



# University of North Texas System

---

## Board of Regents

### Audit Committee Meeting Agenda

May 1, 2017  
University of North Texas System  
Room 712 A & B  
1901 Main St.  
Dallas, Texas

#### Monday, May 1, 2017

**3:30 pm**     **Call to Order**

#### **Briefing:**

*External Audit of UNT System FY16 Consolidated Annual Financial Statements*

- Ben Kohnle, Grant Thornton, Partner

#### **Background Material:**

- FY16 Audited CAFR with Draft Opinion Letter
- Series 2017 A&B Rating Agency Reports

**4:00 pm**     **Adjourn Committee**



Grant Thornton

# Presentation to the Audit Committee of the Board of Regents – 2016 Audit Results

University of North Texas System ("System")

May 1, 2017

**Attendees:**

Ben Kohnle – Partner

Juliet Williams – Experienced Manager

# Our Values are CLEARR

To achieve our global vision, we capitalize on our strengths by embracing the following values:

- Unite through global **Collaboration**
- Demonstrate **Leadership** in all we do
- Promote a consistent culture of **Excellence**
- Act with **Agility**
- Ensure deep **Respect** for people
- Take **Responsibility** for our actions

Our values serve as the foundation of each step we take toward achieving our vision. They guide our decision-making and provide a framework for our people to make correct and appropriate choices.



# Responsibilities



# Our Responsibilities

We are responsible for:

Performing an audit under US GAAS and *Government Auditing Standards* of the financial statements prepared by management, with your oversight

Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with US GAAP

Forming and expressing an opinion about whether certain supplementary information is fairly stated in relation to the financial statements as a whole.

Reading other information and considering whether it is materially inconsistent with the financial statements

- Read the other information (we do not corroborate it)
- Consider whether it is materially inconsistent with the financial statements
- Call to management's attention identified material inconsistencies or misstatements of fact, if any

Communicating specific matters to you on a timely basis; we do not design our audit for this purpose.

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.



# Those Charged with Governance and Management Responsibilities

## Those Charged with Governance

Those charged with governance are responsible for:

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the System's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
  - System strategies and related business risks that may result in heightened risks of material misstatement
  - Matters warranting particular audit attention
  - Significant communications with regulators
  - Matters related to the effectiveness of internal control and your oversight responsibilities
  - Your views regarding our current communications and your actions regarding previous communications

## Management

Management is responsible for:

- Preparing and fairly presenting the financial statements in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with written representations

# Audit Scope & Results



# Materiality

Materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is ordinarily evaluated against the relevant financial statement benchmark.

We believe that **total assets** is the relevant benchmark for the System.

Financial statement items greater than materiality are within our audit scope. Other accounts or classes of transactions less than materiality may be in our scope if qualitative risk factors are present (for example, related party relationships or significant unusual transactions).





# Use of the Work of Others

## Specialists

The audit team utilized an actuary within our Compensation and Benefits Consulting Practice to review the work of actuaries used by the System.

## Subcontractors

Additionally, the audit team received direct assistance from two independent subcontractors during our audit testing, Serna & Company, P.C. and Gradient Solutions. This work was reviewed and managed by the Grant Thornton engagement team.

Assistance was provided by Serna & Company related to the testing of identified balances using procedures provided by and reviewed by GT personnel.

Gradient Solutions specializes in the use of computer data acquisition and analysis primarily for governmental entities. Assistance was provided by Gradient Solutions related to the performance of computer data acquisition and analysis in the areas of vendor, disbursements, human resources and payroll.

## Other Auditors

Our auditor's report on the System makes reference to the audit performed by Hankins, Eastup, Deaton, Tonn & Seay for the University of North Texas Foundation, Inc.



# Significant Risks

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Areas of focus	
Cash and Cash Equivalents	Tuition and fee revenue, discounts and allowances
Investments and investment return	Federal, State and Other grant revenue
Accounts receivable and other assets	Legislative appropriations
Capital assets, depreciation and amortization	Other revenues
Notes, loans and revenue bonds payable	Operating expenses
Accounts payable and other liabilities	Intercomponent Transfers
Payroll and related liabilities	Implementation of new accounting standard
Net position classification	



# Result of Financial Statement Audit

- Unmodified 'clean' opinion
- No scope limitations
- Open and effective communications with management
- No unresolved audit issues

# Audit timeline

	<b>FY15</b>	<b>FY16</b>	<b>Proposed FY17</b>
Planning/Interim	Dec. 2015	Nov. – Dec. 2016	June – July 2017
Final fieldwork	April – Aug. 2016	Feb. – April 2017	Nov. 2017 – Jan. 2018
Issue financial statements	August 2016	May 2017	February 2018

# Summary of Passed Adjustments (\$000s)

- An entry was identified by management during the closing process, related to the FY16 audit, for which the financial statements are not being revised.
- The magnitude of the passed adjustment by financial statement category is as follows:

Description	Increase (Decrease) to:			
	Assets	Liabilities	Net Position	2016 Income Effect
Construction in Progress - Nondepreciable	2,026,154			
Furniture & Equipment - Depreciable	(1,688,692)			
Bldg/Bldg improvements - Depreciable	(337,462)			
Reversing Effect of PY Passed Adjustment				(2,129,163)
<b>Total Passed Adjustments</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,129,163)</b>
<b>FY2016 Report Balance, before Passed Adjustments</b>	<b>1,829,428,686</b>	<b>1,086,495,069</b>	<b>742,933,618</b>	<b>47,417,425</b>
<b>% Impact on Report Balance</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>-4.49%</b>

- Details of the above entry can be found in the management representation letter
- One entry was not included in the above as there was no GL account impact, only a reclass between NACUBO class codes. Details of this entry are included in the management representation letter
- Management believes, and we concur, that the impact of not making this adjustment to the System's financial statements is appropriate, given the fact that the cumulative effect is immaterial



# Internal Control Matters

## Our responsibility

- Obtain reasonable assurance about whether the financial statements are free of material misstatement
- Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control
- We express no opinion on the effectiveness of internal control
- Control deficiencies that are of a lesser magnitude than a significant deficiency will be communicated to management.

## Definitions

- A deficiency in internal control ("control deficiency") exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect, misstatements on a timely basis.
- A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's annual financial statements will not be prevented or detected on a timely basis.
- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the System's financial reporting.

# Outflow Data Analysis – Computer Data Acquisition and Analysis Work

Our audit included data analysis which focused on the outflow side of the System's operations and involved the following data files:

- Vendor Data Information
- Disbursement Data Information
- Human Resources and Payroll Data Information

A presentation summarizing the result of this analysis, and thoughts to optimize the results of the analysis, were presented to the University of North Texas System management team on April 20, 2017.

# Other Required Communications

## Disagreements with management

We had no disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the System's financial statements or the auditor's report.

## Management's consultations with other accountants

We are not aware of any consultations by management with other accountants regarding accounting or auditing matters. Management continues to use Deloitte on a limited basis to assist with certain bookkeeping services.

## Difficulties encountered during the audit

We encountered no significant difficulties, including:

- Significant delays in providing information
- Unnecessarily brief time to complete the audit
- Unavailability of expected information or System personnel
- Restrictions imposed by management
- Extensive unexpected effort to obtain evidence





# Quality of Accounting Practices and Alternative Treatments



# Quality of Accounting Practices and Alternative Treatments

## Accounting policies

Accounting principles used by the System are considered appropriate in all material respects.

## Modifications to the auditor's report

There were no modifications to the audit report.

## Accounting estimates

- Valuation of investments
- Contributions receivable
- Allowance for uncollectible accounts, including patient receivables
- Accruals for self insurance and pension plans based on actuarial assumptions

We performed tests to satisfy ourselves that these amounts were free from material misstatements.

## Disclosures

- We assessed the footnote disclosures and consolidated financial statements for clarity and completeness.
- Footnote disclosures in the financial statements appear overall to be neutral, consistent, and clear.



## Selected pronouncements effective for the year ended August 31, 2016 or subsequent periods

ASU	Effective Date	Impact
<b>GASB 72</b> , Fair Value Measurement and Application	Financial Reporting periods beginning after June 15, 2015. This statement was implemented in the current year.	Addresses accounting and financial reporting issues related to fair value measurements, provides guidance for determining fair value measurement for financial reporting purposes, and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
<b>GASB 75</b> , Accounting and Financial Reporting for Postemployment Benefits Other than Pensions	Fiscal years beginning after June 15, 2017	Addresses accounting and financial reporting for OPEB that is provided to the employees of state and local government entities.

## Selected pronouncements effective for the year ended August 31, 2016 or subsequent periods (continued)

ASU	Effective Date	Impact
<b>GASB 79</b> , Certain External Investment Pools and Pool Participants	Financial Reporting periods beginning after June 15, 2015. This statement was implemented in the current year.	Addresses accounting and financial reporting for certain external investment pools and pool participants. Provides guidance around disclosures related to such pools and their participants.
<b>GASB 81</b> , Irrevocable Split-Interest Agreements	Financial Reporting periods beginning after December 15, 2016.	Addresses accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement

## Selected pronouncements effective for the year ended August 31, 2016 or subsequent periods (continued)

ASU	Effective Date	Impact
<b>GASB 82</b> , Pension Issues – an amendment of GASB Statements NO. 67, No. 68, and No. 73	Financial Reporting periods beginning after June 15, 2016.	Addresses certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73.
<b>GASB 85</b> , Omnibus 2017	Financial Reporting periods beginning after June 15, 2017.	Addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits)

# Commitment to Promote Ethical and Professional Excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and Internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link

- Can be found on our internal website
- Can be accessed from our external website  
([https://secure.ethicspoint.com/domain/en/report\\_custom.asp?clientid=15191](https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191))

Disclaimer: EthicsPoint is not meant to act as a substitute for a company's "whistleblower" obligations.





# Grant Thornton

This communication is intended solely for the information and use of management and the Audit Committee of the Board of Regents of the University of North Texas System and is not intended to be and should not be used by anyone other than these specified parties.

# CONSOLIDATED ANNUAL FINANCIAL REPORT



FOR THE YEAR ENDED AUGUST 31, 2016

UNIVERSITY OF  
**NORTH★TEXAS™**  
SYSTEM





**UNIVERSITY OF NORTH TEXAS  
SYSTEM**

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

**For the fiscal year ended August 31, 2016**

**DALLAS, TEXAS**

**Lee Jackson, Chancellor**



## TABLE OF CONTENTS

Organizational Data .....	5
Letter of Transmittal .....	7-8
Independent Auditors' Report .....	9-10
Management's Discussion and Analysis .....	11-20
Statements	
Consolidated Statement of Net Position.....	22-23
Statement of Financial Position - UNT Foundation, Inc. ....	24
Consolidated Statement of Revenues, Expenses and Changes in Net Position.....	25
Statement of Activities - UNT Foundation, Inc. ....	27
Consolidated Statement of Cash Flows.....	28-29
Notes to the Consolidated Financial Statements .....	31-66
Required Supplementary Information .....	67
Notes to the Financial Statements - UNT Foundation, Inc. ....	69-75



**UNIVERSITY OF NORTH TEXAS SYSTEM ADMINISTRATION**

**ORGANIZATIONAL DATA**

**August 31, 2016**

**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**

Christopher Lee..... (*Term expires 5-31-17*) ..... Houston

**OFFICERS OF THE BOARD**

Brint Ryan ..... Chairman  
Donald Potts ..... Vice Chairman  
Rosemary R. Haggett ..... Secretary

**ADMINISTRATIVE OFFICERS**

Lee F. Jackson ..... Chancellor  
Janet Waldron.....Vice Chancellor for Finance



May 1, 2017

Brint Ryan, Chairman, UNT System Board of Regents  
Don Potts, 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 Potts, 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, 2016. 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 2016, the University of North Texas System employed over 10,000 people, educated over 42,000 students, and awarded more than 9,200 degrees. With a total annual economic impact of over \$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, to excel, and to serve.

The University of North Texas, renowned for its arts and music programs and built on a history of teacher training, business education, and liberal arts, is also ranked among the 115 top-tier research universities in the latest Carnegie Classification list. 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.

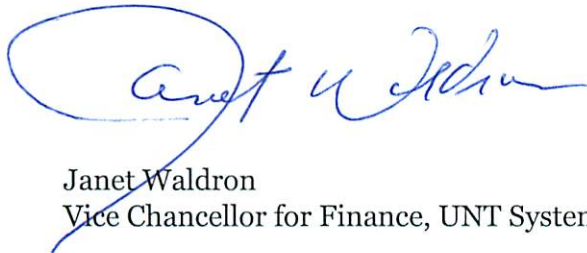


UNT Dallas, the only public, doctoral granting comprehensive university in the City of Dallas – the hub of the State’s most densely populated region – offers bachelors, masters and a juris doctor degree. Enrollment has increased since its inception and now includes the UNT Dallas College of Law, a distinctive 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 2015, the 84<sup>th</sup> Texas Legislature reaffirmed its commitment to UNTS and its institutions by increasing funding by more than \$70 million dollars for 2016 and 2017 for instruction and operations, infrastructure and capital projects, research, and graduate medical education. Unique strengths of UNT System component institutions are also recognized and funded, including: the UNT Health Science Center’s Institute for Patient Safety and Preventable Harm; its forensics program, the most advanced in the country; and the University of North Texas’s Texas Academy of Mathematics and Science, an important pipeline for STEM education, and one of the many ways that UNT advances science, math, engineering and technology.

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’ve done to ensure that our stewardship, accountability, and financial viability are just as strong and important to us as our academic services themselves.

Respectfully,



Janet Waldron  
Vice Chancellor for Finance, UNT System

cc: Lee F. Jackson, Chancellor  
Dr. Neal Smatresk, President UNT  
Dr. Michael Williams, President UNTHSC  
Robert Mong, President UNT Dallas  
Bob Brown, Vice President for Finance and Administration, UNT  
Greg Anderson, Executive Vice President and CFO, UNTHSC  
Dan Edelman, Executive Vice President for Administration 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

### **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, 2016, 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, 2016, 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 20, and Required Supplemental Information on pages 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 May 1, 2017, 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.

Dallas, Texas

May 1, 2017

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended August 31, 2016**

## **Introduction**

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

The System serves the North Texas area, boosting economic activity in the region by over \$5.2 billion annually. Approximately 43,000 students are enrolled in undergraduate, graduate and professional programs. The System awarded more than 9,200 degrees in 2015, including the largest number of Master's and Doctoral degrees in the region. The System has a network of over 360,000 alumni with more than 237,000 alumni living in the Dallas-Fort Worth region. The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas State Senate. Three members are appointed every odd-numbered year for six-year terms. In addition, the Governor appoints a non-voting Student Regent for a one-year term.

## **Financial Highlights and Overview of the Financial Statements**

The objective of Management's Discussion and Analysis (the "MD&A") is to provide an overview of the financial position and activities of the System for the year ended August 31, 2016, with selected comparative information for the year ended August 31, 2015. 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 2016, resulting in a net position of \$742.9 million. Unrestricted net position, which may be used to meet the System's future obligations, was \$173.4 million, or 23.3% of total net position at year end.
- In 2016, the System concluded the fiscal year with a positive change in net position of \$47.4 million, compared to a \$16.4 million change in 2015. Major contributing factors related to this \$31.0 million increase include a \$19.5 million increase in legislative, additional and capital appropriations from general revenue and the Higher Education Fund ("HEF"). Additionally, the System had \$10.7 million net increase in the fair value of the System's investments in 2016 that compares favorably to a \$21.0 million loss reported

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended August 31, 2016**

in the prior year. These increases were offset by investments in plant operations at UNT that are not capitalizable, reflected in an increase in materials and supplies and repairs and maintenance expense of \$8.8 million. Further, an increase of \$3.4 million in depreciation and amortization expense was primarily due to the completion of new buildings. In addition, an increase of \$4.6 million in interest expense and fiscal charges expense on capital asset financings is due to additional bond interest payments from 2015 issuances.

- The System continues to make significant investments, \$88.4 million in 2016 alone, in numerous capital projects across all institutions to strategically benefit students, faculty, and staff. The System has also committed \$457.0 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, 2016**

The following table reflects the Condensed Comparative Statement of Net Position for the System as of August 31, 2016 and 2015:

<b>Condensed Comparative Statement of Net Position</b>			
<b>As of August 31, 2016 and 2015</b>			
<b>(in thousands of dollars)</b>			
	<u>2016</u>	<u>2015</u>	<u>% Increase (Decrease)</u>
<b>Assets and Deferred Outflows of Resources</b>			
Current Assets	\$ 544,986	\$ 498,910	9.2%
Non-Current Assets:			
Capital Assets, Net	1,025,004	1,004,303	2.1%
Other Non-Current Assets	233,585	223,979	4.3%
Deferred Outflows of Resources	25,854	22,298	15.9%
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>\$ 1,829,429</u></b>	<b><u>\$ 1,749,490</u></b>	<b><u>4.6%</u></b>
<b>Liabilities and Deferred Inflows of Resources</b>			
Current Liabilities	\$ 407,949	\$ 376,985	8.2%
Non-Current Liabilities:			
Bonded Indebtedness	514,046	362,782	41.7%
Other Non-Current Liabilities	142,377	282,173	(49.5%)
Deferred Inflows of Resources	22,123	32,034	(30.9%)
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b><u>\$ 1,086,495</u></b>	<b><u>\$ 1,053,974</u></b>	<b><u>3.1%</u></b>
<b>Net Position</b>			
Net Investment in Capital Assets	\$ 465,252	\$ 457,329	1.7%
Restricted:			
Funds Held as Permanent Investments:			
Non-Expendable	46,960	45,615	2.9%
Expendable	18,161	16,475	10.2%
Other Restricted	39,135	33,550	16.6%
Total Restricted	104,256	95,640	9.0%
Unrestricted	173,426	142,547	21.7%
<b>Total Net Position</b>	<b><u>\$ 742,934</u></b>	<b><u>\$ 695,516</u></b>	<b><u>6.8%</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 1,829,429</u></b>	<b><u>\$ 1,749,490</u></b>	<b><u>4.6%</u></b>

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 \$46.1 million, or 9.2%, in 2016 primarily as a result of a \$26.8 million increase in legislative appropriation receivables, a \$6.5 million increase in general accounts receivables, and a \$ 9.1 million increase in prepaid assets for certain multi-year contract expenses and fall term scholarships awarded for recognition in 2017.

*Non-Current Assets: Net Capital Assets*

Net capital assets increased \$20.7 million, or 2.1%, in 2016 as a result of an increase in capital and intangible assets. This increase was primarily attributable to approximately \$88.4 million of capital improvements offset by depreciation and amortization expense of \$65.9 million. Major capital additions included \$16.0 million in renovation to the UNT Student Union, \$10.4 million in renovation to the UNT Science Research Building, \$6.2 million for the purchase of land and a building by HSC in Fort Worth, \$5.2 million for the HSC Interdisciplinary Research and Education Building, \$3.1 million in additional costs for UNT Rawlins Hall, \$18.5 million in equipment, vehicle and library purchases, \$5.8 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, 2016**

*Other Non-Current Assets*

The System's other non-current assets increased by \$9.6 million, or 4.3%, primarily due to a \$10.7 million increase in the fair market value of investments resulting from a significant improvement in the equity and bond markets.

