding of Debt	\$ 7,813,121.47
Deferred Outflows of Resources Related to Pensions (1)	<u>35,756,542.00</u>
Total Deferred Outflows of Resources	<u>\$ 43,569,663.47</u>
Deferred Inflows of Resources	
Unamortized Gains on Refunding of Debt	\$ 1,315,823.70
Deferred Inflows of Resources Related to Pensions (1)	<u>33,318,656.00</u>
Total Deferred Inflows of Resources	<u>\$ 34,634,479.70</u>

- (1) See Note 1, *Summary of Significant Accounting Policies*, and Note 8, *Defined Benefit Pension Plan, Defined Contribution Plan, and Health Care Benefits*, for more information regarding deferred outflows of resources and deferred inflows of resources related to debt refunding and pensions.

**UNIVERSITY OF NORTH TEXAS SYSTEM
Required Supplementary Information
For the Year Ended August 31, 2017**

Required Supplementary Information (RSI)

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

RSI - Pension Proportionate Share

	2017	2016	2015
System's proportion of the net pension liability	0.3167884%	0.3348771%	0.3870437%
System's proportionate share of the net pension liability	\$ 119,709,644.00	\$ 118,374,598.00	\$ 103,405,818.19
System's covered payroll (1)	\$ 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	48.09%	50.26%	46.47%
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%

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

Schedule of the System's Contributions

RSI - Pension Contributions

	2017	2016	2015	2014
Statutorily required contributions	\$ 10,631,245.00	\$ 10,085,190.00	\$ 9,916,773.00	\$ 9,870,977.18
Contributions in relation to the statutorily required contributions	10,631,245.00	10,085,190.00	9,916,773.00	9,870,977.18
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
System's covered payroll	\$ 252,852,119.73	\$ 248,934,340.22	\$ 235,537,989.10	\$ 222,501,101.49
Contributions as a percentage of covered payroll	4.20%	4.05%	4.21%	4.44%

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**NOTES TO THE
FINANCIAL STATEMENTS**

of the

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

DENTON, TEXAS

For the Years Ended August 31, 2016 and 2017

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2017

Note 1: Purpose and Summary of Significant Accounting Policies

Purpose

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

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

Basis of Presentation

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

Contributions

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

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

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

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

Estimates

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

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with an initial maturity at the time of purchase of three months or less. At August 31, 2017 and 2016, there was \$3,748,277 and \$1,676,512, respectively, of cash equivalents in the Foundation's investment accounts awaiting investment.

Investments

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

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2017

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

Real Property

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

Other Assets

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

Agency Funds

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

Date of Management's Review

Subsequent events were evaluated through January 18, 2018, which is the date the financial statements were available to be issued.

Note 2: Investments

Investment securities consisted of the following at August 31, 2017 and 2016:

	<u>August 31, 2017</u>		<u>August 31, 2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. and International Stocks and Equity Mutual Funds/Comingled Funds	\$ 146,522,187	\$ 185,130,687	\$ 145,113,617	\$ 171,915,644
U.S. and International Fixed Income Securities and Mutual Funds/Comingled Funds	62,861,418	63,015,734	44,503,153	45,527,410
U.S. Balanced Comingled Fund	16,300,000	18,046,024	16,300,000	16,358,680
Real Estate Investment Trust and Mutual Funds	9,319,665	9,936,938	7,819,687	8,458,116
Natural Resource Mutual Fund/Global Hard Assets Mutual Fund	15,756,960	12,726,765	16,140,049	13,932,443
Hedge Funds of Funds/Mutual Fund	21,906,833	26,711,230	21,906,833	24,459,430
	<u><u>\$ 272,667,063</u></u>	<u><u>\$ 315,567,378</u></u>	<u><u>\$ 251,783,339</u></u>	<u><u>\$ 280,651,723</u></u>

Investment income consists of interest and dividends on investment securities and is shown net of investment fees and expenses of \$69,532 and \$65,173 for the years ended August 31, 2017 and 2016, respectively.

Note 3: Fair Value of Financial Instruments

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

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2017

Note 4: Fair Value Measurements

Fair values of assets measured on a recurring basis at August 31, 2017 and 2016 are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 31, 2017:				
Securities/Mutual Funds/Comingled Funds	\$ 288,849,551	\$ 193,605,834	\$ 95,243,717	\$ -
Real Estate Investment Trust	6,597	-	-	6,597
Hedge Funds of Funds	26,711,230	-	-	26,711,230
Total	\$ 315,567,378	\$ 193,605,834	\$ 95,243,717	\$ 26,717,827
August 31, 2016:				
Securities/Mutual Funds/Comingled Funds	\$ 256,119,661	\$ 166,337,950	\$ 89,781,711	\$ -
Real Estate Investment Trust	72,632	-	-	72,632
Hedge Funds of Funds	24,459,430	-	-	24,459,430
Total	\$ 280,651,723	\$ 166,337,950	\$ 89,781,711	\$ 24,532,062

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

	Real Estate Investment Trust	Hedge Funds Mutual Funds	Loan Fund	Total
August 31, 2015	\$ 404,820	\$ 5,630,059	\$ 5,177,349	\$ 11,212,228
Total gains (losses) (realized/unrealized)	(44,664)	629,371	(95,991)	488,716
Purchases, issuance, and settlements	(287,524)	18,200,000	(5,081,358)	12,831,118
August 31, 2016	\$ 72,632	\$ 24,459,430	\$ -	\$ 24,532,062
Total gains (losses) (realized/unrealized)	(66,035)	2,251,800	-	2,185,765
Purchases, issuance, and settlements	-	-	-	-
August 31, 2017	\$ 6,597	\$ 26,711,230	\$ -	\$ 26,717,827

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

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Fair values for mutual funds and comingled funds valued using level 2 inputs are based on published daily valuations. Fair values for the Real Estate Investment Trust, Hedge Funds of Funds, and Loan Fund are determined by third-party valuations of the investments. There were no changes in valuation methods during fiscal years 2017 or 2016.

