



University of North Texas System

Board of Regents

Schedule of Events for Audit and Finance Committee Meeting

December 17, 2021

Real-Time Livestream Link: <https://livestream.com/accounts/7090653/events/10003692>

The University of North Texas System Board of Regents Audit and Finance Committee will meet by videoconference on December 17, 2021, from 10:30 a.m. until approximately 12:00 p.m. according to the following agenda. The meeting will be livestreamed in real time for public attendance at the link listed in this posting.

The Audit and Finance Committee is posted as an individual meeting of a Board committee; however, any members of the Board may attend committee meetings. Because some Board members who are not committee members may attend committee meetings and thereby create a quorum of the full Board, the meeting of the Audit and Finance Committee is also being posted as a meeting of the full Board.

Please contact the Office of the Board Secretary with any questions at 214.752.5533.

10:30 a.m. CONVENE AUDIT AND FINANCE COMMITTEE

Action Item:

UNTS Acceptance of the Externally Audited UNT System FY21 Annual Comprehensive Financial Report

12:00 p.m. ADJOURN AUDIT AND FINANCE COMMITTEE

University of North Texas System

Results of the August 31, 2021 financial statement audit, internal control matters and other required communications



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December 17, 2021

2021 Audit Results

	SYSTEM
Accomplished audit plan & timeline	✓
Good client assistance & responsiveness	✓
Unmodified “clean” opinion on financial statements	✓
Audit Journal Entries – None	✓
Passed Adjustments – One passed adjustment and one disclosure identified by BKD	✓
Significant deficiencies or material weaknesses in internal controls – None! Prior year significant deficiency was resolved	✓

AGENDA

- Summary of Our Audit Approach & Results
- Significant Estimates
- Reconciliation of Change in Net Position
- Required Communications
- Internal Control Over Financial Reporting
- Future Accounting Pronouncements

Summary of Audit Approach and Results

- Focus on areas of higher risk
- Objective – express an opinion on conformity of financial statements in accordance with GAAP
- Areas of emphasis:
 - Management override of controls
 - Revenue recognition
 - Valuation of investments
 - Classification of net position
 - Net pension and OPEB liabilities

Significant Estimates

- Allowance for doubtful accounts
- Valuation of investment securities
- Defined benefit pension assumptions
- Other postemployment benefit plan assumptions

Reconciliation of Change in Net Position

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	657,648,406		657,648,406	
Non-Current Assets & Deferred Outflows	2,280,790,495		2,280,790,495	
Current Liabilities	(566,185,500)	(3,479,000)	(569,664,500)	0.61%
Non-Current Liabilities & Deferred Inflows	(1,606,574,252)		(1,606,574,252)	
Current Ratio	1.162		1.154	-0.69%
Total Assets & Deferred Outflows	2,938,438,900		2,938,438,900	
Total Liabilities & Deferred Inflows	(2,172,759,752)	(3,479,000)	(2,176,238,752)	0.16%
Total Net Position	(765,679,148)	3,479,000	(762,200,148)	-0.45%
Operating Revenues	(709,009,484)		(709,009,484)	
Operating Expenses	1,203,665,610		1,203,665,610	
Nonoperating (Revenues) Exp	(560,829,567)	3,479,000	(557,350,567)	-0.62%
Change in Net Position	(66,173,441)	3,479,000	(62,694,441)	-5.26%

We also had an uncorrected disclosure related to the capital asset rollforward, where an asset added in 2020 (included in the beginning balance) was in the wrong classification and included in 2021 adjustments

Required Communications

Auditor's Responsibility Under 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

Required Communications (continued)

- Significant Accounting Policies – Note 1
- Alternative Accounting Treatments – No matters are reportable
- Auditor’s Judgments About the Quality of Accounting Policies – No matters are reportable
- Management Judgments & Accounting Estimates
- Financial Statement Disclosures
 - Investments and fair value
 - Defined benefit pension plan
 - Other postemployment benefit plans

Internal Control Over Financial Reporting

We considered the System's internal control over financial reporting as a basis for designing our audit procedures.