*Deferred Outflows*

Deferred outflows increased \$3.6 million, or 15.9%, in 2016, primarily due to the recognition of \$4.1 million of deferred outflows of resources related to pension obligations and the difference between projected and actual investment return for the measurement period.

**Total Liabilities and Deferred Inflows**

*Current Liabilities*

The System's current liabilities increased \$31.0 million, or 8.2%, in 2016 primarily due to an increase of \$14.9 million in short-term commercial paper reported under notes and loans payable and a \$7.2 million increase in current revenue bonds payable. Unearned revenue increased \$19.3 million, or 9.1%, primarily related to increased prepayments of tuition and fees associated with the rise in student enrollment and increases in tuition and fee rates. Funds held for others decreased by \$12.6 million, or 83.6%, primarily due to the transfer by HSC at the beginning of 2016 of \$13 million of restricted investments to HSC's T-COM Foundation. These investments were historically reported by HSC as current liabilities.

*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 \$11.5 million, or 1.8%, primarily due to an increase of \$15.0 million to net pension liability related to a material underperformance of actual investment returns as compared to the expected return for the TRS Plan measurement period ending August 31, 2015. The overall increase in non-current liabilities was also impacted by a \$1.6 million decrease in employees' compensable leave and a \$1.1 million decrease in capital lease obligations. In addition, there was a \$151.3 million increase in revenue bonds payable offset by a correlated \$152.3 million decrease in notes and loans payable due to issuance of Revenue Financing System ("RFS") Refunding Bonds 2015A, 2015B and 2015C, which refunded RFS Bonds Series 2014 Private Placement Arrangement and RFS Series 2007 Bonds.

*Deferred Inflows*

Deferred inflows decreased \$9.9 million, or 30.9%, in 2016 primarily due to the reduction of \$10.9 million of 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 \$47.4 million, or 6.8%, in 2016.

*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 \$7.9 million, or 1.7%, increase in net investment in capital assets in 2016 primarily resulted from an increase of \$88.4 million of capital additions, reduced by \$65.9 million of depreciation and amortization. The net increase was offset by an \$18.5 million net increase in notes and bonds payable, capital lease obligations, and deferred outflows and inflows of resources related to unamortized gains and losses on refunded bonds.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended August 31, 2016**

*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 \$8.6 million, or 9.0%, in 2016 primarily due to increased fair market value of restricted investments and positive fundraising efforts resulting in an increase in restricted contributions across the System.

*Unrestricted Net Position*

Unrestricted net position increased by \$30.9 million, or 21.7%, primarily due to a \$19.5 million increase in legislative, additional and capital appropriations from general revenue and HEF.

**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 2016, 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, 2016 and 2015:

<b>Condensed Comparative Statement of Revenues, Expenses and Changes in Net Position</b>			
<b>For the Years Ended August 31, 2016 and 2015</b>			
<b>(in thousands of dollars)</b>			
	<u>2016</u>	<u>2015</u>	<u>% Increase (Decrease)</u>
Operating Revenues	\$ 631,994	\$ 600,223	5.3%
Operating Expenses	934,303	887,364	5.3%
<b>Operating Income (Loss)</b>	<b>\$ (302,309)</b>	<b>\$ (287,141)</b>	<b>5.3%</b>
Nonoperating Revenues (Expenses)	308,123	269,197	14.5%
<b>Income (Loss) Before Other Revenues, Expenses and Transfers</b>	<b>\$ 5,814</b>	<b>\$ (17,944)</b>	<b>(132.4%)</b>
Other Revenues, Expenses and Transfers	41,604	34,333	21.2%
<b>Change in Net Position</b>	<b>\$ 47,418</b>	<b>\$ 16,389</b>	<b>189.3%</b>
Net Position, Beginning of Year	\$ 695,516	\$ 796,263	(12.7%)
Restatement	-	(117,136)	(100.0%)
Restated Net Position, Beginning of Year	695,516	679,127	2.4%
<b>Net Position, End of Year</b>	<b>\$ 742,934</b>	<b>\$ 695,516</b>	<b>6.8%</b>

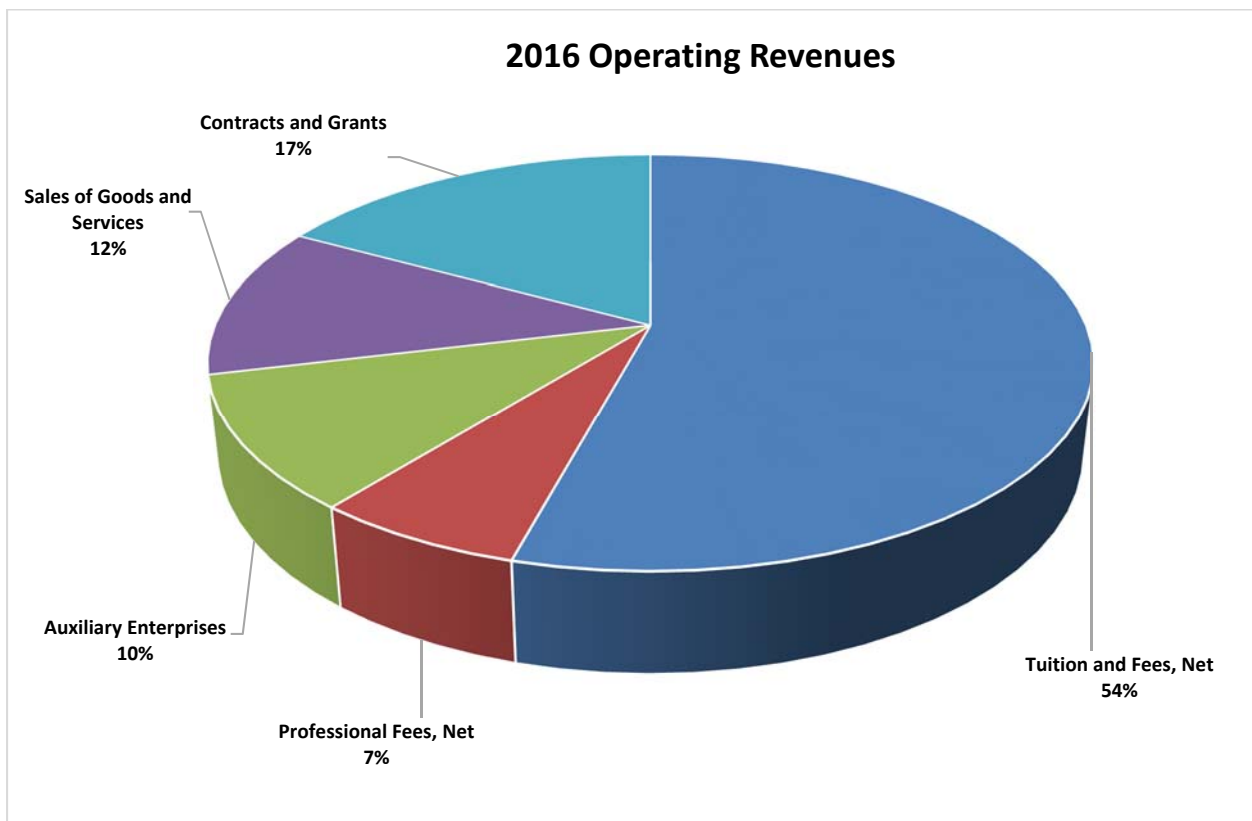


**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended August 31, 2016**

**Operating Revenues**

Operating revenues totaled \$632.0 million in 2016, an increase of \$31.8 million, or 5.3%, over 2015. The System's primary sources of operating revenues are tuition and fees, and federal, state, local, and private grants. Net tuition and fees, representing 54% of operating revenues, are reflected in the financial statements with associated discounts and allowances shown separately. Net tuition and fees increased \$39.0 million, or 12.9%, 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 pie chart below shows operating revenues by major source for the year ended August 31, 2016:



**Operating Expenses**

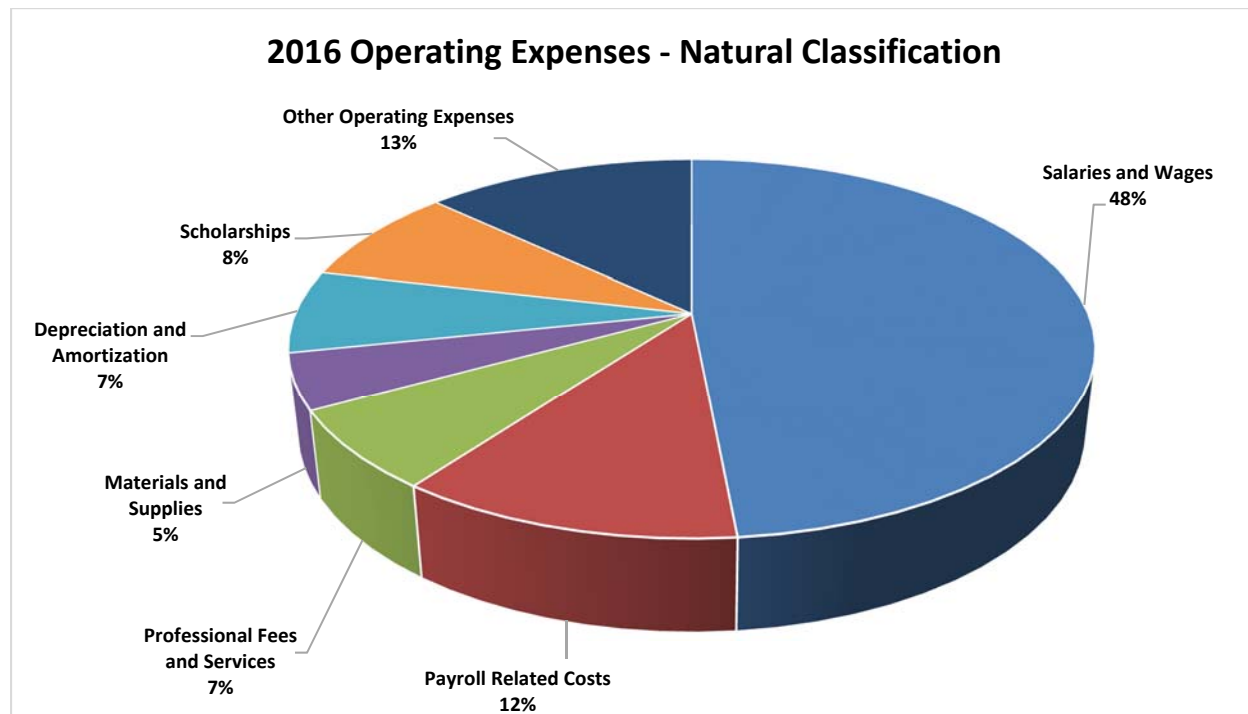
Operating expenses totaled \$934.3 million in 2016, an increase of \$46.9 million, or 5.3%, over 2015. The increase is primarily due to a \$16.4 million, or 27.0%, increase in scholarship expenses and a combined \$11.0 million, or 2.0%, increase in total employee related compensation costs, which makes up 60% of total operating expenses. An additional increase of \$3.4 million, or 5.4%, in depreciation and amortization expense is primarily due to the completion of new buildings while the remaining variance, an increase of \$16.1 million, represents an overall increase in various other operating expense categories.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended August 31, 2016**

The table below shows the amount and percentage change of operating expenses based on natural classification for the year ended August 31, 2016:

<b>Operating Expenses - Natural Classification</b>			
<b>For the Years Ended August 31, 2016 and 2015</b>			
<b>(in thousands of dollars)</b>			
	<u>2016</u>	<u>2015</u>	<u>% Increase (Decrease)</u>
<b>Operating Expenses</b>			
Cost of Goods Sold	\$ 3,813	\$ 5,994	(36.4%)
Salaries and Wages	453,084	429,971	5.4%
Payroll Related Costs	109,045	121,118	(10.0%)
Professional Fees and Services	63,196	68,698	(8.0%)
Federal Pass-Through Expenses	824	487	69.1%
State Pass-Through Expenses	206	99	108.4%
Travel	12,395	11,193	10.7%
Materials and Supplies	44,466	39,037	13.9%
Communications and Utilities	19,761	19,234	2.7%
Repairs and Maintenance	33,393	27,564	21.1%
Rentals and Leases	14,573	11,082	31.5%
Printing and Reproduction	5,556	4,307	29.0%
Depreciation and Amortization	65,900	62,508	5.4%
Scholarships	77,452	61,004	27.0%
Claims and Losses	842	3,346	(74.8%)
Other Operating Expenses	29,797	21,722	37.2%
<b>Total Operating Expenses</b>	<b><u>\$ 934,303</u></b>	<b><u>\$ 887,364</u></b>	<b><u>5.3%</u></b>

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, 2016:

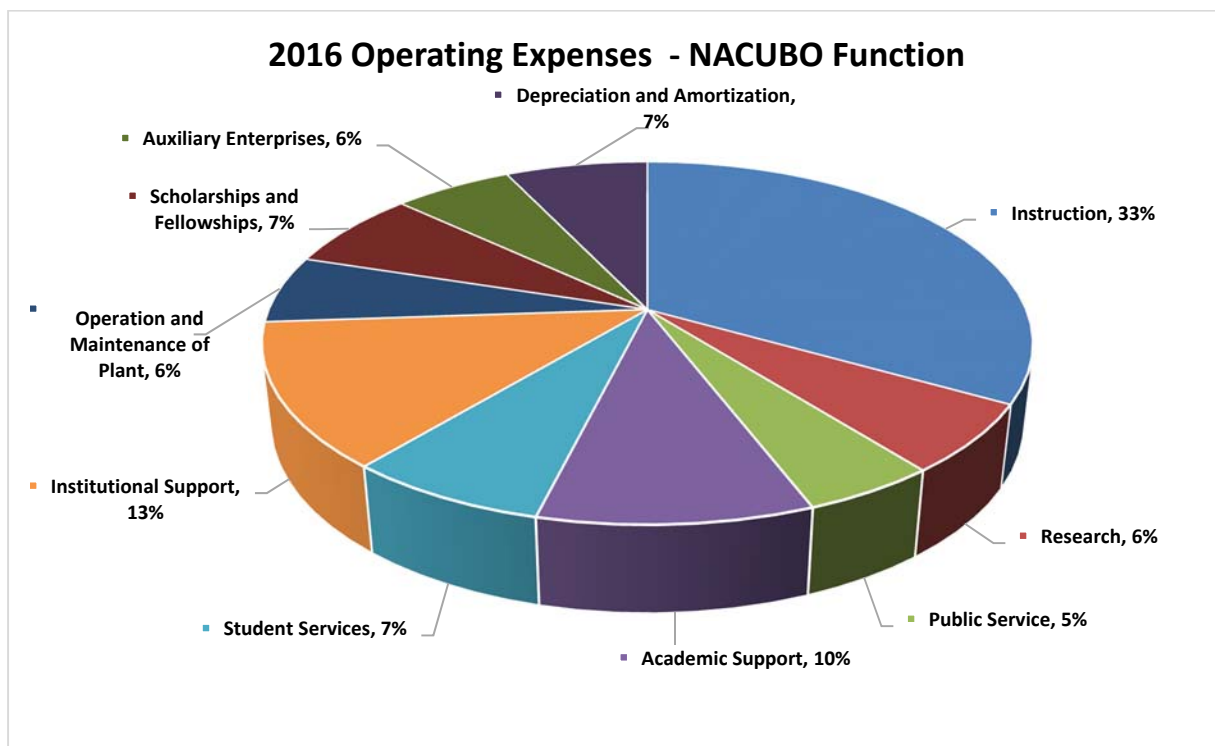


**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended August 31, 2016**

The table below shows the amount and percentage change of operating expenses based on NACUBO functional (programmatic) classification for the year ended August 31, 2016:

<b>Operating Expenses - NACUBO Function</b>			
<b>For the Years Ended August 31, 2016 and 2015</b>			
<b>(in thousands of dollars)</b>			
	<b>2016</b>	<b>2015</b>	<b>% Increase (Decrease)</b>
<b>Operating Expenses</b>			
Instruction	\$ 307,062	\$ 251,692	22.0%
Research	56,796	56,830	(0.1%)
Public Service	44,302	18,569	138.6%
Academic Support	90,221	180,992	(50.2%)
Student Services	66,491	67,672	(1.7%)
Institutional Support	118,619	93,716	26.6%
Operation and Maintenance of Plant	55,655	51,371	8.3%
Scholarships and Fellowships	74,234	58,799	26.3%
Auxiliary Enterprises	55,023	45,215	21.7%
Depreciation and Amortization	65,900	62,508	5.4%
<b>Total Operating Expenses</b>	<b>\$ 934,303</b>	<b>\$ 887,364</b>	<b>5.3%</b>

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, 2016:



**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended August 31, 2016**

**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 in 2016, gain on sales of capital assets, 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. Legislative and additional appropriations increased \$18.3 million, or 7.7%, between 2015 and 2016 due mainly to formula funding changes that positively benefitted HSC and other healthcare-related educational institutions across the State. The fair value of the System's investments increased by \$10.7 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 increased by \$4.6 million from \$16.1 million in 2015 to \$20.7 million in 2016 due to additional bond interest payments from the 2015 issuances.

**Other Revenues, Expenses and Transfers**

Other revenues, expenses and transfers is comprised of capital and endowment related additions and transfers, which increased \$7.3 million, or 21.2%, in 2016. HEF comprises the majority of the balance. Annual HEF-related revenue totaled \$37.8 million, an increase of \$1.2 million over prior year. HEF is reported as capital appropriations rather than operating or nonoperating revenue. The Texas B-On-Time Loan program has been phased out, which resulted in a decrease in transfers to other state agencies of \$6.2 million. This funding remained within the System to offset operations.

**Capital Asset and Debt Administration**

Investments in capital asset additions were \$88.4 million in 2016. Major capital project activity included:

- Land and Building Acquisitions (HSC) – 975 Haskell Street
- Building Improvements (UNT) – Student Union, Science Research Building, Rawlins Hall, Bruce Hall, and the College of Visual Arts and Design Building
- Building Improvements (HSC) – Interdisciplinary Research Building
- Building Improvements (UNTD) – Dallas Student Learning and Success Center and Residence Hall
- Building Improvements (System Administration) – Dallas Municipal Building

The System has committed \$457.0 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, 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 \$158.5 million to \$547.9 million in 2016. 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.