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2017

Note 5: Contributions and Other Receivables

Contributions and other receivables as of August 31, 2017 and August 31, 2016 are as follows:

	<u>August 31, 2017</u>	<u>August 31, 2016</u>
Contributions Receivable in less than one year	\$ 2,435,754	\$ 2,514,252
Contributions Receivable in one to five years	1,476,347	2,491,412
Contributions Receivable in six to ten years	25,000	220,000
Contributions Receivable in over ten years	-	-
Total Contributions Receivable	\$ 3,937,101	\$ 5,225,664
Less allowance for uncollectible amounts	\$ (375,301)	\$ (522,566)
Less discounts to net present value	(184,088)	(312,807)
Net Contributions Receivable	\$ 3,377,712	\$ 4,390,291
Other amounts receivable	\$ 12,845	2,800
Total Contributions and Other Receivables	<u>\$ 3,390,557</u>	<u>\$ 4,393,091</u>

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

Note 6: Unrestricted Net Assets

Unrestricted net assets at August 31, 2017 and 2016 include \$1,746,303 and \$1,577,403, respectively, which has been designated by the Foundation's Board of Directors as a reserve for future operations.

Note 7: Temporarily Restricted Net Assets

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

Note 8: Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes at August 31, 2017 and 2016:

	<u>August 31, 2017</u>	<u>August 31, 2016</u>
Endowments to support various programs, scholarships, and other activities of the University of North Texas	\$ 102,563,259	\$ 91,487,153
Cash value of life insurance policies that will provide proceeds upon death of insured for endowments	523,376	513,979
Total	<u>\$ 103,086,635</u>	<u>\$ 92,001,132</u>

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2017

Note 9: Life Insurance Policies

Several endowments have been established which are to be funded or partially funded by life insurance policies for which the Foundation has been named owner and beneficiary. Premium payments made by the Foundation are reimbursed by the donors of the policies. As of August 31, 2017 and 2016, there were a total of 25 and 26 such policies, respectively, with death benefits totaling \$1,982,636 and \$1,972,817 respectively, and cash values totaling \$523,376 and \$513,975 respectively.

Note 10: Income Tax Status

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

Note 11: Retirement Plan

The Foundation sponsors a defined contribution retirement plan covering all full time employees of the Foundation. Prior to January 1, 2017, the Foundation contributed 8.5% of eligible employees' compensation to the plan, and employees were required to contribute a minimum of 6.65% of compensation to the plan. Effective January 1, 2017, a new 403(b) plan was adopted. Under the terms of the new plan, the Foundation contributes a full matching contribution of up to 6.0% of compensation for employees who make an elective contribution. An additional discretionary non-elective contribution may be allocated on the basis of compensation, as budgeted and approved by the Board in advance of the fiscal year. Employees may make voluntary contributions up to the limits prescribed by the Internal Revenue Code. The Foundation contributions to the existing and prior plans were \$67,712 and \$73,062 for the year ended August 31, 2017 and 2016 respectively.

Note 12: Assets Held Under Split Interest Agreements

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

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

Note 13: Assets Held For Others

The Foundation holds and invests certain funds in trust on behalf of the University of North Texas System (UNTS). Pursuant to an investment agreement dated March 15, 2012 and amended and restated on November 1, 2014, certain UNTS long-term assets have been placed with the Foundation and invested in the Foundation's Consolidated Investment Pool. The UNTS investment funds are subject to the same investment management policy as the Foundation's investments, but receive monthly distributions. The initial term of the agreement effective on November 1, 2014 ended August 31, 2016. It contains a provision to automatically renew annually thereafter, as well as a provision for early termination as agreed by the parties.

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

UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.
Notes to the Financial Statements
For the Year Ended August 31, 2017

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

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

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

Assets held under these arrangements are included in the Statement of Financial Position at fair value, and the Foundation realized net management fee income of \$523,376 and \$424,069 respectively during the year ended August 31, 2017 and 2016, respectively for its services.

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

	<u>August 31, 2017</u>	<u>August 31, 2016</u>
Trust for which beneficiary can be changed	\$ 1,351,176	\$ 2,651,998
UNTS assets managed by Foundation	144,653,451	134,555,295
UNT endowment assets managed by Foundation	51,547,180	43,149,493
Total Assets Held for Others	<u>\$ 197,551,807</u>	<u>\$ 180,356,786</u>

Note 14: Concentrations of Credit Risk

The Foundation maintains cash balances at times in excess of \$250,000 in its depository bank, which are insured by the Federal Deposit Insurance Corporation up to \$250,000. The total amount of checking account deposits with Wells Fargo Bank N.A. as of August 31, 2017 and 2016 was \$3,070,413 and \$994,939, respectively. In addition to the checking account balances, the Foundation had cash balances of \$5,386,401 and \$5,252,806 at August 31, 2017 and 2016, respectively, invested with Wells Fargo Securities in a money market mutual fund.

The Foundation also maintains short-term cash investments in other money-market mutual funds, which are not insured. The amount held in money market mutual funds was \$3,752,718 and \$2,877,568 at August 31, 2017 and 2016, respectively.