- Deficiency
- Significant deficiency
- Material weakness

Future Accounting Pronouncements

- GASB Statement No. 87, *Leases*
 - Single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset
 - Effective for the System's fiscal year 2022



Title: Acceptance of the Externally Audited UNT System FY21 Annual Comprehensive Financial Report

Background:

BKD will present results of the External Audit of the UNT System FY21 Annual Comprehensive Financial Report (ACFR). The UNT System Audit and Finance Committee Charter, adopted May 14, 2020 established a responsibility for the Audit and Finance Committee to provide governance and oversight and annually review the external auditor's audit scope and approach, and to review, approve, and recommend to the Board of Regents the Annual Comprehensive Financial Report and Independent Auditor's Report.

Financial Analysis/History:

The Board of Regents directed management to obtain an external audit of the FY21 Annual Comprehensive Financial Report.

Vice Chancellor for Finance

Legal Review:

This item has been reviewed by General Counsel.

Vice Chancellor/General Counsel

Schedule:

The External Audit Opinion of UNT System's FY21 Annual Comprehensive Financial Report will be included in the System's Annual Report upon approval.

Recommendation:

It is recommended that the Board of Regents accept the Externally Audited UNT System FY21 Annual Comprehensive Financial Report, and direct that the External Audit Opinion Letter be included in the System's Annual Report.

Recommended By:

Dan Tenney

Vice Chancellor for Finance

Chancellor

Attachments Filed Electronically:

- BKD report on the 2021 financial statement audit, internal control matters, and other required communications.



Board Order

Title: Acceptance of the Externally Audited UNT System FY21 Annual Comprehensive Financial Report

At an official meeting of the Board of Regents of the University of North Texas System properly posted and held on February 17-18, 2022, pursuant to a motion made by Regent _____ and seconded by Regent _____, the Board approved the motion presented below:

Whereas, the UNT System Audit and Finance Committee Charter, adopted May 14, 2020, established a responsibility for the Audit and Finance Committee to provide governance and oversight and annually review the external auditor's audit scope and approach, and to review, approve, and recommend to the Board of Regents the Annual Comprehensive Financial Report (ACFR) and Independent Auditor's Report, and

Whereas, the external audit firm, BKD, LLP, conducted an audit of the UNT System FY21 Annual Comprehensive Financial Report and provided an unmodified opinion, which is the best possible opinion, and

Whereas, the Board of Regents has reviewed the FY21 Annual Comprehensive Financial Report and the final audit opinion of the UNT System FY21 Annual Comprehensive Financial Report,

Now, Therefore, The Board of Regents authorizes and approves the following:

1. Acceptance of the externally audited UNT System FY21 Annual Comprehensive Financial Report
 2. Inclusion of the Audit Opinion letter in the final UNT System FY21 Annual Report
-

VOTE: _____ ayes _____ nays _____ abstentions

BOARD ACTION:

Attested By:

Approved By:

Rachel Barone, Secretary
Board of Regents

Laura Wright, Chair
Board of Regents

University of North Texas System

Report to the Board of Regents

December 17, 2021

Results of the 2021 financial statement audit, internal control matters
and other required communications.

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Appendices

Management Representation Letter & Schedule of Uncorrected Misstatements	Attachment
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December 17, 2021

Board of Regents
University of North Texas System
1112 Dallas Drive, Suite 4000
Denton, TX 76205

Dear Board of Regents:

We have completed our audit of the basic financial statements of the business-type activities and aggregate discretely presented component units of the University of North Texas System (collectively referred to as the “System”), as of and for the year ended August 31, 2021. This report includes communication required under auditing standards generally accepted in the United States of America as well as other matters.

Our audit plan represented an approach responsive to the assessment of risk of material misstatement in financial reporting for the System. Specifically, auditing standards require us to:

- Express an opinion on the August 31, 2021, financial statements and supplementary information of the System.
- Report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*.
- Issue communications required under auditing standards generally accepted in the United States of America to assist the Board in overseeing management’s financial reporting and disclosure process.