**Economic Outlook**

The System's primary sources of revenue are tuition and fees and legislative appropriations. Strong enrollment growth, program expansion, and a successful 84th legislative session contributed to a positive outlook for the System.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended August 31, 2016**

For 2017, net tuition and fees revenues are budgeted at an increase of \$52.2 million, or 17.0%, over 2016. This revenue increase is the result of modest tuition rate increases and full-time student equivalent enrollment growth. Between fall 2015 and fall 2016, enrollment increased 3% system-wide.

During the 84th Texas Legislative Session, the State renewed its commitment to higher education with \$1.35 billion in new funding for 2016 and 2017. Significant investments in institutions included maintaining and enhancing formula rates, funding capital projects, and raising the amount of the constitutional capital appropriation (HEF). This resulted in a two-year appropriations increase to System institutions of over \$80 million.

Fiscal year 2017 budgeted legislative appropriation revenues for the System are \$6.9 million, or 2.7%, higher than 2016. Budgeted amounts include new funding for specialized initiatives and unique programs recognized by the 84th Legislature as deserving state support. These areas of excellence include HSC's Institute for Patient Safety and Preventable Harm, HSC's Texas Missing Persons and Human Identification Program, and UNT's Texas Academy of Mathematics and Science. The merger between UNTD and the College of Law was also supported with operations funding to support the incoming second- and third-year law classes.

State appropriation increases in 2017 include an influx of funding to support construction and renovation of facilities for each System institution and other capital expenditures. State-supported construction projects were selected to allow for continued growth, increased research capacity and excellent programs. Construction of a student success and learning center at UNTD, an interdisciplinary research building at HSC, a new College of Visual Arts and Design facility at UNT, and renovations of facilities for the College of Law in downtown Dallas, will begin by January 2017. The System anticipates sufficient market access due to Fitch and Moody's maintaining 'stable' outlooks on System debt.

UNT has established four Research Institutes of Excellence that are a pipeline for bringing UNT's research to industry and marketplace. It is one of the nation's 115 top-tier research universities, according to latest 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. From UNT's New College at Frisco to the Collin Higher Education Center in McKinney to the Universities Center in the heart of downtown Dallas to North Central Texas College's Gainesville campus, UNT has carefully identified these locations 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 2016. Construction on the first residence hall is underway and is anticipated to open in July 2017. 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. College of Law facilities are under renovation, and \$72 million investments form a strong financial commitment to the College of Law. Fall 2016 enrollment is at an all-time high of 387, and the College is working through the accreditation process.

HSC continues to expand some of its most recent innovative initiatives including enrolling the UNT System College of Pharmacy's fourth cohort of 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 & 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.

**CONSOLIDATED  
FINANCIAL STATEMENTS  
of the  
UNIVERSITY OF NORTH TEXAS SYSTEM  
DENTON, TEXAS  
For the Year Ended August 31, 2016**

**UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED**  
**Statement of Net Position**  
**As of August 31, 2016**

	<b>August 31,</b>
	<b>2016</b>
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalents:	
Cash on Hand	\$ 109,654.47
Cash in Bank	20,298,226.21
Cash in Transit/Reimburse from Treasury	1,683,945.79
Cash in State Treasury	16,864,464.85
Cash Equivalents	144,480,766.19
Restricted Cash and Cash Equivalents:	
Cash on Hand	20,857.00
Cash in Bank	13,802,862.92
Cash Equivalents	6,393,567.00
Short Term Investments	45,062,449.50
Legislative Appropriations	103,099,493.83
Receivables From:	
Accounts Receivable	79,443,094.57
Federal	32,991,666.12
Other Intergovernmental	1,525,425.95
Clinical Practice	13,263,049.94
Gifts, Pledges and Donations	2,236,416.55
Interest and Dividends	2,162,505.12
Other Receivables	1,500,986.56
Due From Other Agencies	8,287,943.59
Consumable Inventories	429,677.17
Merchandise Inventories	2,757,360.14
Pre-Paid Items	45,789,314.81
Loans and Contracts	2,782,039.62
<b>Total Current Assets</b>	<b>\$ 544,985,767.90</b>
Non-Current Assets	
Restricted Investments	\$ 60,370,688.17
Loans and Contracts	5,058,657.66
Investments	166,504,720.08
Gifts, Pledges and Donations	1,650,332.21
Capital Assets:	
Non-Depreciable or Non-Amortizable	141,421,390.85
Depreciable or Amortizable, Net	883,583,026.30
<b>Total Non-Current Assets</b>	<b>\$ 1,258,588,815.27</b>
<b>Total Assets</b>	<b>\$ 1,803,574,583.17</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows of Resources	\$ 25,854,103.09
<b>Total Deferred Outflows of Resources</b>	<b>\$ 25,854,103.09</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,829,428,686.26</b>

*Continued on Next Page*

**August 31,  
2016**

**LIABILITIES**

Current Liabilities

Payables From:

Accounts Payable	\$ 52,443,948.51
Payroll Payable	48,435,301.88
Other Payables	4,901,710.50
Interest	8,910,082.34
Due To Other Agencies	335,004.82
Unearned Revenue	230,019,449.35
Notes and Loans Payable	20,150,000.00
Revenue Bonds Payable	33,843,393.95
Claims and Judgments	890,607.00
Employees' Compensable Leave	4,303,112.53
Capital Lease Obligations	1,249,546.84
Funds Held for Others	2,467,341.88

**Total Current Liabilities** **\$ 407,949,499.60**

Non-Current Liabilities

Revenue Bonds Payable	\$ 514,046,365.19
Claims and Judgments	960,317.00
Employees' Compensable Leave	20,378,603.94
Capital Lease Obligations	2,662,979.88
Net Pension Liability	118,374,598.00

**Total Non-Current Liabilities** **\$ 656,422,864.01**

**Total Liabilities** **\$ 1,064,372,363.61**

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows of Resources	\$ 22,122,704.99
-------------------------------	------------------

**Total Deferred Inflows of Resources** **\$ 22,122,704.99**

**TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES** **\$ 1,086,495,068.60**

**NET POSITION**

Net Investment in Capital Assets	\$ 465,252,019.93
Restricted For:	
Funds Held as Permanent Investments	
Non-Expendable	46,959,890.17
Expendable	18,160,583.05
Other Restricted	39,135,417.96
Unrestricted	173,425,706.55

**Total Net Position** **\$ 742,933,617.66**

*Concluded*



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

**Statement of Financial Position**

**As of August 31, 2016**

	<b>August 31,</b>
	<b>2016</b>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 10,895,688
Investments	280,651,723
Contributions and Other Receivables	4,393,091
Prepaid Expenses	103
Real Property	42,808
Other Assets	7,500
Cash Value - Life Insurance Policies	513,979
Assets Held Under Trust and Annuity Agreements	6,914,534
<b>Total Assets</b>	<b>\$ 303,419,426</b>
<b>LIABILITIES</b>	
Accounts Payable and Accrued Expenses	\$ 1,460,864
Agency Funds	366,057
Trust and Annuity Obligations	2,174,900
Assets Held for Others	180,356,786
<b>Total Liabilities</b>	<b>\$ 184,358,607</b>
<b>NET ASSETS</b>	
Unrestricted:	
Board designated for reserves	\$ 1,577,403
Fair value of endowments below historical cost	(1,878,274)
Undesignated	794,640
Total Unrestricted	493,769
Temporarily restricted	26,565,918
Permanently restricted	92,001,132
<b>Total Net Assets</b>	<b>\$ 119,060,819</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 303,419,426</b>

*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, 2016**

	<b>August 31,</b>
	<b>2016</b>
<b>OPERATING REVENUES</b>	
Tuition and Fees	\$ 434,876,879.48
Discounts and Allowances	(93,362,918.33)
Professional Fees	110,947,043.17
Discounts and Allowances	(69,633,398.30)
Auxiliary Enterprises	65,894,140.84
Discounts and Allowances	(147,746.07)
Sales of Goods and Services	73,905,043.15
Federal Grant Revenue	46,175,539.02
Federal Pass-Through Revenue	1,810,748.61
State Grant Revenue	3,040,114.82
State Grant Pass-Through Revenue	31,326,811.17
Other Contracts and Grants	24,988,733.90
Other Operating Revenues	2,172,587.63
<b>Total Operating Revenues</b>	<b>\$ 631,993,579.09</b>
<b>OPERATING EXPENSES <sup>(1)</sup></b>	
Instruction	\$ 307,061,961.54
Research	56,796,046.42
Public Service	44,302,218.73
Academic Support	90,220,550.05
Student Services	66,490,677.74
Institutional Support	118,618,719.72
Operation and Maintenance of Plant	55,655,357.05
Scholarships and Fellowships	74,233,990.42
Auxiliary Enterprises	55,023,485.67
Depreciation and Amortization	65,900,269.08
<b>Total Operating Expenses</b>	<b>\$ 934,303,276.42</b>
<b>Operating Loss</b>	<b>\$ (302,309,697.33)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Legislative Appropriations (GR)	\$ 212,034,099.00
Additional Appropriations (GR)	44,497,362.49
Federal Revenue	51,030,542.41
Gifts	11,584,783.49
Investment Income	5,345,979.45
Interest Expense and Fiscal Charges	(20,645,678.68)
Gain on Sale of Capital Assets	1,043,427.82
Net Increase in Fair Value of Investments	10,734,926.66
Other Nonoperating Revenues	397,319.66
Other Nonoperating Expenses	(7,900,122.39)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>\$ 308,122,639.91</b>
<b>Income Before Other Revenues, Expenses and Transfers</b>	<b>\$ 5,812,942.58</b>
<b>OTHER REVENUES, EXPENSES AND TRANSFERS</b>	
Capital Contributions	\$ 1,717,692.26
Capital Appropriations (HEAF)	37,844,609.00
Contributions To Permanent and Term Endowments	258,291.70
Transfers To Other State Agencies	(93,045.34)
Transfers From Other State Agencies	810,178.00
Legislative Transfers In	1,066,757.00
<b>Total Other Revenues, Expenses and Transfers</b>	<b>\$ 41,604,482.62</b>
<b>CHANGE IN NET POSITION</b>	<b>\$ 47,417,425.20</b>
Beginning Net Position	\$ 695,516,192.46
<b>ENDING NET POSITION</b>	<b>\$ 742,933,617.66</b>

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

THIS PAGE INTENTIONALLY LEFT BLANK

**UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.**  
**Statement of Activities**  
**For the Year Ended August 31, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended August 31, 2016 Total
<b>REVENUES, GAINS AND OTHER SUPPORT:</b>				
Contributions	\$ 34,691	\$ 4,756,379	\$ 6,266,342	\$ 11,057,412
Adjustment to prior year contributions receivable	-	(16,167,248)	-	(16,167,248)
Investment income (loss)	(27,383)	2,485,316	-	2,457,933
Management fee income	1,513,418	-	-	1,513,418
Other income	-	98,665	-	98,665
Realized and unrealized gain (loss) on market value of investments	42,203	4,396,416	(21,831)	4,416,788
Actuarial gain on annuity obligations	-	-	52,681	52,681
Increase in cash value - life insurance	-	-	17,387	17,387
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<b>\$ 1,562,929</b>	<b>\$ (4,430,472)</b>	<b>\$ 6,314,579</b>	<b>\$ 3,447,036</b>
<b>NET ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS:</b>				
Net assets released from restrictions	\$ 7,493,102	\$ (7,314,704)	\$ (178,398)	\$ -
Transfers/changes in donor restrictions	(829,370)	1,801,445	(972,075)	-
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS/TRANSFERS</b>	<b>\$ 6,663,732</b>	<b>\$ (5,513,259)</b>	<b>\$ (1,150,473)</b>	<b>\$ -</b>
<b>PROGRAM SERVICES:</b>				
Internal management fee	\$ 1,089,349	\$ -	\$ -	\$ 1,089,349
Scholarships and awards	1,779,404	-	-	1,779,404
Expense reimbursements	4,356	-	-	4,356
Services for programs	1,970,356	-	-	1,970,356
Distributions to UNT	2,595,360	-	-	2,595,360
Grant to University	220,000	-	-	220,000
Distributions to other Institutions	25,500	-	-	25,500
Life insurance premiums	28,777	-	-	28,777
<b>Total Program Services</b>	<b>\$ 7,713,102</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,713,102</b>
<b>MANAGEMENT AND GENERAL EXPENSES:</b>				
Salaries and benefits	\$ 1,171,182	\$ -	\$ -	\$ 1,171,182
Consulting fees	61,633	-	-	61,633
Professional services	28,827	-	-	28,827
Travel	7,740	-	-	7,740
Administrative and other	26,877	-	-	26,877
Bank and credit card charges	4,646	-	-	4,646
Office and computer equipment	16,989	-	-	16,989
Insurance	26,938	-	-	26,938
Professional development and memberships	17,559	-	-	17,559
Strategic planning	4,000	-	-	4,000
<b>Total Management and General Expenses</b>	<b>\$ 1,366,391</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,366,391</b>
<b>TOTAL PROGRAM SERVICES AND EXPENSES</b>	<b>\$ 9,079,493</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,079,493</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ (852,832)</b>	<b>\$ (9,943,731)</b>	<b>\$ 5,164,106</b>	<b>\$ (5,632,457)</b>
<b>Net Assets, Beginning of Year</b>	<b>\$ 1,346,601</b>	<b>\$ 36,509,649</b>	<b>\$ 86,837,026</b>	<b>\$ 124,693,276</b>
<b>NET ASSETS END OF PERIOD</b>	<b>\$ 493,769</b>	<b>\$ 26,565,918</b>	<b>\$ 92,001,132</b>	<b>\$ 119,060,819</b>

See Accompanying Notes to the Consolidated Financial Statements

**UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED**  
**Statement of Cash Flows**  
**For the Year Ended August 31, 2016**

	<b>August 31, 2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Proceeds from Customers	\$ 112,898,298.11
Proceeds from Tuition and Fees	358,486,870.29
Proceeds from Research Grants and Contracts	105,346,690.42
Proceeds from Loan Programs	250,564.16
Proceeds from Auxiliaries	65,712,501.87
Proceeds from Other Revenues	2,122,532.56
Payments to Suppliers for Goods and Services	(264,288,460.69)
Payments to Employees	(531,416,452.78)
Payments for Loans Provided	(625,731.73)
Payments for Other Expenses	(88,261,905.53)
<b>Net Cash Used by Operating Activities</b>	<b>\$ (239,775,093.32)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Proceeds from State Appropriations	\$ 200,541,280.85
Proceeds from Gifts	12,367,350.92
Proceeds from Endowments	258,291.70
Proceeds from Transfers from Other Agencies	810,178.00
Proceeds from Legislative Transfers	1,066,757.00
Proceeds from Grant Receipts	51,030,542.41
Proceeds from Other Revenues	2,467,814.50
Payments for Transfers to Other Agencies	(93,045.34)
Payments for Other Uses	(3,905.00)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>\$ 268,445,265.04</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from Sale of Capital Assets	\$ 2,707,991.07
Proceeds from State Appropriations	37,844,609.00
Proceeds from Debt Issuance	261,586,428.55
Proceeds from Capital Contributions	451,685.81
Payments for Additions to Capital Assets	(75,001,732.13)
Payments for Capital Leases	(1,179,705.74)
Payments of Principal on Debt Issuance	(235,340,000.00)
Payments of Other Costs of Debt Issuance	(1,251,099.64)
Payments of Interest on Debt Issuance	(21,848,920.21)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>\$ (32,030,743.29)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Proceeds from Sale of Investments	\$ 30,648,284.73
Proceeds from Interest and Investment Income	4,740,094.59
Payments to Acquire Investments	(75,714,226.25)
<b>Net Cash Used by Investing Activities</b>	<b>\$ (40,325,846.93)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>\$ (43,686,418.50)</b>
Cash and Cash Equivalents, September 1, 2015	\$ 247,340,762.93
<b>Cash and Cash Equivalents, August 31, 2016</b>	<b>\$ 203,654,344.43</b>
Cash and Cash Equivalents	\$ 183,437,057.51
Restricted Cash and Cash Equivalents	20,217,286.92
	<b>\$ 203,654,344.43</b>

**UNIVERSITY OF NORTH TEXAS SYSTEM - CONSOLIDATED**  
**Statement of Cash Flows**  
**For the Year Ended August 31, 2016**

	<b>August 31,</b>
	<b>2016</b>
	<hr/>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED</b>	
<b>BY OPERATING ACTIVITIES</b>	
Operating Loss	\$ (302,309,697.33)
Adjustments to Reconcile Operating Loss to Net Cash Used	
by Operating Activities:	
Depreciation and Amortization	\$ 65,900,269.08
Pension Expense	(55,742.71)
Employee Benefits Paid by State	29,163,359.49
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	(6,700,085.13)
(Increase) Decrease in Inventories	(514,019.34)
(Increase) Decrease in Loans and Contracts	(375,167.57)
(Increase) Decrease in Prepaid Expenses	(9,123,041.11)
Increase (Decrease) in Payables	(19,250,805.47)
Increase (Decrease) in Unearned Revenue	19,269,003.72
Increase (Decrease) in Other Liabilities	(15,779,166.95)
Total Adjustments	<u>\$ 62,534,604.01</u>
Net Cash Used by Operating Activities	<u>\$ (239,775,093.32)</u>
 <b>NON-CASH TRANSACTIONS</b>	
Net Change in Fair Value of Investments	\$ 10,734,926.66
Donation of Capital Assets	1,266,006.46
Borrowing Under Capital Lease Purchase	186,326.30
Gain on Sales/Disposals of Capital Assets	1,043,427.82
Amortization of Bond Premiums (Discounts)	4,129,746.33
Amortization of Deferred Inflows/Outflows from Refunding Bonds	(133,444.13)
Capital Assets Acquired with Payables	11,765,119.68
Nonoperating Expenses with Payables	8,715,612.59

THIS PAGE INTENTIONALLY LEFT BLANK

**NOTES TO THE  
CONSOLIDATED FINANCIAL STATEMENTS  
of the  
UNIVERSITY OF NORTH TEXAS SYSTEM  
DENTON, TEXAS  
For the Year Ended August 31, 2016**



THIS PAGE INTENTIONALLY LEFT BLANK

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**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").

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 ("UNT-D"). The System is governed by a nine-member Board of Regents appointed by the Governor of Texas and confirmed by the Texas State Senate. Three members are appointed every odd-numbered year for six-year terms. In addition, the Governor appoints a nonvoting student Regent for a one-year term.

**Basis of Accounting**

The financial statements of the System have been prepared using the economic resources measurement focus and the full accrual basis of accounting. The System reports as a business-type activity, as defined by the Governmental Accounting Standards Board ("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.

*Legislative Appropriations*

The appropriation of revenues by the Texas Legislature (the "Legislature") is in the form of general revenue. The Legislature meets every odd-numbered year and approves a two-year budget (biennial) for all State agencies. The general revenue appropriation to the System supports the instruction, research and operation of the System.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

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 funds”) are general revenue appropriations received from the State designated for the acquisition of certain capital assets and capital projects. As of August 31, 2016, the unexpended amount was \$74,757,006.31.

*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 \$27.8 million of the outstanding accounts receivable balance at August 31, 2016. 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 presented net of allowances for contractual discounts and bad debts. The bad debt allowance on clinical receivables was approximately \$10.7 million as of August 31, 2016. Clinical accounts receivable are subject to concentrations of patient accounts receivable credit risk. The mix of receivables (gross) from patients and third parties as of August 31, 2016 was as follows:

	<b>August 31, 2016 (Gross)</b>
County Hospital	15%
Medicaid	29%
Medicare	17%
Commercial	19%
Self-Pay	8%
Other	12%
<b>Total</b>	<b>100%</b>

Gift receivables include amounts pledged to the System by donors, net of allowances. The allowance for gift pledges is approximately \$2.2 million at August 31, 2016. 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, 2016 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.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

*Capital and Intangible Assets*

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

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

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

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

*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 of resources related to pensions 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.
- 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, 2016**

**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 \$222.5 million of tuition revenue related to the semesters that have not been completed as of August 31, 2016. 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 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 12, *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. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**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.

*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

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

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.

### *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 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, 2016**

**Upcoming Accounting Pronouncements**

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, is intended to aid in decision making by improving the usefulness of information about pensions included in financial statements of state and local governments. The standard is the result of a review of all existing standards related to postemployment benefits with a focus on the effectiveness of providing useful decision-making information, supporting accountability, and improving transparency. This statement will be implemented in 2017. System management expects minimal impact to the financial statements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, has the same objective as GASB Statement No. 73, but as it relates to other postemployment benefit plans (“OPEB plans”). This statement, if applicable, should be implemented in 2017. Since the System is not an administrator of any such plans, this statement will have no impact to the financial statements.

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, System management does anticipate a significant impact to the financial statements. The statement will be implemented in 2018. System management 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. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, amends the blending requirements for component units that are not-for-profit corporations, where the primary government is the sole corporate member. The statement will be implemented in 2017. Since the System is not the sole corporate member for any not-for-profit corporations, this statement will have no impact to the financial statements.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for governments which are a beneficiary of such agreements. This statement will be implemented in 2018. The System has not yet evaluated the impact this will have to the financial statements.

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 2018. The System will await guidance and reporting requirements provided by the state, but minimal to no impact to the financial statements is expected.



**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**Note 2: Capital Assets**

A summary of changes in capital assets for the year ended August 31, 2016 is presented below:

	Balance September 1, 2015	Adjustments	Reclassification of Completed Construction In Progress	Increase Interagency Transfers	Decrease Interagency Transfers	Additions	Deletions	Balance August 31, 2016
<b>Non-Depreciable or Non-Amortizable Assets:</b>								
Land and Land Improvements Infrastructure	\$ 77,823,424.89	\$ -	\$ -	\$ -	\$ -	\$ 1,230,000.00	\$ -	\$ 79,053,424.89
Construction in Progress	123,688,911.53	-	(149,400,229.17)	666,036.10	(666,036.10)	62,671,857.99	-	36,960,540.35
Other Tangible Capital Assets	25,071,765.61	-	-	-	-	634,090.00	(298,430.00)	25,407,425.61
Land Use Rights	-	-	-	-	-	-	-	-
Other Intangible Capital Assets	-	-	-	-	-	-	-	-
<b>Total Non-Depreciable or Non-Amortizable Assets:</b>	<b>\$ 226,584,102.03</b>	<b>\$ -</b>	<b>\$ (149,400,229.17)</b>	<b>\$ 666,036.10</b>	<b>\$ (666,036.10)</b>	<b>\$ 64,535,947.99</b>	<b>\$ (298,430.00)</b>	<b>\$ 141,421,390.85</b>
<b>Depreciable Assets:</b>								
Buildings and Building Improvements Infrastructure	\$ 968,414,303.79	\$ -	\$ 136,727,966.75	\$ -	\$ -	\$ 5,344,739.02	\$ (6,103,480.96)	\$ 1,104,383,528.60
Facilities and Other Improvements	65,219,516.61	-	-	-	-	-	-	65,219,516.61
Furniture and Equipment	125,805,188.42	-	374,751.84	-	-	-	(1,189,160.45)	124,990,779.81
Vehicles, Boats and Aircraft	144,229,026.54	-	-	202,065.36	(202,065.36)	12,251,855.30	(4,405,200.56)	152,075,681.28
Other Capital Assets	12,601,801.35	-	-	22,978.75	(22,978.75)	1,467,199.09	(636,319.60)	13,432,680.84
	93,109,521.04	-	-	742,868.54	(742,868.54)	4,830,688.89	(41,693.37)	97,898,516.56
<b>Total Depreciable Assets:</b>	<b>\$ 1,409,379,357.75</b>	<b>\$ -</b>	<b>\$ 137,102,718.59</b>	<b>\$ 967,912.65</b>	<b>\$ (967,912.65)</b>	<b>\$ 23,894,482.30</b>	<b>\$ (12,375,854.94)</b>	<b>\$ 1,558,000,703.70</b>
<b>Less Accumulated Depreciation for:</b>								
Buildings and Building Improvements Infrastructure	\$ (423,692,459.10)	\$ (6,285,369.23)	\$ -	\$ -	\$ -	\$ (40,789,584.62)	\$ 5,267,976.79	\$ (465,499,436.16)
Facilities and Other Improvements	(16,101,120.16)	-	-	-	-	(2,290,389.30)	-	(18,391,509.46)
Furniture and Equipment	(24,323,340.15)	-	-	-	-	(3,746,700.56)	957,853.28	(27,112,187.43)
Vehicles, Boats and Aircraft	(100,103,425.42)	-	-	(51,206.67)	51,206.67	(12,081,932.20)	4,013,562.07	(108,171,795.55)
Other Capital Assets	(7,773,790.33)	-	-	-	-	(1,065,192.72)	568,298.33	(8,270,684.72)
	(54,330,268.84)	-	-	(71,726.82)	71,726.82	(4,322,339.35)	37,595.92	(58,615,012.27)
<b>Total Accumulated Depreciation</b>	<b>\$ (626,324,404.00)</b>	<b>\$ (6,285,369.23)</b>	<b>\$ -</b>	<b>\$ (122,933.49)</b>	<b>\$ 122,933.49</b>	<b>\$ (64,296,138.75)</b>	<b>\$ 10,845,286.39</b>	<b>\$ (686,060,625.59)</b>
<b>Depreciable Assets, Net</b>	<b>\$ 783,054,953.75</b>	<b>\$ (6,285,369.23)</b>	<b>\$ 137,102,718.59</b>	<b>\$ 844,979.16</b>	<b>\$ (844,979.16)</b>	<b>\$ (40,401,656.45)</b>	<b>\$ (1,530,568.55)</b>	<b>\$ 871,940,078.11</b>
<b>Amortizable Assets - Intangible:</b>								
Land Use Rights	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer Software	20,566,880.76	-	12,297,510.58	3,361,538.75	(3,361,538.75)	-	(2,930,071.71)	29,934,319.63
Other Intangible Capital Assets	-	-	-	-	-	-	-	-
<b>Total Amortizable Assets - Intangibles</b>	<b>\$ 20,566,880.76</b>	<b>\$ -</b>	<b>\$ 12,297,510.58</b>	<b>\$ 3,361,538.75</b>	<b>\$ (3,361,538.75)</b>	<b>\$ -</b>	<b>\$ (2,930,071.71)</b>	<b>\$ 29,934,319.63</b>
<b>Less Accumulated Amortization for:</b>								
Land Use Rights	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Computer Software	(19,617,312.82)	-	-	(3,361,538.75)	3,361,538.75	(1,604,130.33)	2,930,071.71	(18,291,371.44)
Other Intangible Capital Assets	-	-	-	-	-	-	-	-
<b>Total Accumulated Amortization</b>	<b>\$ (19,617,312.82)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (3,361,538.75)</b>	<b>\$ 3,361,538.75</b>	<b>\$ (1,604,130.33)</b>	<b>\$ 2,930,071.71</b>	<b>\$ (18,291,371.44)</b>
<b>Amortizable Assets - Intangibles, Net</b>	<b>\$ 949,567.94</b>	<b>\$ -</b>	<b>\$ 12,297,510.58</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,604,130.33)</b>	<b>\$ -</b>	<b>\$ 11,642,948.19</b>
<b>Total</b>	<b>\$ 1,010,588,623.72</b>	<b>\$ (6,285,369.23)</b>	<b>\$ -</b>	<b>\$ 1,511,015.26</b>	<b>\$ (1,511,015.26)</b>	<b>\$ 22,530,161.21</b>	<b>\$ (1,828,998.55)</b>	<b>\$ 1,025,004,417.15</b>

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**Note 3: Cash, Cash Equivalents and Investments**

**Deposits of Cash in Bank**

As of August 31, 2016, the carrying amount of deposits was \$34,101,089.13 as presented below.

Cash In Bank- Carrying Value	\$	34,101,089.13
<b>Cash in Bank per Statement of Net Position</b>	<b>\$</b>	<b>34,101,089.13</b>
<hr/>		
Proprietary Funds Current Assets Cash in Bank	\$	20,298,226.21
Proprietary Funds Current Assets Restricted Cash in Bank		13,802,862.92
<b>Cash in Bank per Statement of Net Position</b>	<b>\$</b>	<b>34,101,089.13</b>
<hr/>		

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 \$150,874,333.20 that is invested in cash equivalents. The remainder of the cash and cash equivalent balance of \$18,678,922.11 is comprised of cash on hand, cash in transit or reimbursement from the Treasury, and cash in the State Treasury.

As of August 31, 2016, the total bank balance was \$39,272,436.96.

**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, 2016, 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

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

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, 2016, the System's investments are presented below. Included in this amount is \$150,874,333.20 classified as cash equivalents.

<b>Investments and Cash Equivalents</b>	<b>As of August 31, 2016</b>
U.S. Government Agency Obligations	\$ 9,217,697.50
Equity	440,384.50
Repurchase Agreement	13,155,165.99
Domestic Mutual Funds	9,846.00
Fixed Income Money Market and Bond Mutual Funds	77,524,657.57
Other Commingled Funds	84,600,562.73
Other Commingled Funds (TexPool)	19,969,728.91
Externally Managed Investments – Domestic (1)	216,866,618.12
Miscellaneous (limited partnerships, guaranteed investment contract, political subdivision, bankers' acceptance, negotiable CD)	1,027,529.63
<b>Total Investments and Cash Equivalents</b>	<b>\$ 422,812,190.95</b>

- (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, 2016, 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	\$ -	\$9,217,697.50	\$ -	\$ 9,217,697.50
05	0001	Equity	-	-	440,384.50	440,384.50
05	0001	Repurchase Agreement	-	-	13,155,165.99	13,155,165.99
05	0001	Domestic Mutual Funds	-	-	9,846.00	9,846.00
05	0001	Fixed Income Money Market and Bond Mutual Fund	50,758,751.64	-	26,765,905.93	77,524,657.57
05	0001	Other Commingled Funds	84,600,562.73	-	-	84,600,562.73
05	0001	Commingled Funds (TEXPOOL)	19,969,728.91	-	-	19,969,728.91
05	0001	Externally Managed Investments	-	-	216,866,618.12	216,866,618.12
05	0001	Miscellaneous	-	-	1,027,529.63	1,027,529.63
05	0001	<b>Total</b>	<b>\$155,329,043.28</b>	<b>\$9,217,697.50</b>	<b>\$258,265,450.17</b>	<b>\$422,812,190.95</b>

**Concentration of Credit Risk**

As of August 31, 2016, the System did not hold any direct investments in any one issuer of corporate or municipal bonds that were five percent or more of the market value of the System's fixed income investments. The System's investment regulation does not provide specific requirements and limitations regarding concentration of credit.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**Custodial Credit Risk - Investments**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. State statutes and the System's investment regulation does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. As of August 31, 2016, 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, 2016, the System investments subject to interest rate risk – commingled funds, certificates of deposit, repurchase agreements, fixed income money market and bond mutual funds – have an average maturity of less than one year. The System's investments in U.S. Government Agency Obligations 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, 2016, the System's investments were all denominated in U.S. dollars. The System's investment policy does not provide specific requirements and limitations regarding investments in foreign currency.

**Internal Investment Pool**

Certain investments of the System are managed by the Foundation in its internal long-term investment pool (the "Pool"). The Pool is invested with external investment managers who invest in equity and fixed income funds both domestic and international. The Foundation's investment policy allows for the asset allocation to be maintained within the following tactical ranges: 50-70% growth assets (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, 2016, total investments in the Pool, including the System portion, consisted of the following investment types:

<b>Investment</b>	<b>Fair Value</b>
Equity	\$ 11,162,036.21
Domestic Mutual Funds	86,866,082.63
International Other Commingled Funds	19,736,516.30
International Mutual Funds	68,499,609.68
Other Commingled Funds	13,361,967.15
Fixed Income Money Market & Bond Mutual Funds	31,914,643.35
Alternative Investments	48,977,213.88
Miscellaneous	133,654.06
<b>Total investments</b>	<b>\$ 280,651,723.26</b>

The System's unitized portion of the Pool's investments as of August 31, 2016 is \$177,704,787.68.

The Pool's investments are not rated by Standard & Poor's. As of August 31, 2016, 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 an average maturity of less than one year.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

As of August 31, 2016, the System's investments in the Pool consisted of the following investment types:

**Equity**

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

**Domestic Mutual Funds**

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

**International Other Commingled Funds**

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

**International Mutual Funds**

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

**Other Commingled Funds**

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

**Fixed Income Money Market & Bond Mutual Funds**

Money market mutual funds are open-end mutual funds registered with the SEC that must comply with the SEC's "Rule 2a-7," which imposes certain restrictions, such as the 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, 2016, 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

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

The System has the following recurring fair value measurements as of August 31, 2016:

	8/31/2016	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)
<b>Investments by Fair Value Level</b>				
U.S. Government Agency Obligations	\$ 9,217,697.50	\$ -	\$ 9,217,697.50	\$ -
Equity	440,384.50	440,384.50	-	-
Domestic Mutual Funds	9,846.00	9,846.00	-	-
Externally Managed Investments - Other	39,161,830.44	38,814,263.00	-	347,567.44
Total Investments at Fair Value	<u>\$ 48,829,758.44</u>	<u>\$ 39,264,493.50</u>	<u>\$ 9,217,697.50</u>	<u>\$ 347,567.44</u>
<b>Investments and Cash Equivalents Measured at NAV</b>				
Other Commingled Funds	\$ 27,999,333.30			
Externally Managed Investments - Foundation Managed Pool	177,704,787.68			
Total Investments at the NAV	<u>\$ 205,704,120.98</u>			
Total Investments at Fair Value	<u>\$ 254,533,879.42</u>			
<b>Investments and Cash Equivalents not Measured at Fair Value</b>				
Repurchase Agreements	\$ 13,155,165.99			
Fixed Income Money Market and Bond Mutual Funds	77,524,657.57			
Other Commingled Funds	56,601,229.43			
Other Commingled Funds (TexPool)	19,969,728.91			
Miscellaneous	1,027,529.63			
Total Investments not Measured at Fair Value	<u>\$ 168,278,311.53</u>			
<b>Total Investments</b>	<u>\$ 422,812,190.95</u>			

Investments classified in Level 1 of the fair value hierarchy, totaling \$39,264,493.50 for the year ended August 31, 2016, are valued using quoted prices in active markets.

U.S. government agency obligations totaling \$9,217,697.50 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.

\$177,704,787.68 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, 2016:

	8/31/2016	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)
<b>Investments by Fair Value Level</b>				
Equity	\$ 11,162,036.21	\$ 11,044,889.75	\$ 117,146.46	\$ -
Domestic Mutual Funds	86,793,450.63	86,793,450.63	-	-
International Commingled Funds	19,736,516.30	-	19,736,516.30	-
International Mutual Funds	68,499,609.68	68,499,609.68	-	-
Other Commingled Funds	13,361,967.15	-	13,361,967.15	-
Fixed Income Money Market and Bond Mutual Fund	31,914,643.35	-	31,914,643.35	-
Externally Managed Investments (Hedge Funds)	48,977,213.88	-	24,517,783.88	24,459,430.00
Real Estate Funds (REITs)	72,632.00	-	-	72,632.00
Miscellaneous	133,654.06	-	133,654.06	-
Total Investments at Fair Value	<u>\$ 280,651,723.26</u>	<u>\$ 166,337,950.06</u>	<u>\$ 89,781,711.20</u>	<u>\$ 24,532,062.00</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 13 for further information regarding the fair value of pool investments.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

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 \$27,999,333.30 at fair value and reports its investment with TexPool and TexTERM of \$76,570,958.34 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, 2016, \$177,704,787.68 of the System's externally managed investments are managed by the Foundation in the long term pool.

**Note 4: Short-Term Debt**

**Commercial Paper**

According to the Master Resolution establishing the UNT System Revenue Financing System Commercial Paper Program, the issuance of commercial paper notes may not exceed, in aggregate, the principal amount of \$100,000,000 of which \$25,000,000 may be used as taxable notes. Outstanding commercial paper proceeds may be used for the purpose of financing project costs of eligible projects and to refinance, renew or refund commercial paper notes, prior encumbered obligations, and parity obligations, including interest. Commercial paper notes may not be issued to refinance or refund prior encumbered obligations or parity bonds without the approval of the Board of Regents. Commercial paper activity for the System for the year ended August 31, 2016 is as follows:

	<u>September 1, 2015 (1)</u>	<u>Additions</u>	<u>Reductions</u>	<u>August 31, 2016</u>
Commercial Paper	\$ 1,807,000.00	\$ 20,298,000.00	\$ (1,955,000.00)	\$ 20,150,000.00

(1) Beginning balance includes the reclassification of \$74,260,000 of commercial paper to long-term liabilities.

The outstanding balance of commercial paper at August 31, 2016 was \$20,150,000 at an interest rate of 0.64%. Interest rates are determined by the investor and broker in the arrangement, where the investor dictates the maturity. Average commercial paper maturity during the year ended August 31, 2016 was approximately 28 days. The System will provide liquidity support for \$100,000,000 in commercial paper notes by utilizing available funds of the System in lieu of or in addition to bank liquidity support. The maximum maturity for commercial paper is 270 days. In practice, the System rolls, pays off, and/or issues new commercial paper at each maturity. Commercial paper will continue to be used as interim funding until long-term bonds are approved and issued or gifts or institutional funds are received to retire the commercial paper debt.