This report also presents an overview of areas of audit emphasis, as well as future accounting standards and industry developments for the higher education and health care environment.

This communication is intended solely for the information and use of management, the Board of Regents and others within the System and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Sara E. Grenier
Partner

Summary of Our Audit Approach & Results

Our Approach

BKD’s audit approach focuses on areas of higher risk—the unique characteristics of the System’s operating environment, the design effectiveness of your internal controls and your financial statement amounts and disclosures. The objective is to express an opinion on the conformity of your financial statements, in all material respects, with accounting principles generally accepted in the United States of America.

Areas of Audit Emphasis

The principal areas of audit emphasis and results were as follows:

Risk Area	Results
<ul style="list-style-type: none"> • <i>Management override of controls</i> – The risk that management may override existing and functioning accounting controls is an inherent risk to the System. 	<ul style="list-style-type: none"> ➤ No matters are reportable.
<ul style="list-style-type: none"> • <i>Revenue recognition</i> – The risk that revenue is improperly categorized or recorded in the improper period. This risk includes timing of recognition of tuition and fee revenue and the consideration of the allowance for doubtful accounts. 	<ul style="list-style-type: none"> ➤ We proposed an adjustment to revenue of \$3.5 million related to HEERF grants that was passed on by management. No other matters are reportable.
<ul style="list-style-type: none"> • <i>Revenue recognition (Health Science Center)</i> – The risk that revenue is improperly categorized or recorded in the improper period. This risk includes consideration of the allowance for doubtful accounts, contractual allowances and consideration of amounts due to/from third-party payers. 	<ul style="list-style-type: none"> ➤ No matters are reportable.
<ul style="list-style-type: none"> • <i>Valuation of investments</i> – The assumptions and methods used by treasury to value difficult-to-value investments, such as alternative investments. 	<ul style="list-style-type: none"> ➤ No matters are reportable.
<ul style="list-style-type: none"> • <i>Net position classification</i> – The risk that management has improperly classified ending net position. 	<ul style="list-style-type: none"> ➤ No matters are reportable.
<ul style="list-style-type: none"> • <i>Net pension and OPEB liabilities</i> – the risk that the census data provided to the actuary was not correct or the disclosures were not complete. 	<ul style="list-style-type: none"> ➤ No matters are reportable.

Significant Estimates

The preparation of the financial statements requires considerable judgment because some assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses are “estimated” based on management’s assumptions about future outcomes. Estimates may be dependent on assumptions related to economic or environmental conditions, regulatory reform or changes in industry trends.

Some estimates are inherently more difficult to evaluate and highly susceptible to variation because the assumptions relating to future outcomes have a higher degree of uncertainty. To the extent future outcomes are different than expected, management’s estimates are adjusted in future periods, sometimes having a significant effect on subsequent period financial statements. The following are considered to be significant estimates for the System:

- **Allowance for Doubtful Accounts**— Management’s estimate for the allowance is based on historical collection, payer mix, and anticipated trends.
- **Valuation of Investment Securities** – Management values investments at fair value as of the statement of net position date. Accounting standards define fair value as the price that would be received to sell a financial asset in an orderly transaction between market participants at the measurement date. Investments are valued using quoted market prices or third-party sources, including appraisers and valuation specialists, when available.
- **Defined Benefit Pension and Other Postemployment Benefit Plan Assumptions** – Assumptions are based on actuarial valuations based on age of participants, past history of the System and expected future return on investments.

Preliminary Opinion

Unmodified, or “Clean,” Opinion Ready to be Issued on Financial Statements

We are ready to issue an unmodified opinion as to whether basic financial statements of the business-type activities and aggregate discretely presented component units of the University of North Texas System, as of and for the year August 31, 2021, are fairly presented, in all material respects.

Reconciliation of Change in Net Assets

We proposed the following adjustments that were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
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Required Communications

Generally accepted auditing standards require the auditor to provide to those charged with governance additional information regarding the scope and results of the audit that may assist you in overseeing management's financial reporting and disclosure process. Below, we summarize these required communications.