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

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**Note 5: Long-Term Liabilities**

**Changes in Long-Term Liabilities**

The following changes occurred in long-term liabilities during the year ended August 31, 2016:

	September 1, 2015	Additions	Reductions	August 31, 2016	Amounts Due Within One Year	Amounts Due Thereafter
Bonds Payable:						
Revenue Bonds Payable	\$ 368,900,000.00	\$ 224,030,000.00	\$ 77,625,000.00	\$ 515,305,000.00	\$ 30,540,000.00	\$ 484,765,000.00
Unamortized Net Premiums	20,491,949.43	17,258,428.55	5,165,618.84	32,584,759.14	3,303,393.95	\$ 29,281,365.19
Total Bonds Payable	<u>\$ 389,391,949.43</u>	<u>\$ 241,288,428.55</u>	<u>\$ 82,790,618.84</u>	<u>\$ 547,889,759.14</u>	<u>\$ 33,843,393.95</u>	<u>\$ 514,046,365.19</u>
Loans Payable						
Loans Payable	\$ 155,760,000.00	\$ -	\$ 155,760,000.00	\$ -	\$ -	\$ -
Capital Lease Obligations	4,901,199.22	186,326.30	1,174,998.80	3,912,526.72	1,249,546.84	2,662,979.88
Claims and Judgments	3,578,232.00	423,960.00	2,151,268.00	1,850,924.00	890,607.00	960,317.00
Net Pension Liability	103,405,818.19	49,108,503.00	34,139,723.19	118,374,598.00	-	118,374,598.00
Compensable Leave	26,141,036.81	2,148,766.11	3,608,086.45	24,681,716.47	4,303,112.53	20,378,603.94
Total Long-Term Liabilities	<u>\$ 683,178,235.65</u>	<u>\$ 293,155,983.96</u>	<u>\$ 279,624,695.28</u>	<u>\$ 696,709,524.33</u>	<u>\$ 40,286,660.32</u>	<u>\$ 656,422,864.01</u>

**Revenue Bonds Payable**

Scheduled principal and interest payments for revenue bonds issued and outstanding as of August 31, 2016 are as follows:

Year(s)	Principal	Interest	Total
2017	\$ 30,540,000.00	\$ 22,290,002.23	\$ 52,830,002.23
2018	29,400,000.00	21,163,094.46	50,563,094.46
2019	29,840,000.00	20,136,256.81	49,976,256.81
2020	28,530,000.00	19,093,919.91	47,623,919.91
2021	29,610,000.00	18,015,812.32	47,625,812.32
2022-2026	126,205,000.00	72,668,868.75	198,873,868.75
2027-2031	100,590,000.00	52,544,812.50	153,134,812.50
2032-2036	66,665,000.00	27,587,685.00	94,252,685.00
2037-2041	51,675,000.00	12,566,215.70	64,241,215.70
2042-2045	22,250,000.00	2,743,567.00	24,993,567.00
<b>Total</b>	<u><b>\$ 515,305,000.00</b></u>	<u><b>\$ 268,810,234.68</b></u>	<u><b>\$ 784,115,234.68</b></u>

Interest paid during 2016, net of capitalized interest, amounted to \$20,399,923.50. Total interest and fiscal charges incurred for the year ended August 31, 2016 was \$25,311,002.83. Of this total, the System capitalized \$21,236.46 associated with financing capital projects during the construction phase. In addition, the System recorded \$4,644,087.69 as a reduction to this balance relating to the amortization of premiums and deferred outflows of resources resulting from losses on bond refundings. The remaining amount of \$20,645,678.68 was reported as interest expense and fiscal charges for the year ended August 31, 2016.

**Capital Lease Obligations**

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

**Claims and Judgments**

As of August 31, 2016, there was one outstanding claim for which a liability accrual has been recognized. According to authoritative GASB guidance, liabilities should be recognized when the possibility of loss is probable and the amount of loss is reasonably estimable. See Note 10, *Contingencies and Commitments*, for more information on the claims and judgments against the System.



**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**Net Pension Liability**

See Note 1, *Summary of Significant Accounting Policies*, and Note 8, *Pensions*, 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 in a position which accrues vacation leave during the 30-day period immediately following the date of separation from state employment. Substantially all full-time System employees earn 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, 2016, the System had principal outstanding related to revenue bonds of \$515,305,000. 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.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

General information related to revenue bonds outstanding as of August 31, 2016, is summarized in the following table:

Bond	Purpose	Issue Date	Interest Rates	Amount Issued	Total Principal Outstanding as of 8/31/16
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	\$ 25,495,000.00
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	130,050,000.00
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	6,790,000.00
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	39,335,000.00
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	57,420,000.00
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% - 3.2000%	4,820,000.00	4,235,000.00
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	31,425,000.00
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	104,105,000.00
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	70,585,000.00
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	45,865,000.00
<b>Total</b>				<b>\$ 614,390,000.00</b>	<b>\$ 515,305,000.00</b>

**Early Extinguishments in 2016**

A portion of RFS Refunding Bonds, Series 2012A, were defeased during 2016, reducing principal by \$4,535,000.00 and unamortized premiums of \$517,995.43.

- Unrestricted funds in the amount of \$5,321,345.18 were used to pay related expenses of \$30,057 and deposit \$5,290,538.18 into an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds.
- An accounting loss of \$237,542.75 resulted from the transaction which was recorded as interest expense.

RFS Refunding Bonds, Series 2015C, were issued on March 1, 2016 to refund the RFS Refunding Bonds, Series 2007 principal amount. The Series 2015C Bonds were issued at par with a face value of \$45,865,000. The proceeds were used to pay the costs of issuance of \$235,454.75 and to provide for debt service on the refunded bonds which were

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

called on April 15, 2016 and are no longer outstanding. The liability for these bonds has been removed from the consolidated statement of net position.

- An economic gain from the transaction resulted in a net present value savings of \$4,469,507.99 between the old and new debt service payments.
- An accounting gain of \$1,035,872.52 resulted from the transaction, as the net carrying amount of \$46,640,872.52 exceeded the reacquisition price of \$45,865,000.00 on the refunded bonds. The carrying value of \$46,640,872.52 on the refunded debt consisted of \$45,605,000.00 par value, and \$1,035,872.52 unamortized premiums.

**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 on deposit in the Interest and Sinking Fund and the Reserve Fund. In addition to current year pledged revenues, any unappropriated or reserve fund balances remaining at year-end are available for payment of the subsequent year 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	\$ 784,115,234.68
Term of Commitment Year Ending 8/31	2045
Percentage of Pledged Revenue	100%
Current Year Pledged Revenue	\$ 773,097,217.62
Current Year Principal and Interest Paid	\$ 47,906,159.96

**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 \$3,581,367.01 in 2016. 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, 2016 were as follows:

Fiscal Year	Lease Payments
2017	\$ 3,039,163.13
2018	2,463,894.09
2019	1,778,811.50
2020	1,453,074.38
2021	996,830.64
2022 - 2026	312,499.80
2027 - 2031	312,499.80
2032 - 2036	312,499.80
2037 - 2041	312,499.80
2042 - 2046	312,499.80
2047 and beyond	124,999.92
<b>Total Future Minimum Operating Lease Payments</b>	<b>\$ 11,419,272.66</b>

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

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, 2016 were as follows:

<b>Assets Leased</b>	<b>2016</b>
Buildings:	
Cost	\$ 12,493,858.73
Less: Accumulated Depreciation	(4,018,756.16)
Carrying Value of Buildings	8,475,102.57
Parking Garage:	
Cost	10,655,156.80
Less: Accumulated Depreciation	(5,616,244.41)
Carrying Value of Parking Garage	5,038,912.39
<b>Total Carrying Value</b>	<b>\$ 13,514,014.96</b>

There were no contingent rentals for the period ended August 31, 2016. Rental income for operating leases was \$842,730.64 in 2016. Future minimum lease income under non-cancelable operating leases as of August 31, 2016, was as follows:

<b>Fiscal Year</b>	<b>Lease Income</b>
2017	\$ 1,525,717.77
2018	1,333,900.95
2019	316,387.80
2020	29,520.56
2021	15,580.00
2022 and beyond	-
<b>Total Future Minimum Operating Lease Income</b>	<b>\$ 3,221,107.08</b>

**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, 2016, is presented below:

<b>Assets Under Capital Lease</b>	<b>2016</b>
Furniture and Equipment	
Cost	\$ 6,311,696.39
Less: Accumulated Depreciation	(1,873,243.53)
	4,438,452.86
Vehicles, Boats and Aircraft	
Cost	111,858.88
Less: Accumulated Depreciation	(34,375.06)
	77,483.82
<b>Total Carrying Value</b>	<b>\$ 4,515,936.68</b>

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

Capital lease obligations are due in monthly, quarterly or annual installments through 2020. Future minimum lease payments for assets under capital lease at August 31, 2016 were as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 1,249,546.84	\$ 193,781.84
2018	1,312,299.31	131,022.89
2019	1,336,986.67	65,611.83
2020	13,693.90	220.34
<b>Total Future Minimum Capital Lease Payments</b>	<b>\$ 3,912,526.72</b>	<b>\$ 390,636.90</b>

**Note 8: Pension Plans**

**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 16, 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.

*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

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

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 16, 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 2015 for fiscal 2016 reporting, the amount of the System's contributions recognized by the plan was \$9,916,773. The contribution rates are based on a percentage of the monthly gross compensation for each member. Contributions by employees were 6.7% of gross earnings during the measurement period of 2015. 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 2015.

**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. The framework for measuring fair value is based on a hierarchy that gives the highest priority to the use of observable inputs in an active market and lowest priority to the use of unobservable inputs. More detailed information on the plan's investment policy, assets, and fiduciary net position, may be obtained from TRS' fiscal 2015 Comprehensive Annual Financial Report.

At August 31, 2016, the System reported a liability of \$118,374,598 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, 2015 (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 0.3348771%, which was a decrease of 0.0521666% from the 0.3870437% measured at the prior measurement date. The System's proportionate share was based on its contributions to the pension plan, excluding State on-behalf contributions, relative to the contributions of all employers and non-employer contributing entities to the TRS Plan for the period September 1, 2014 through August 31, 2015 (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 \$12,757,958.96. The State recognized \$33,917,826.43 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 0.0959522%.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

For the year ended August 31, 2016, the System recognized pension expense of \$9,948,627. At August 31, 2016, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Contributions subsequent to the measurement date	\$ 10,041,557.00	\$ -
Changes of assumptions	5,588,903.00	4,223,087.00
Difference between expected and actual experience	1,329,734.00	4,549,241.00
Change in proportion and contribution difference	-	11,931,009.00
Net difference between projected and actual investment return	5,454,081.00	-
<b>Total</b>	<b>\$ 22,414,275.00</b>	<b>\$ 20,703,337.00</b>

The \$10,041,557.00 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 2017. 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>
2017	\$ (2,718,592.00)
2018	(2,718,592.00)
2019	(2,718,594.00)
2020	5,181,055.00
2021	(2,190,286.00)
Thereafter	(3,165,610.00)
<b>Total</b>	<b>\$ (8,330,619.00)</b>

**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, 2015 measurement date:

<b>Actuarial Methods and Assumptions</b>	<b>TRS Plan</b>
Actuarial Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percent, Open
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

The actuarial assumptions used in valuation were primarily based on the result of an actuarial experience study for the four-year period ending August 31, 2014 and adopted September 2015. There have been changes in inflation, salary increase and mortality assumptions since the prior measurement date. The inflation assumption changed from 3.00% to 2.50%. The salary increase assumption changed from a range of 4.25% to 7.25% to a range of 3.50% to

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

9.50% including inflation. The mortality assumption changed from the one based on 1994 Group Annuity Mortality Table to the one based on the RP 2014 employee Mortality Tables for the active members. For the retired members, the new 2015 TRS Healthy Pensioner Mortality Tables were used for the mortality assumption.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>
<b>Global Equity</b>		
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%
<b>Stable Value</b>		
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%
<b>Real Return</b>		
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%
<b>Risk Parity</b>		
Risk Parity	5.0%	6.7%
<b>Total</b>	<b>100.0%</b>	

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 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.



**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

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%)
\$ 185,470,683.16	\$ 118,374,597.50	\$ 62,487,728.21

**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 2016 plus any local supplement for a maximum 8.50% of annual compensation) for the year ended August 31, 2016, is provided in the following table:

<b>ORP Participation</b>	
Member Contributions	\$ 9,402,553.64
Employer Contributions	10,093,701.00
<b>Total</b>	<b>\$ 19,496,254.64</b>

**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, 2016 was as follows:

<b>ERS Participation</b>	
Member Contributions	\$ 18,292,102.63
State On-Behalf Contributions	22,629,208.93
Employer Contributions	34,363,330.86
<b>Total</b>	<b>\$ 75,284,642.42</b>

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

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**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 statement. There were no balances in interagency receivable and payable at August 31, 2016.

**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**

*Design and Construction Contract Dispute*

In February 2012, the System entered into a Professional Services Agreement with Perkins + Will, under which Perkins + Will was to perform architectural and engineering services for the UNT University Union renovation and expansion project. In March 2013, the System entered into a Construction Manager-at-Risk Agreement with Beck Warrior, under which Beck Warrior was to perform pre-construction and construction management services for the Union renovation and expansion project. Beck Warrior was to achieve substantial completion of the Union by August 20, 2015; however, substantial completion was not achieved until November 5, 2015. Beck Warrior has submitted, to date, twelve claim letters against UNT System pursuant to Chapter 2260, Texas Government Code, claiming errors and omissions by Perkins + Will and interference by UNT System. Perkins + Will has submitted invoices for additional work required due to Beck Warrior's failure to perform. Incurrence of a loss is reasonably possible. The amount of loss for UNT System is within a range of \$0 to \$12,193,000, plus interest, and no best estimate of loss within this range can be determined at this time.

*Dale A. Wilkerson v. University of North Texas, Neal Smatresk, Finley Graves, Warren Burggren, Arthur Goven, and Patricia Glazebrook*

Case No. 4:15-cv-00540-ALM, US District Court, Eastern District of Texas. Due process, equal protection and retaliation claims; limited discovery underway during pendency of Defendants' motion to dismiss. Plaintiff seeks an unspecified amount of actual and exemplary damages, plus attorney's fees and costs. Loss is reasonably possible.

*Jessica Jimenez, Jennifer Galo, Catherine Frank, in Their Individual Capacities, and William Tyler, II, As Independent Administrator of the Estate of Pamela J. Knight, Deceased v. University of North Texas Health Science Center*

Case No. 02-16-00368-CV, Fort Worth Court of Appeals. Health care liability claim; on appeal following the denial of UNTHSC's plea to the jurisdiction. Plaintiff seeks monetary relief over \$1,000,000. UNTHSC's damages are statutorily capped at \$250,000. Loss is reasonably possible.

*Vera L. Moore, Individually and as Representative of the Estate of Clarence Lee Moore, Jr., Deceased v. University of North Texas Health Science Center*

Case No. 348-287318-16, Tarrant County District Court. Health care liability claim; case is pending. Plaintiff seeks monetary relief over \$200,000, but not more than \$1,000,000. UNTHSC's damages are statutorily capped at \$250,000. Loss is reasonably possible.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

*Sherry B. Skinner and Robert W. Skinner v. Robert Nathaniel Reddix, Jr., M.D. and Jonathan David Boyle, M.D.*  
Case No. 153-288786-16, Tarrant County District Court. Health care liability claim; filed but not served. Plaintiff seeks monetary relief over \$1,000,000 for each Plaintiff. UNTHSC's damages are statutorily capped at \$250,000. The case was dismissed without prejudice by Plaintiff on March 23, 2017.

*Anthony DeShawn Thomas v. John Mills, M.D., D. Peyton and Tarrant County Hospital District*  
Case No. 16-10061, U.S. Court of Appeals for the Fifth Circuit. Prisoner's civil rights claim; on appeal following summary judgment for defendants. Plaintiff seeks actual and compensatory damages of \$200,000 and punitive damages of \$20,000. Loss is reasonably possible.

*Research Grant Repayment to National Institutes of Health*

UNTHSC recently concluded a compliance review of 114 of its NIH-funded research projects over the last six years. UNTHSC determined that weaknesses exist in its reporting and certification of time and effort performed by researchers on NIH-funded projects, which weaknesses cause UNTHSC to be non-compliant with certain regulatory and/or sponsor-imposed obligations. On or before January 10, 2017, UNTHSC will notify NIH of its intent to: (i) disclose to NIH the results of its review of NIH-funded research projects; and (ii) offer to repay to NIH \$8.72 million of previously received research grant funding. UNTHSC accrued a loss of \$8.72 million in the current reporting period related to the repayment offer. UNTHSC believes it is reasonably possible that the government will require UNTHSC to pay an additional penalty in the amount of 50% to 100% of the repayment amount to resolve the matter.

**Commitments**

The System continues to implement capital improvements to upgrade facilities. Approximately \$457 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: 61% Tuition Revenue Bonds, 30% Revenue Financing System Bonds, 6% HEF, 2% auxiliary revenues, and less than 1% from designated funds. Approximately \$230 million of the commitment, or roughly 50%, is expected to be spent in 2017.

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: Subsequent Events**

On November 18, 2016 the Board of Regents approved an Extendible Commercial Paper program "ECP" with a maximum authorized amount of \$75,000,000. Concurrently, the Board of Regents approved a resolution limiting the amount of self-liquidity Commercial Paper "CP" down to \$75,000,000 from \$100,000,000, which may be outstanding at any one time. Following the changes adopted on November 18, 2016, the CP and ECP programs have a combined capacity of \$150,000,000 up from the previous capacity of \$100,000,000. On January 27, 2017 the University of North Texas System Revenue Financing System Commercial Paper Program, Series B closed, which is the ECP program. On January 31, 2017 the System closed on the \$196,165,000 Revenue Financing System Refunding and Improvement Bonds, Series 2017A and the \$164,305,000 Revenue Financing System Refunding and Improvement Bonds, Taxable Series 2017B. Also on January 31, 2017, \$7.6 million of the Series 2017A bonds and \$14.3 million of the Series 2017B bonds were used to refund outstanding CP for a total of \$21,865,000 of CP notes refunded.

UNTHSC acquired property in October 2016 for approximately \$2.8 million to support UNTHSC future growth in the medical district. In addition, UNT acquired property in December 2016 for approximately \$700 thousand for future expansion of the UNT campus.

*Robyn Walton v. University of North Texas Health Science Center*, Case No. 236-290069-17, Tarrant County District Court. Health care liability claim; case is pending. Plaintiff seeks monetary relief over \$1,000,000. UNTHSC's damages are statutorily capped at \$250,000. Loss is reasonably possible.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**Note 12: 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, 2016, HSC had sufficient self-insurance reserves for known claims against its health care professionals. The policy limits for this plan are \$500,000/\$1,500,000. Medical professional liability coverage is purchased for allied health care professionals and medical students with entity coverage, which provides a maximum per incident of \$1,000,000 and an aggregate limit of \$3,000,000 with no deductible.

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

	<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 2016 was \$320,000. For the year ended August 31, 2016, 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

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

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, 2016, 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. 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.

*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 \$1,000,000,000 shared limit through the State’s state-wide property insurance program.

A property claim was filed in fiscal year 2014 for hail damage to most buildings at the University of North Texas, including the Discovery Park campus. Currently, the claim is still open and the estimated loss is \$7,000,000 to \$9,000,000, all of which is covered under the policy. Another property claim was filed in fiscal year 2016 for hail damage to buildings at the University of North Texas, including the Discovery Park campus. Currently, the estimated loss is \$733,119, all of which is covered under the policy.

*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, 2016, the System maintains one policy for an out-of-state employee.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

*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, 2016.

The System maintains reserves for unemployment compensation and workers' compensation payments made for all claims and settlements not eligible for state funding. There were no material outstanding claims pending as of August 31, 2016. 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.

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**Note 13: Matrix of Operating Expenses Reported by Function**

For the year ended August 31, 2016, the following table represents operating expenses for both natural and functional classifications for the System:

Operating Expenses	Instruction	Research	Public Service	Academic Support	Student Services
Cost of Goods Sold	\$ 222,399.83	\$ 5,625.00	\$ -	\$ 171,055.59	\$ 561,150.65
Salaries and Wages	228,045,985.20	27,258,519.60	14,315,974.35	51,184,513.01	34,459,494.07
Payroll Related Costs	47,548,068.59	6,249,062.96	3,826,547.31	13,746,084.10	10,193,612.83
Professional Fees and Services	5,703,682.47	10,259,291.75	22,231,085.06	3,843,327.17	3,919,215.34
Federal Pass-Through Expenses	3,726.29	749,843.50	70,325.19	-	-
State Pass-Through Expenses	-	206,368.58	(351.62)	-	-
Travel	3,266,499.10	1,668,279.81	387,464.58	2,287,665.02	3,600,154.53
Materials and Supplies	7,369,068.62	6,357,563.51	1,367,832.28	10,349,354.08	3,580,163.12
Communications and Utilities	685,308.28	40,311.28	45,282.38	755,028.84	1,492,435.10
Repairs and Maintenance	1,230,102.77	669,781.76	168,168.04	2,002,095.32	1,291,754.82
Rentals and Leases	2,901,384.87	910,907.60	441,156.76	1,929,803.04	1,240,665.47
Printing and Reproduction	743,879.80	278,692.52	184,841.42	715,162.20	1,037,077.98
Depreciation and Amortization	-	-	-	-	-
Scholarships	1,796,095.41	841,144.59	219,509.93	106,562.54	129,064.23
Claims and Losses	758,405.15	-	-	-	-
Other Operating Expenses	6,787,355.16	1,300,653.96	1,044,383.05	3,129,899.14	4,985,889.60
<b>Total Operating Expenses</b>	<b>\$ 307,061,961.54</b>	<b>\$ 56,796,046.42</b>	<b>\$ 44,302,218.73</b>	<b>\$ 90,220,550.05</b>	<b>\$ 66,490,677.74</b>

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**Note 13: Matrix of Operating Expenses Reported by Function (Continued)**

Institutional Support	Operation and Maintenance of Plant	Scholarships and Fellowships	Auxiliary Enterprises	Depreciation and Amortization	Total Expenditures
\$ 220,794.95	\$ 84,740.01	\$ -	\$ 2,547,439.41	\$ -	\$ 3,813,205.44
62,269,145.67	15,690,358.07	11,276.04	19,848,678.34	-	453,083,944.35
17,274,433.46	4,033,455.29	2,223.52	6,171,944.47	-	109,045,432.53
13,297,469.56	1,129,371.95	34,901.22	2,777,558.78	-	63,195,903.30
-	-	-	-	-	823,894.98
-	-	-	-	-	206,016.96
1,030,535.37	98,669.51	-	55,462.21	-	12,394,730.13
3,640,100.43	6,533,575.12	1,732.09	5,266,460.45	-	44,465,849.70
2,596,158.16	10,009,327.11	750.00	4,136,874.30	-	19,761,475.45
6,467,467.64	14,719,342.31	2,324.29	6,842,004.63	-	33,393,041.58
3,111,309.59	2,727,853.24	-	1,309,591.09	-	14,572,671.66
2,150,489.58	99,123.19	399.95	346,171.17	-	5,555,837.81
-	-	-	-	65,900,269.08	65,900,269.08
195,139.21	7,271.27	74,156,340.66	849.06	-	77,451,976.90
83,500.00	-	-	-	-	841,905.15
6,282,176.10	522,269.98	24,042.65	5,720,451.76	-	29,797,121.40
<b>\$ 118,618,719.72</b>	<b>\$ 55,655,357.05</b>	<b>\$ 74,233,990.42</b>	<b>\$ 55,023,485.67</b>	<b>\$ 65,900,269.08</b>	<b>\$ 934,303,276.42</b>



**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

**Note 14: Financial Reporting Entity**

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

**Assets Held By Affiliated Organizations**

GASB authoritative guidance provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government, the System. This guidance states that a legally separate tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met:

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

The System has defined significance as 3% of its net position. As of August 31, 2016, 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 is a separate nonprofit organization that is organized for various purposes, including transferring or using all or any part of the corpus or income for the benefit of the University of North Texas. Such uses are made in accordance with the general or specific purposes stipulated by the donors, grantors or testators, or in the absence of such stipulations, for such uses as may be determined by the Board of Directors of the Foundation; furthermore, the Foundation promptly distributes all net income in excess of operating requirements to promote the educational advancement of 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

**UNIVERSITY OF NORTH TEXAS SYSTEM**  
**Notes to the Consolidated Financial Statements**  
**For the Year Ended August 31, 2016**

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, 2016 related to pass-through grants were \$31,326,811.17 and \$206,016.96 respectively.

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

**Note 15: Donor Restricted Endowments**

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

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 4% of the average unit market value. Distribution shall be made quarterly, as soon as practicable, after the last calendar day of November, February, May and August. This distribution amount shall be recalculated each quarter based on a 12-quarter rolling average. If, at any point of distribution, the fair market value of the endowment is below the corpus of the endowment, the distribution shall be determined on a sliding scale basis. The distribution is made in accordance with the Texas Uniform Prudent Management of Institutional Funds Act. The quarterly distribution is based on an endowment management model developed by the AICPA. The net appreciation (cumulative and unexpended) on donor-restricted endowments presented below is available for authorization and expenditure by the System.

<b>Endowment Type</b>	<b>Amount of Cumulative Net Appreciation (1)</b>	<b>Reported in Net Position</b>
True Endowments	\$ 6,640,513.62	Restricted Expendable

(1) There was a positive fair value adjustment totaling \$2,371,831.83 for 2016 related to true endowments. As of August 31, 2016, the System 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, 2016**

**Note 16: 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, 2016 is presented below:

	<u><b>Total</b></u>
<b>Deferred Outflows of Resources</b>	
Unamortized Losses on Refunding of Debt	\$ 3,439,828.09
Deferred Outflows of Resources Related to Pensions (1)	<u>22,414,275.00</u>
<b>Total Deferred Outflows of Resources</b>	<u><b>\$ 25,854,103.09</b></u>
<b>Deferred Inflows of Resources</b>	
Unamortized Gains on Refunding of Debt	\$ 1,419,367.99
Deferred Inflows of Resources Related to Pensions (1)	<u>20,703,337.00</u>
<b>Total Deferred Inflows of Resources</b>	<u><b>\$ 22,122,704.99</b></u>

- (1) See Note 1, *Summary of Significant Accounting Policies*, and Note 8, *Pension Plans*, 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, 2016**

**Required Supplementary Information (RSI)**

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

**RSI - Pension Proportionate Share**

	<u>2016</u>	<u>2015</u>
System's proportion of the net pension liability	0.3348771%	0.3870437%
System's proportionate share of the net pension liability	\$ 118,374,598.00	\$ 103,405,818.19
System's covered payroll (1)	235,537,989.10	222,501,101.49
System's proportionate share of the net pension liability as a percentage of its covered payroll	50.26%	46.47%
Plan fiduciary net position as a percentage of the total pension liability	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**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contributions	\$ 10,041,557.00	\$ 9,916,773.00	\$ 9,812,632.02
Contributions in relation to the statutorily required contributions	10,041,557.00	9,916,773.00	9,812,632.02
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
System's covered-employee payroll	\$ 248,934,340.22	\$ 235,537,989.10	\$ 222,501,101.49
Contributions as a percentage of covered-employee payroll	4.03%	4.21%	4.41%

THIS PAGE INTENTIONALLY LEFT BLANK

**NOTES TO THE  
FINANCIAL STATEMENTS**

**of the**

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

**DENTON, TEXAS**

**For the Years Ended August 31, 2015 and 2016**

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

**Notes to the Financial Statements**

**For the Year Ended August 31, 2016**

**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, 2016 and 2015, there was \$1,676,512 and \$5,055,592, respectively, of cash equivalents in the Foundation's investment accounts awaiting investment.

**Investments**

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

**UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.**  
**Notes to the Financial Statements**  
**For the Year Ended August 31, 2016**

**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 February 28, 2017, which is the date the financial statements were available to be issued.

**Note 2: Investments**

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

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

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

**Note 3: Fair Value of Financial Instruments**

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



**UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.**  
**Notes to the Financial Statements**  
**For the Year Ended August 31, 2016**

**Note 4: Fair Value Measurements**

Fair value of assets measured on a recurring basis at August 31, 2016 and 2015 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, 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
<b>Total</b>	<b>\$ 280,651,723</b>	<b>\$ 166,337,950</b>	<b>\$ 89,781,711</b>	<b>\$ 24,532,062</b>
August 31, 2015:				
Securities/Mutual Funds/Comingled Funds	\$ 247,261,877	\$ 101,026,565	\$ 146,235,312	\$ -
Real Estate Investment Trust	404,820	-	-	404,820
Hedge Funds of Funds	5,630,059	-	-	5,630,059
Comingled Loan Fund	5,177,349	-	-	5,177,349
<b>Total</b>	<b>\$ 258,474,105</b>	<b>\$ 101,026,565</b>	<b>\$ 146,235,312</b>	<b>\$ 11,212,228</b>

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, 2014	\$ 670,599	\$ 5,477,340	\$ 5,169,871	\$ 11,317,810
Total gains (losses) (realized/unrealized)	(65,829)	289,226	7,478	230,875
Purchases, issuance, and settlements	(199,950)	(136,507)	-	(336,457)
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

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

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

**UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.**  
**Notes to the Financial Statements**  
**For the Year Ended August 31, 2016**

**Note 5: Contributions and Other Receivables**

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

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

**Note 6: Unrestricted Net Assets**

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

**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.

**UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.**  
**Notes to the Financial Statements**  
**For the Year Ended August 31, 2016**

**Note 8: Permanently Restricted Net Assets**

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

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

**Note 9: Life Insurance Policies**

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

**Note 10: Income Tax Status**

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

**Note 11: Retirement Plan**

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

**Note 12: Assets Held Under Split Interest Agreements**

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

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

**UNIVERSITY OF NORTH TEXAS FOUNDATION, INC.**  
**Notes to the Financial Statements**  
**For the Year Ended August 31, 2016**

**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, certain UNTS long-term assets have been placed with the Foundation and invested in the Foundation's Consolidated Investment Pool. The UNTS investment funds are subject to the same investment management policy as the Foundation's investments, but receive monthly distributions calculated on a 20 quarter rolling average unit value. The initial annually renewable agreement was replaced on November 1, 2014 by a new agreement that renews annually and can be terminated by either party upon written notice to the other party.

The Foundation also holds and invests certain funds in trust on behalf of the University of North Texas (UNT). Pursuant to an investment management agreement dated August 24, 2012, certain UNT endowment assets have been placed with the Foundation and invested in the Foundation's Consolidated Investment Pool or the Foundation's DFA Short-Term Government fund. The UNT endowment funds invested in the Foundation's Consolidated Investment Pool are subject to the same investment management and distribution policies as the Foundation's endowments. The initial term of the agreement ended August 31, 2013, with a provision to automatically renew annually thereafter.

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

Also, two trusts for which the Foundation serves as Trustee currently name the Foundation as the remainder beneficiary, however, the donors have retained the right to change the remainder beneficiary to other charitable organizations. As a result, the Foundation has recorded the assets held under these trusts as assets held for others.

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

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

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

**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 ("FDIC") up to \$250,000. The total amount of checking account deposits with Wells Fargo Bank N.A. as of August 31, 2016 and 2015 was \$994,939 and \$572,175, respectively. In addition to the checking account balances, the Foundation had cash balances of \$5,252,806 and \$3,812,649 at August 31, 2016 and 2015, respectively, invested with Wells Fargo Bank N.A. in a money market account at August 31, 2016 and under a fully collateralized repurchase agreement at August 31, 2015. The Foundation also had \$4,000,000 invested as of August 31, 2015 in a fully collateralized repurchase agreement with Texas Capital Bank.

The Foundation also maintains short-term cash investments in money-market mutual funds, which are not insured. The amount held in money market mutual funds was \$2,877,568 and \$5,223,196 at August 31, 2016 and 2015, respectively.

## CREDIT OPINION

8 December 2016

New Issue

Rate this Research >>

### Contacts

**Mary Kay Cooney** 212-553-7815  
*AVP-Analyst*  
 marykay.cooney@moodys.com

**Susan I Fitzgerald** 212-553-6832  
*Associate Managing Director*  
 susan.fitzgerald@moodys.com

**Susan E Shaffer** 212-553-4132  
*VP-Senior Analyst*  
 susan.shaffer@moodys.com

## University of North Texas System, TX

New Issue - Moody's Assigns Aa2 to University of North Texas System Series 2017A&B; P-1 to CP, Series B; Outlook Stable

### Summary Rating Rationale

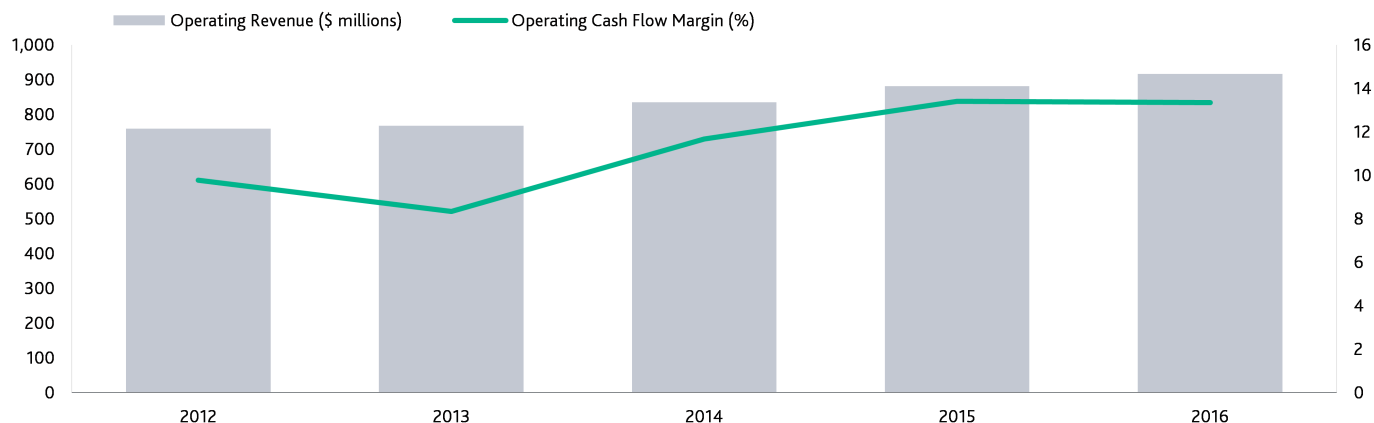
Moody's Investors Service has assigned Aa2 ratings to the University of North Texas System's (UNTS or the system) proposed fixed rate Revenue Financing System \$215 million Refunding and Improvement Series 2017A Bonds, maturing 2036, and \$165 million Refunding Taxable 2017B Bonds, maturing 2040, to be issued by the UNTS Board of Regents. We have also assigned a P-1 rating to the system's proposed \$75 million of Tax-Exempt and Taxable Commercial Paper Notes, Series B. Concurrently, we have also affirmed the Aa2 ratings on the system's parity outstanding \$458 million of rated revenue financing system (RFS) bonds. We have also affirmed the P-1 rating on the existing commercial paper (CP) program, Series A, which is supported by the system's own liquidity. The outlook is stable.

The Aa2 rating incorporates the system's presence as a large comprehensive public university system in the vibrant Dallas-Fort Worth area, supported by robust operating and capital support from the Aaa-rated [State of Texas](#) and solid top line tuition growth. Further supporting the Aa2 rating is the sizeable \$917 million scope of operations and sound growth prospects in student demand. The rating is tempered by the significant increase in leverage concurrent with the planned financing, coupled with weaker financial resources and philanthropic support relative to Aa2-rated peers, and a large net pension liability.

The short-term P-1 rating assignment to the proposed Series B extendable commercial paper (ECP) notes primarily reflects the system's ability to access the market. In addition to the system's expected market access based on its Aa2 long-term rating, its growing pool of unrestricted cash and investments also supports the highest short-term rating.

The P-1 rating on the system's outstanding CP Program, Series A reflects the strength of the system's self-liquidity program, with available assets providing adequate coverage of potential liabilities.

Exhibit 1

**Strong Revenue Growth Bolsters Improved Operating Cash Flow**

Source: Moody's Investors Service

**Credit Strengths**

- » Large, growing comprehensive public university in economically vibrant Dallas-Fort Worth region, with fiscal 2016 operating revenue of \$917 million and full-time equivalent (FTE) enrollment of over 35,000
- » Strong and rising operating and capital support from Aaa-rated State of Texas, including debt service reimbursement expected for 45% of pro forma debt (Tuition Revenue Bonds)
- » Rising net tuition revenue (FY 2012-16 average growth of 11% annually) and net tuition per student (average 9% annually)
- » Improved cash flow and strong prospects for continued surplus stability driven by system-wide fiscal transformation

**Credit Challenges**

- » Rising debt with planned issuance and slim spendable cash and investment to debt relative to Aa2-rated peers (pro forma 0.5 times)
- » Comparatively weak philanthropic support and limited plans for substantial private gift funding
- » Large net pension liability may require higher system employer contributions

**Rating Outlook**

The stable outlook reflects strong state operating and capital support, and continued steady student market strength translating into sound revenue growth to support rising debt service requirements.