Auditor's Responsibility Under 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

An audit performed 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 is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this communication or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Area	Comments
<p>Significant Accounting Policies</p> <p>Significant accounting policies are described in <i>Note 1</i> of the financial statements.</p>	<ul style="list-style-type: none"> No matters are reportable.
<p>Alternative Accounting Treatments</p> <p>We had discussions with management regarding alternative accounting treatments within accounting principles generally accepted in the United States of America for policies and practices for material items, including recognition, measurement, and disclosure considerations related to the accounting for specific transactions as well as general accounting policies listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> No matters are reportable.
<p>Management Judgments & Accounting Estimates</p> <p>Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. Areas involving significant areas of such estimates for which we are prepared to discuss management’s estimation process and our procedures for testing the reasonableness of those estimates are listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> Refer to Significant Estimates section of this report

Area	Comments
<p>Financial Statement Disclosures</p> <p>The areas listed in the adjacent comments section involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures.</p>	<ul style="list-style-type: none"> • Investments and determination of fair values • Defined benefit pension plan • Post-employment benefits other than pensions
<p>Audit Adjustments</p> <p>During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments that, in its judgment, are required to prevent the financial statements from being materially misstated. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.</p>	<p>Areas in which adjustments were proposed include:</p> <p><u>Proposed Audit Adjustments Recorded</u></p> <ul style="list-style-type: none"> • No matters are reportable. <p><u>Proposed Audit Adjustments Not Recorded</u></p> <ul style="list-style-type: none"> • See pages 2 and 4 <p><u>Proposed Adjustment within Notes to Financial Statement Not Recorded</u></p> <ul style="list-style-type: none"> • Management elected to not restate beginning capital asset balances due to recording prior year purchase of depreciable property as land.
<p>Auditor’s Judgments About the Quality of the System’s Accounting Policies</p> <p>During the course of the audit, we made observations regarding the System’s application of accounting principles listed in the adjacent comments section.</p>	<ul style="list-style-type: none"> • No matters are reportable.

Other Material Communications

Other material communications between management and us related to the audit include:

- Management representation letter (*attached*)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies.



2021 Audit Results

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

Fort Worth, Texas
December 17, 2021

Future Accounting Pronouncements

GASB Statement No. 87, *Leases*

In June 2017, GASB published Statement No. 87, *Leases*. This Statement was the result of a multi-year project to re-examine the accounting and financial reporting for leases. The new Statement establishes a single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. Specifically, GASB 87 includes the following accounting guidance for lessees and lessors:

Lessee Accounting: A lessee will recognize a liability measured at the present value of payments expected to be made for the lease term, and an intangible asset measured at the amount of the initial lease liability, plus any payments made to the lessor at or before the beginning of the lease and certain indirect costs. A lessee will reduce the liability as payments are made and recognize an outflow of resources for interest on the liability. The asset will be amortized by the lessee over the shorter of the lease term or the useful life of the asset.

Lessor Accounting: A lessor will recognize a receivable measured at the present value of the lease payments expected for the lease term and a deferred inflow of resources measured at the value of the lease receivable plus any payments received at or prior to the beginning of the lease that relate to future periods. The lessor will reduce the receivable as payments are received and recognize an inflow of resources from the deferred inflow of resources in a systematic and rational manner over the term of the lease. A lessor will not derecognize the asset underlying the lease. There is an exception for regulated leases for which certain criteria are met, such as airport-aeronautical agreements.

The lease term used to measure the asset or liability is based on the period in which the lessee has the noncancelable right to use the underlying asset. The lease term also contemplates any lease extension or termination option that is reasonably certain of being exercised.

GASB 87 does not apply to leases for intangible assets, biological assets (i.e. timber and living plants and animals), service concession agreements or leases in which the underlying asset is financed with conduit debt that is reported by the lessor. Additionally, leases with a maximum possible term of 12 months or less are excluded.

GASB 87 is effective for fiscal years beginning after June 15, 2021. Early application is encouraged. It is anticipated that leases would be recognized using the facts and circumstances in effect at the beginning of the period of implementation.