**Factors that Could Lead to an Upgrade**

- » Substantial growth in flexible financial reserves
- » Consistently stronger operations and cash flow generation
- » Stronger research activity presence

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Factors that Could Lead to a Downgrade

- » Significant reductions in state financial support for operations or capital
- » Sustained deterioration in operating performance
- » Material increased in leverage beyond planned Tuition Revenue Bonds
- » Reduction in liquidity

## Key Indicators

Exhibit 2

UNIVERSITY OF NORTH TEXAS SYSTEM, TX						
	2012	2013	2014	2015	2016	Pro Forma
Total FTE Enrollment	31,590	32,050	32,599	34,334	35,397	35,397
Operating Revenue (\$000)	759,431	767,576	835,264	881,683	916,525	916,525
Annual Change in Operating Revenue (%)	0.0	1.1	8.8	5.6	4.0	4.0
Total Cash & Investments (\$000)	516,745	519,167	570,121	568,943	589,897	589,897
Total Debt (\$000)	477,587	467,705	483,161	531,368	539,368	783,528
Spendable Cash & Investments to Total Debt (x)	0.8	0.8	0.9	0.8	0.8	0.6
Spendable Cash & Investments to Operating Expenses (x)	0.5	0.5	0.5	0.5	0.5	0.5
Monthly Days Cash on Hand (x)	216	163	174	172	199	199
Operating Cash Flow Margin (%)	9.8	8.3	11.7	13.4	13.3	13.3
Total Debt to Cash Flow (x)	6.4	7.3	5.0	4.5	4.4	6.4
Annual Debt Service Coverage (x)	2.0	1.5	1.8	2.8	2.5	2.5

Pro forma reflects the fiscal 2016 data upon issuance of the planned Series 2017A and 2017B bonds; FTE enrollment is system-wide for fall semester.

Source: Moody's Investors Service

## Recent Developments

Incorporated in Detailed Rating Considerations

## Detailed Rating Considerations

### Market Profile: Super-Regional System Serving Demographically Strong Dallas-Fort Worth Area

UNTS is evolving into a comprehensive super-regional public university with rising brand awareness, serving the vibrant Dallas-Fort Worth metropolitan area. The system is comprised of three unique component institutions throughout the metroplex, each of which is strategically growing and capturing new markets: UNT flagship campus in [Denton](#), Health Science Center (HSC) in [Fort Worth](#), and [Dallas](#) (including the UNT Dallas College of Law). On a combined basis, the system served 35,397 FTE students in fall 2016, up 12% over fall 2012, representing growth of 3% annually. UNT Denton serves roughly 90% of the system's FTE with a comprehensive array of programming across 12 colleges.

The system's HSC and Dallas units are in various stages of development, each requiring unique strategic plans. Enrollment at the HSC is approaching its full planned capacity. The HSC has five graduate level and above schools, including the Texas College of Osteopathic Medicine (TCOM) and the College of Pharmacy, with a fall 2016 FTE (2,607) that was 7% of the system total. A proposed Allopathic School of Medicine currently in development with [Texas Christian University](#) (TCU) will be the HSC's sixth school. The collaboration is expected to benefit from the HSC's existing medical school infrastructure, with faculty members in the UNT Health medical group practice and providing clinical services to John Peter Smith Hospital and the JPS Health Network.

UNT Dallas includes two locations, one of which is the College of Law, and is strategically located in downtown Dallas. The law school will be located in the recently purchased City of Dallas old municipal building. Recently state-authorized tuition revenue bonds (TRBs) will fund the building's renovation. Fall 2017 is the law school's third year cohort and enrollment is on target (total now at 265). The

College of Law is seeking accreditation from the Council of the American Bar Association's section of Legal Education and Admission to the Bar. UNT Dallas (both locations) aims to double its headcount enrollment to 5,000 within the next six years.

### **Operating Performance: Improved Operations Bolstered by Growing State Support and Top Line Tuition Revenue**

The transformation in oversight and reallocation of financial reporting and accountability, as well as strong growth in net tuition revenue, will continue to provide positive operations. Fiscal year (FY) 2016 results marked the third consecutive year of improved operations owing to some expense efficiencies and a return to strong state operating support. The fiscal 2016 operating cash flow margin of 13% provided annual debt service coverage of 2.5 times.

Top line net tuition revenue growth and healthy state funding, key drivers for improved operations, are expected to continue. Net tuition revenue (comprising 37% of \$917 million Moody's adjusted operating revenues) rose an average of 9% annually over the last five years, outpacing the average growth of Aa2-rated universities. The system has budgeted for roughly an 17% increase in tuition and fee revenues in FY 2017 due to enrollment growth, coupled with moderate tuition and fee increases.

Robust funding from the State of Texas, for both operations and capital support, underpins the system's Aa2 rating. The most recent biennium legislature, for FYs 2016-17 funding, increased operating appropriations 11% or \$43 million and Higher Education Fund (HEF) allocations 29% or \$21 million. The legislature also authorized \$269 million of TRBs, for which the state will reimburse the system for TRB debt service. These TRBs are being issued with the Series 2017A&B bonds; Each of the system campuses will receive funding toward one new building (see Use of Proceeds below).

### **Wealth and Liquidity: Modest Philanthropic Activity Restrains Investment Growth**

With limited fundraising, the system's combined cash and investments of \$590 million at year-end FY 2016 are well below the Aa2-median of \$1.5 billion; spendable cash and investments totaled \$451 million. Cash and investments are pooled and managed as short-term working funds and long term reserves. Endowment funds are managed by each component unit's foundation. The combined endowments totaled \$120 million (net of investments held for others) at August 31, 2016. Similar to nationwide endowment performance, the FY return through August 31, 2016 was 7.4%.

Philanthropic support has not kept pace with that of other Aa2-rated universities. The average annual FY 2012-16 gift revenue of \$14 million, was well below the fiscal 2015 median of \$76 million. Each campus is responsible for its fund raising efforts, with targeted campaigns for specific identified projects.

#### **LIQUIDITY**

The system's monthly liquidity of \$364 million translates to monthly cash on hand of a solid 199 days, which is stronger than the Aa2-rated median of 152 days and favorable in providing a sound financial cushion for the CP program.

The system manages its own self-liquidity to support its outstanding Series A CP program (reduced from \$100 million to \$75 million per Board of Trustees authorization in November 2016). As of November 30, 2016, \$30 million in CP was outstanding. The system relies on the CP program for interim financing, refinancing with revenue bonds from time to time.

The proposed Series B ECP program will rely on market access rather than self-liquidity to take out the debt in case of a failed remarketing. The system recently revised its debt policy such that the maximum combined amount of CP and ECP maturing on any one day is \$25 million, and the maximum combined amount within the same week is \$50 million.

The system's self-liquidity support is manageable. As of September 30, 2016, daily discounted liquidity of \$139 million was primarily comprised of money market funds, repurchase agreements, and bank deposits. Discounted daily assets covered the maximum amount outstanding within one week (\$50 million) by a good 1.9 times without the largest money market fund.

### **Leverage: New Issue Will Substantially Increase Leverage; Mitigated by State Appropriation for Debt Service Reimbursement; Limited Future Debt Plans**

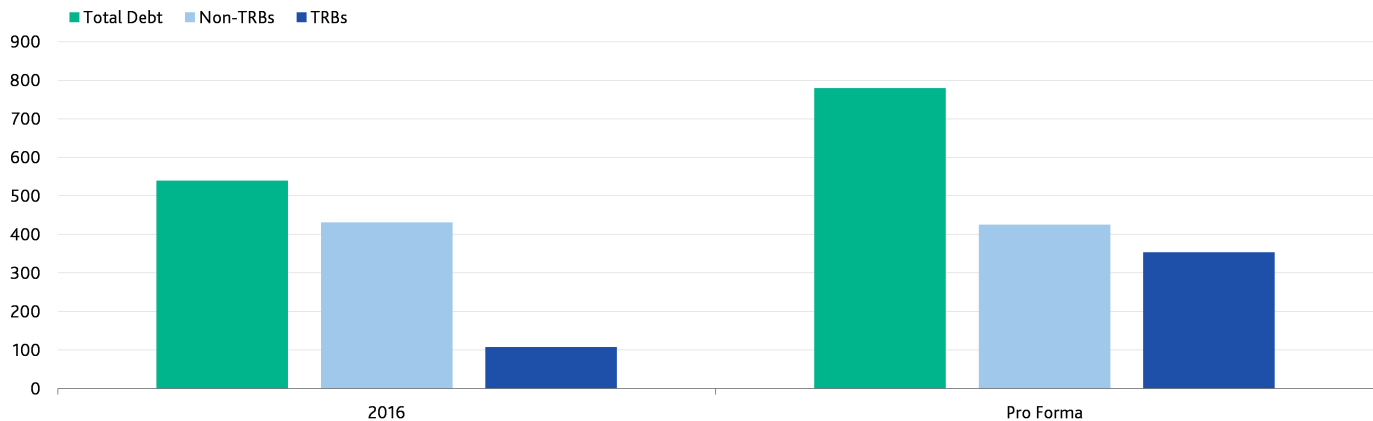
The system's leverage, though highly elevated by the current transaction, will remain manageable. Total debt will rise to \$783 million from the FY-end \$540 million, with the difference due to \$269 million of TRBs. The incremental new money debt, which increases the system's overall debt by nearly 50%, has been authorized by the state legislature as TRBs, with annual debt service to be reimbursed



annually. Though the state bi-annually appropriates for this reimbursement, it has historically made these additional appropriations without interruption. This TRB amount represents the state's full authorization for UNTS.

Exhibit 3

### Substantial Increase in UNTS Debt Mitigated by Bi-Annually Appropriately State Reimbursement for Tuition Revenue Bonds (TRBs) Debt Service



Source: Moody's Investors Service

Spendable cash and investments to pro forma debt is an adequate 0.6 times, but improves to a more manageable 1.0 times when accounting for the roughly 45% of pro forma debt attributable as TRBs for which the system receives debt service reimbursement. Pro forma debt to revenue of 0.9 times decreases to 0.5 times, more in line with the Aa2 median of 0.6 times, when adjusting for debt service reimbursement.

The addition of up to \$150 million in combined CP and ECP notes further elevates debt to \$933 million, or 0.5 times spendable cash and investment. The system anticipates the use of CP or ECP in anticipation of future debt or gifts.

Beyond the planned Series 2017 transaction, the system has more limited capital financing plans. In addition, the TRBs are amortized over a fairly rapid 20 year period, allowing debt capacity over time. The system's planned issuances in fiscal 2018 (\$30 million), 2019 (\$75 million), and 2020 (\$92 million) should be manageable given current debt amortization and ongoing cash flow improvements.

#### DEBT STRUCTURE

The system's debt structure is conservative, with fixed rate debt generally amortizing over 20 years.

The tax-exempt and taxable ECP Notes will have initial maturity dates of 1 to 90 days following issuance. If the notes cannot be rolled on the Original Maturity Date, the Extended Maturity Date shall be 270 days from the issue date, allowing for a minimum of 180 days before the system is obligated to pay the Notes. The extension to the Extended Maturity Date is not an event of default or a breach of any covenant. The ECP is not subject to redemption prior to its Original Maturity Date but is subject to redemption on any day during the extension period with five days notice.

Given the system's Aa2 rating and ability to access the market, the 180 day period would allow sufficient time to issue long-term debt to refinance the ECP notes. The system will annually adopt a resolution authorizing issuance of the maximum \$75 million in revenue financing system bonds to redeem the entire ECP balance outstanding, as needed. While the P-1 rating primarily reflects the expected market access and management's procedures in the event of failed remarketing, it also incorporates the system's ample liquidity and ability to retire the ECP with its liquid assets well within the 180 day extendable period.

The commercial paper program will continue to be used as an interim financing vehicle, adding a component of variable rate debt, with accompanying interest rate and remarketing risks, into the leverage profile. However, given good self-liquidity and relatively modest interest rate exposure, these are not material within UNTS's credit profile.

**DEBT-RELATED DERIVATIVES**

None.

**PENSIONS AND OPEB**

Exposure to pension liabilities materially adds to the university's total adjusted leverage profile. The state's retirement system has an above average employee pension burden. As of June 30, 2016, the three-year average Moody's Adjusted Net Pension Liability (ANPL) was \$470 million relative to debt outstanding of \$539 million. Spendable cash and investments to total adjusted pro forma debt of 0.4 times was nearly on par with the Moody's Aa2-median of 0.5 times. Certain employees may participate in the Teachers Retirement System (defined benefit plan, TRS) or an Optional Retirement Program (defined contribution plan, ORP). In FY 2016, the system contributed \$20 million to TRS and ORP combined, representing a modest 2.3% of expenses.

The system does not administer an OPEB plan, but instead participates in that provided by the state through the Employee Retirement System. The OPEB liability is reported in aggregate in the state's annual financial report.

**Governance and Management: Improved Stewardship Demonstrated by Stable Operations and Cohesive Strategic Plan**

The system is emerging from a period of substantial transformation of its senior leadership and financial operation structure with strengthened oversight and strategic direction. Under the stewardship of a new chief financial officer for the system, working with the Board of Regents and institutional leadership, UNTS has centralized oversight of the campuses, clarified Board of Regents governance responsibilities for the audit, and finance and facilities committees, bolstered internal audit functions; and incorporated an external auditor to supplement the existing state auditor review. Centralized budgeting oversight and campus self-sufficiency planning will continue to add stability to operating performance in the near term, particularly as it undergoes infrastructure expansion across system campuses.

**Legal Security**

All of the system's RFS debt and CP notes (including the planned Series B) are on parity and secured by a broad pledge of revenues, including tuition, fees, and auxiliary revenues, and certain unappropriated funds and reserve balances but excluding state appropriations, and other restricted funds. Pledged Revenues in FY 2016 totaled \$773 million, providing 10.7 times coverage of pro forma maximum annual debt service (\$72 million).

**Use of Proceeds**

Proceeds of the Series 2017A and 2017B bonds are expected to be used for multiple new building projects, refunding CP, advance refunding of all or portions of the Series 2009A bonds, and to pay costs of issuance. Projects associated with the new money portion of the planned series include: renovations at the College of Law Building (Dallas campus); construction and renovation of the Visual Arts Design facilities (Denton); construction of student learning and success center (Dallas); and an interdisciplinary research building (HSC).

**Obligor Profile**

The University of North Texas System is a comprehensive public university system located in the Dallas-Fort Worth metropolitan area and is comprised of three component units: the flagship campus in Denton, the Health Science Center in Fort Worth; and the south Dallas campus and Downtown Dallas School of Law. The system recorded FY 2016 operating revenues of \$917 million and served an FTE enrollment of 35,397 students, the majority of which are at the system's Denton campus.

**Methodology**

The principal methodology used in the underlying rating was Global Higher Education published in November 2015. The additional methodology used in the short term rating was Rating Methodology for Municipal Bonds and Commercial Paper Supported by a Borrower's Self-Liquidity published in January 2012. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

## Ratings

Exhibit 4

### University of North Texas System, TX

Issue	Rating
Revenue Financing System Commercial Paper Notes, Series B	P-1
Rating Type	Underlying ST
Sale Amount	\$75,000,000
Expected Sale Date	01/03/2017
Rating Description	Revenue: Public University Broad Pledge
Revenue Financing System Refunding and Improvement Bonds Series 2017A	Aa2
Rating Type	Underlying LT
Sale Amount	\$214,915,000
Expected Sale Date	01/03/2017
Rating Description	Revenue: Public University Broad Pledge
Revenue Financing System Refunding and Improvement Bonds Taxable Series 2017B	Aa2
Rating Type	Underlying LT
Sale Amount	\$164,990,000
Expected Sale Date	01/03/2017
Rating Description	Revenue: Public University Broad Pledge

Source: Moody's Investors Service

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJJK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1051779

# University of North Texas Board of Regents

## Revenue Bonds New Issue Report

### Ratings

#### New Issues

\$214,915,000 UNTS RFS Refunding and Improvement Bonds, Series 2017A	AA
\$164,990,000 UNTS RFS Refunding and Improvement Bonds, Taxable Series 2017B	AA
\$75,000,000 UNTS RFS Commercial Paper Notes, Series B <sup>a</sup>	F1+

#### Outstanding Debt

\$438,015,000 UNTS RFS Bonds	AA
\$75,000,000 UNTS RFS Commercial Paper Notes, Series A <sup>b</sup>	F1+

<sup>a</sup>Extendible commercial paper program.

<sup>b</sup>Traditional commercial paper program backed by UNTS' available liquidity.

### Rating Outlook

Stable

### Related Research

Fitch Rates Univ. of North Texas System Revs at 'AA' and Extendible CP at 'F1+'; Outlook Stable (December 2016)

### Analysts

Tipper Austin  
+1 212 908-9199  
tipper.austin@fitchratings.com

Susan Carlson  
+1 312 368-2059  
susan.carlson@fitchratings.com

### New Issue Details

**Sale Information:** \$214,915,000 Board of Regents of the University of North Texas System (UNTS) Revenue Financing System (RFS) Refunding and Improvement Bonds, Series 2017A; \$164,990,000 UNTS RFS Refunding and Improvement Bonds, Taxable Series 2017B; and a maximum outstanding \$75,000,000 UNTS RFS Commercial Paper Notes, Series B (Tax-Exempt and Taxable). The bonds are expected via negotiated sale the week of Jan. 3, 2017.

**Security:** RFS bonds are secured by all legally available revenues, funds, and balances of the system. Pledged revenues exclude state appropriations and other restricted funds. RFS commercial paper (CP) and extendible commercial paper (ECP) notes are on parity.

**Purpose:** Bond proceeds will fund capital improvements, refund certain outstanding RFS bonds, refund a portion of the outstanding series A CP notes, and pay costs of issuance. CP will provide interim financing for capital projects.

**Final Maturity:** April 15, 2040.

### Key Rating Drivers

**Strong Demand and Enrollment:** UNTS maintains healthy demand and enrollment trends, reflecting its good market position in the growing Dallas-Fort Worth area and greater North Texas region. The system's activities are somewhat diversified, with different missions and offerings at its three component institutions.

**Sound Financial Profile:** UNTS's operations have improved over the past three fiscal years, and margins are now solidly positive. Balance sheet resources are somewhat low for the rating level but adequate in light of the system's strong operating profile and significant support from the state of Texas (IDR rated AAA/Stable Outlook).

**Growing But Manageable Debt:** UNTS's debt load has grown with large capital investments but remains manageable. Over 45% of the system's pro forma debt is state supported by tuition revenue bond (TRB) appropriations.

**Commercial Paper Programs:** The series A CP program's 'F1+' rating is based on UNTS's sound financial profile and ability to cover the program's maximum potential liquidity needs by at least 1.25x from internal sources. The series B ECP program is rated 'F1+' based on UNTS's sound financial profile and market access, which Fitch assesses from the system's overall creditworthiness. The short-term 'F1+' rating corresponds to the long-term 'AA' rating on the system's outstanding revenue bonds.

### Rating Sensitivities

**State Support:** Fitch believes UNTS has the resources and financial flexibility to manage through periodic fluctuations in state funding. However, a significant reduction in state support could pressure operations.

**Balance Sheet Resources:** Material weakening of UNTS's balance sheet resources and liquidity is not expected but could negatively affect the ratings.

**Rating History — Long Term**

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	12/13/16
AA	Affirmed	Stable	9/22/15
AA	Affirmed	Negative	4/9/14
AA	Affirmed	Stable	4/30/12
AA	Affirmed	Stable	6/23/11
AA	Affirmed	Stable	7/16/10
AA	Revised	Stable	4/30/10
AA-	Affirmed	Stable	11/10/09
AA-	Affirmed	Stable	1/5/09
AA-	Affirmed	Stable	12/21/06
AA-	Affirmed	Stable	9/28/05
AA-	Affirmed	Stable	5/21/04
AA-	Assigned	Stable	8/22/03

**Rating History — Short Term (Market Access)**

Rating	Action	Outlook/ Watch	Date
F1+	Assigned	—	12/13/16

**Rating History — Short Term (Self-Liquidity)**

Rating	Action	Outlook/ Watch	Date
F1+	Affirmed	—	12/13/16
F1+	Affirmed	—	9/22/15
F1+	Affirmed	—	4/7/15
F1+	Affirmed	—	4/9/14
F1+	Affirmed	—	4/15/13
F1+	Affirmed	—	4/30/12
F1+	Affirmed	—	6/23/11
F1+	Affirmed	—	7/16/10
F1+	Affirmed	—	11/10/09
F1+	Affirmed	—	1/5/09
F1+	Affirmed	—	6/11/08
F1+	Affirmed	—	12/21/06
F1+	Affirmed	—	2/17/06
F1+	Affirmed	—	9/28/05
F1+	Assigned	—	5/21/04

**Related Criteria**

- [Revenue-Supported Rating Criteria \(June 2014\)](#)
- [U.S. College and University Rating Criteria \(May 2014\)](#)
- [Rating U.S. Public Finance Short-Term Debt \(November 2015\)](#)

**Credit Profile**

UNTS is a public university system serving the growing North Texas region. The system serves over 43,000 students and consists of the University of North Texas at Denton (UNT-Denton); University of North Texas at Dallas (UNT-Dallas); University of North Texas Health Science Center at Fort Worth (UNT-HSC); and the system administration.

The UNT-Denton is the traditional flagship campus serving nearly 38,000 students, 82% of whom are undergraduates. It was founded in 1890 as a teachers education facility and gained university status in 1961.

UNT-HSC is an academic medical center in Fort Worth consisting of the Texas College of Osteopathic Medicine, medical practice plan, college of pharmacy and schools of biomedical sciences, public health and health professions. In addition, HSC is launching a school of allopathic medicine in partnership with Texas Christian University; the first class is expected to start in fall 2019.

UNT-Dallas opened in 2000 and received independent accreditation in 2013. Its mission is focused on the city of Dallas, and it served over 3,000 students as of fall 2016. The UNT Dallas College of Law (CoL; now on its third cohort, seeking ABA accreditation) is located in downtown Dallas and formally merged into UNT-Dallas in September 2015.

**Operating Profile**

**Strong Demand and Enrollment Trends**

Systemwide headcount increased 3.1% year over year to 43,384 in fall 2016 (preliminary) led by continued strong growth at UNT-Denton (primarily undergraduate, 88% of systemwide total). Systemwide full-time equivalent (FTE) enrollment increased 3.1% to 35,397 over the same period. UNT-Dallas and UNT-HSC are also poised for some further growth as they build out additional programs and initiatives.

The system has a favorable regional market position based on its presence in the large and growing Dallas-Fort Worth metropolitan area and North Texas region generally. Offerings are diversified by virtue of its component institutions, which have different missions, programs and student segments. Supportive demographic trends and expansion of the system's regional role are expected to sustain healthy demand and enrollment trends.

**UNT-Dallas College of Law Accreditation**

Fitch does not consider the accreditation status of the UNT-Dallas CoL a material concern for UNTS's overall credit profile. In August 2016, a committee of the American Bar Association (ABA) recommended against provision accreditation of the COL, which opened in 2014, citing below-average LSAT scores of admitted students. UNTS has contested the recommendation, and a council of the ABA has remanded the issue to the original committee for reconsideration.

The accreditation issue has the potential to hurt demand for the CoL, although enrollment trends remain positive to date. UNTS is committed to obtaining ABA accreditation and is pursuing all available recourses. Even if the CoL's accreditation issue persists, Fitch does not expect any material effect on UNTS's overall solid demand profile or sound financial position. The program enrolled 387 students in fall 2016, and a significant amount of related capital investment has been state supported.

### Demand Summary

(Fall Semester of Fiscal Years Ended Aug. 31)

	2013	2014	2015	2016	2017 <sup>a</sup>
<b>Headcount</b>					
Undergraduate: UNT-Denton	28,911	29,481	29,723	30,503	31,191
Undergraduate: UNT-Dallas	1,776	1,845	2,251	1,952	2,295
Undergraduate: UNT-HSC	0	0	0	0	0
<b>Total Undergraduate Enrollment</b>	<b>30,687</b>	<b>31,326</b>	<b>31,974</b>	<b>32,455</b>	<b>33,486</b>
Graduate: UNT-Denton	6,867	6,687	6,441	6,672	6,782
Graduate: UNT-Dallas	324	295	324	536	735
Graduate: UNT-HSC	1,949	2,133	2,242	2,382	2,381
<b>Total Graduate</b>	<b>9,140</b>	<b>9,115</b>	<b>9,007</b>	<b>9,590</b>	<b>9,898</b>
<b>Total Headcount Enrollment</b>	<b>39,827</b>	<b>40,441</b>	<b>40,981</b>	<b>42,045</b>	<b>43,384</b>
Total Undergraduate / Total Headcount Enrollment (%)	77.1	77.5	78.0	77.2	77.2
<b>Full-Time Equivalent (FTE)</b>					
UNT-Denton	28,280	28,574	28,756	29,882	30,503
UNT-Dallas	1,205	1,192	1,402	1,840	2,287
UNT-HSC	2,105	2,284	2,441	2,612	2,607
<b>Total FTE Enrollment</b>	<b>31,590</b>	<b>32,050</b>	<b>32,599</b>	<b>34,334</b>	<b>35,397</b>
<b>Admissions (UNT-Denton)</b>					
Freshman Applications	15,977	16,554	16,851	16,254	16,826
Freshman Admissions	10,312	10,642	10,954	11,394	12,053
Acceptance Rate (%)	64.5	64.3	65.0	70.1	71.6
Freshman Matriculants	4,451	4,444	4,372	4,661	4,773
Matriculation Rate (%)	43.2	41.8	39.9	40.9	39.6
Graduate Applications	4,835	4,867	6,316	6,763	6,886
Graduate Admissions	2,526	2,506	2,926	3,326	3,236
Acceptance Rate (%)	52.2	51.5	46.3	49.2	47.0
Graduate Matriculants	1,692	1,750	1,593	1,870	1,690
Matriculation Rate (%)	67.0	69.8	54.4	56.2	52.2

<sup>a</sup>Preliminary. Source: University of North Texas Board of Regents and Fitch.

### Financial Profile

#### Revenue Diversity

UNTS has generated solid operating margins since fiscal 2014, including 4.1% in fiscal 2016. Results reflect continued enrollment and net tuition growth, strong state support, and good expense control reflecting improvements in UNTS's financial management practices and capabilities. Early indications suggest the state budget for the 2018–2019 biennium (session begins January 2017) could be flat or slightly negative for higher education institutions in Texas. Fitch believes UNTS has the resources and financial flexibility to manage through reasonable variations in state funding.

#### Adequate Balance Sheet

UNTS's balance sheet resources have held steady in recent years despite investment volatility and significant capital expenditures. Available funds (cash and investments less non-expendable restricted net assets) were \$389.5 million as of Aug. 31, 2016, equal to 40.8% of fiscal 2016 operating expenses (\$954.9 million) and 45.7% of pro forma debt (Fitch estimates \$851.6 million, including all debt, leases and unamortized premium). These ratios are somewhat low but still adequate compared to similarly rated peers. In addition, strong state support for operations and capital mitigates concerns.

**Financial Ratios**

(\$000, Audited Fiscal Years Ended Aug. 31)

	2012	2013	2014	2015	2016
<b>Revenue Diversity (% Adjusted Total Unrestricted Operating</b>					
Student Fees (Tuition & Auxiliary Revenues)	36.9	37.6	36.6	38.1	40.9
Grants & Contracts	17.0	17.6	19.9	16.2	15.9
State Appropriations	30.4	29.0	29.9	29.0	29.7
Professional Fees, Net	9.5	9.1	6.2	6.0	4.2
Gifts & Contributions	1.5	1.3	1.3	1.7	1.2
Total Investment Return	0.6	1.1	1.1	0.8	0.5
<b>Expense Ratios (% Total Unrestricted Operating Expenses)</b>					
Instruction	30.0	28.6	28.9	27.9	32.2
Research	7.2	6.9	6.4	6.3	6.0
Healthcare Operations	0.0	0.0	0.0	0.0	0.0
Operation & Maintenance of Plant	5.5	5.4	5.2	5.7	5.8
Depreciation	6.1	6.2	6.1	6.9	6.9
Interest	2.7	2.3	2.0	1.8	2.2
<b>Financial Aid Ratios</b>					
Tuition Discounting (%)	20.3	22.4	23.2	24.2	21.5
Net Tuition & Fees	252,525	264,447	279,780	302,510	341,514
Change in Net Tuition & Fees (%)	7.2	4.7	5.8	8.1	12.9
<b>Operating Performance Ratios (%)</b>					
Operating Margin	1.3	(0.2)	3.7	4.9	4.1
<b>Balance Sheet Ratios</b>					
Available Funds / Total Operating Expense	36.7	35.1	44.3	42.5	40.8
Available Funds / Total Long Term Debt	59.1	56.4	76.8	68.6	66.8
Available Funds / Total Pro Forma Long Term Debt	N.A.	N.A.	N.A.	N.A.	45.7
Available Funds / MADS (x)	N.A.	4.4	5.7	5.7	5.7
<b>Leverage Ratios</b>					
Current Debt Service Coverage (x)	2.0	1.7	2.5	3.1	2.3
Current Debt Burden (%)	5.1	5.0	4.6	4.2	5.5
Pro Forma MADS Coverage (x)	1.2	1.0	1.6	1.8	1.9
Pro Forma MADS Burden (%)	8.2	8.1	7.4	7.2	6.8
Pro Forma AADS Coverage (x)	2.1	1.8	2.7	3.3	3.3
Pro Forma AADS Burden (%)	4.7	4.6	4.2	4.0	3.9
Variable Rate Bonds as % of Total Bonds	0.0	0.0	0.0	0.0	0.0

N.A. – Not available. Note: Fitch may have reclassified certain financial statement items for analytical purposes. Source: University of North Texas Board of Regents and Fitch.

**Debt Profile**

**Growing But Manageable Debt Load**

UNTS's debt load and capital plans remain manageable. Pro forma MADS (\$67.9 million) is equal to 6.8% of fiscal 2016 operating revenues, and fiscal 2016 operations generated solid 1.9x MADS coverage. The system's debt and carrying costs have grown in recent years due to sizable capital investments and may grow further as UNTS executes a five-year capital plan that could reach \$600 million, some of which will be debt funded.

Offsetting UNTS's growing debt burden are strong state support and conservative debt management. All of the series 2017 new money bonds are authorized as tuition revenue bonds (TRB), which are supported by the state through operating appropriations equal to debt service. Including the current issuance, 46.5% of pro forma bonded debt is TRBs supported by the state. Texas also makes sizable capital appropriations that may be used to support RFS debt. In



addition, UNTS maintains a conservative debt structure (all fixed-rate, rapid amortization) and a careful approach to funding new projects.

### **Series A CP Program (Self-Liquidity)**

The traditional series A CP program is backed by UNTS's self-liquidity. The 'F1+' rating reflects UNTS's overall sound financial profile and its ability to cover the maximum potential liquidity demands presented by the program by at least 1.25x from internal resources. UNTS has no bank liquidity facilities supporting the program but maintains procedures to ensure proper redemption of maturing CP. The program's authorization will be reduced to \$75 million from \$100 million in conjunction with the execution of the new ECP program.

### **Series B CP Program (Extendible)**

The new series B ECP program is not backed by UNTS's self-liquidity. Instead, repayment of the ECP notes depends on future market access for UNTS, which Fitch assesses by analyzing the system's overall creditworthiness. The short-term 'F1+' rating corresponds to the long-term 'AA' rating on the system's outstanding revenue bonds.

The ECP structure provides sufficient time for UNTS to access the capital markets and provide long-term takeout proceeds in the event of a failed remarketing. ECP notes will be issued with a maximum original maturity of 90 days. However, UNTS may extend the maturity of any note to 270 days from issuance; extension is automatic for notes not redeemed on the original maturity date for any reason. UNTS may redeem notes at any time during the extension period upon five days' notice. U.S. Bank National Association will be the issuing and paying agent, and Morgan Stanley & Co. LLC will be the dealer for the notes. In addition, UNTS has passed a resolution authorizing revenue refunding bonds to take out the maximum authorized ECP balance (\$75 million), which would speed market access in the event of a failed remarketing or maturity extension. The board intends to keep such a resolution in effect.

**Financial Summary**

(\$000, Audited Fiscal Years Ended Aug. 31)

	2012	2013	2014	2015	2016
<b>Unrestricted Operating Revenues</b>					
Gross Tuition & Fees	316,736	340,953	364,427	399,291	434,877
Less: Student Aid	64,211	76,506	84,646	96,781	93,363
<b>Net Tuition &amp; Fees</b>	<b>252,525</b>	<b>264,447</b>	<b>279,780</b>	<b>302,510</b>	<b>341,514</b>
Sales & Services of Auxiliary Enterprises	52,138	51,870	54,351	59,620	65,746
Grants & Contracts	140,120	148,093	181,834	153,654	158,372
State Appropriations	250,931	243,981	272,844	275,367	296,094
Professional Fees, Net	78,727	76,144	56,882	56,611	41,314
Gifts & Contributions	12,284	10,828	11,710	15,818	11,585
Dividend & Interest Income	4,616	8,909	9,790	7,744	5,346
Sales of Goods and Services	34,551	33,952	40,269	78,247	73,905
All Other Operating Revenues	559	2,952	5,532	554	2,173
<b>Total Operating Revenue</b>	<b>826,450</b>	<b>841,175</b>	<b>912,993</b>	<b>950,126</b>	<b>996,049</b>
<b>Unrestricted Operating Expenses</b>					
Instruction	244,642	241,290	253,667	251,693	307,062
Academic Support	151,819	154,479	169,169	180,992	90,221
Institutional Support	60,534	83,759	87,632	93,716	118,619
Student Services	64,020	62,254	66,767	67,673	66,491
Public Service	14,870	16,124	18,596	18,569	44,302
Research	58,907	57,911	56,410	56,830	56,796
Auxiliary Enterprises	43,620	43,671	42,967	45,215	55,023
Student Aid	61,680	66,882	66,963	58,799	74,234
Operation & Maintenance of Plant	44,705	45,328	45,858	51,371	55,655
Depreciation	49,769	52,057	53,867	62,508	65,900
Interest Expense	21,587	19,252	17,327	16,092	20,646
<b>Total Operating Expense</b>	<b>816,152</b>	<b>843,006</b>	<b>879,222</b>	<b>903,456</b>	<b>954,949</b>
<b>Change in Net Assets from Operations</b>	<b>10,298</b>	<b>(1,831)</b>	<b>33,771</b>	<b>46,670</b>	<b>41,100</b>
<b>Unrestricted Non-Operating Revenues/(Expenses)</b>					
Realized & Unrealized Gain (Loss) on Investments	1,718	2,978	20,857	(20,988)	10,735
Additions to Permanent Endowment	1,688	281	234	75	258
Other Non-Operating Revenues (Expenses)	(3,029)	(7,125)	(4,224)	(9,369)	(4,675)
<b>Total Non-Operating Revenue (Expense)</b>	<b>377</b>	<b>(3,866)</b>	<b>16,867</b>	<b>(30,281)</b>	<b>6,318</b>
<b>Change in Net Assets</b>	<b>10,675</b>	<b>(5,697)</b>	<b>50,638</b>	<b>16,389</b>	<b>47,417</b>
Change in Net Assets from Operations	10,298	(1,831)	33,771	46,670	41,100
Add Back: Depreciation, Amortization, & Other Non-Cash Items	49,769	52,057	53,867	62,508	65,900
Add Back: Interest Expense	21,587	19,252	17,327	16,092	20,646
<b>Adjusted Net Income Available for Debt Service</b>	<b>81,654</b>	<b>69,478</b>	<b>104,965</b>	<b>125,270</b>	<b>127,646</b>
Current Debt Service	41,929	42,213	42,249	40,236	54,920
Pro Forma Maximum Annual Debt Service (MADS)	67,926	67,926	67,926	67,926	67,926
MADS Fiscal Year	2018	2018	2018	2018	2018
Pro Forma Average Annual Debt Service (AADS)	38,421	38,421	38,421	38,421	38,421
<b>Balance Sheet</b>					
<b>Assets</b>					
Cash & Cash Equivalents	306,985	219,371	221,361	247,341	203,654
Investments	139,065	212,912	237,584	216,137	271,938
<b>Total Cash &amp; Investments</b>	<b>446,050</b>	<b>432,283</b>	<b>458,945</b>	<b>463,478</b>	<b>475,592</b>
Property, Plant & Equipment, Net	851,823	893,379	930,893	1,004,303	1,025,000
<b>Liabilities</b>					
Fixed Rate Bonds Payable	435,945	441,576	391,915	368,900	515,305
Notes Payable	0	0	15,000	155,760	0
Capitalized Leases	10	3	178	4,901	3,913
Non-Cancellable Operating Leases	0	0	0	8,215	11,419
Commercial Paper	41,632	56,522	76,067	1,807	20,150
All Other Obligations	29,119	27,396	24,198	20,492	32,585
<b>Total Long Term Debt</b>	<b>506,706</b>	<b>525,497</b>	<b>507,358</b>	<b>560,075</b>	<b>583,372</b>
Total Pro Forma Debt	N.A.	N.A.	N.A.	N.A.	851,634
<b>Net Assets</b>					
Unrestricted Net Assets	266,058	214,821	276,292	142,547	173,426
Invested in Capital	348,266	395,278	429,303	457,329	465,252
Restricted Net Assets - Non-Expendable (Fitch-Adjusted)	146,820	136,148	69,102	79,165	86,095
Restricted Net Assets - Expendable (Fitch-Adjusted)	3,011	12,211	21,566	16,475	18,161
<b>Total Net Assets</b>	<b>764,154</b>	<b>758,458</b>	<b>796,263</b>	<b>695,516</b>	<b>742,934</b>
<b>Balance Sheet Resources &amp; Liquidity</b>					
Available Funds (AF)	299,230	296,136	389,844	384,313	389,497

N.A. – Not applicable. Note: Fitch may have reclassified certain financial statement items for analytical purposes.  
Source: University of North Texas Board of Regents and Fitch.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.