

University of North Texas System

Results of the August 31, 2020 financial statement audit, internal control matters and other required communications



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December 17, 2020

2020 Audit Results

SYSTEM

Accomplished audit plan & timeline

Good client assistance & responsiveness

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Audit Journal Entries . None

Passed Adjustments . 3 entries and one disclosure identified by BKD. 2 identified by management/prior auditors

Significant deficiencies or material weaknesses in internal controls . One noted related to classification of net position

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



From our research and analysis, we've identified the top 100 most valuable brands in the world.



Significant Estimates

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

Required Communications

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Required Communications (continued)

Significant Accounting Policies
Note 1

Alternative Accounting
Treatments . No matters are
reportable

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

reporting as a basis for designing our audit procedures.

Deficiency

Significant deficiency

Material weakness

Significant Deficiency

Adjustments were required for net position to be reported in accordance with generally accepted accounting principles between net investment in capital assets, restricted net position and unrestricted net position. We recommend management review procedures to ensure controls are in place related to the proper classification of net position.

Deficiencies

During the 2020 audit, management and BKD identified misstatements within capital assets

- Ending CIP and payables were overstated due to manual accruals

- 2020 additions were overstated for construction in 2019

- Property purchased in 2019 was misclassified

Other items communicated verbally

Future Accounting Pronouncements

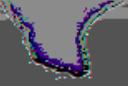
” GASB Statement No. 87, *Leases*

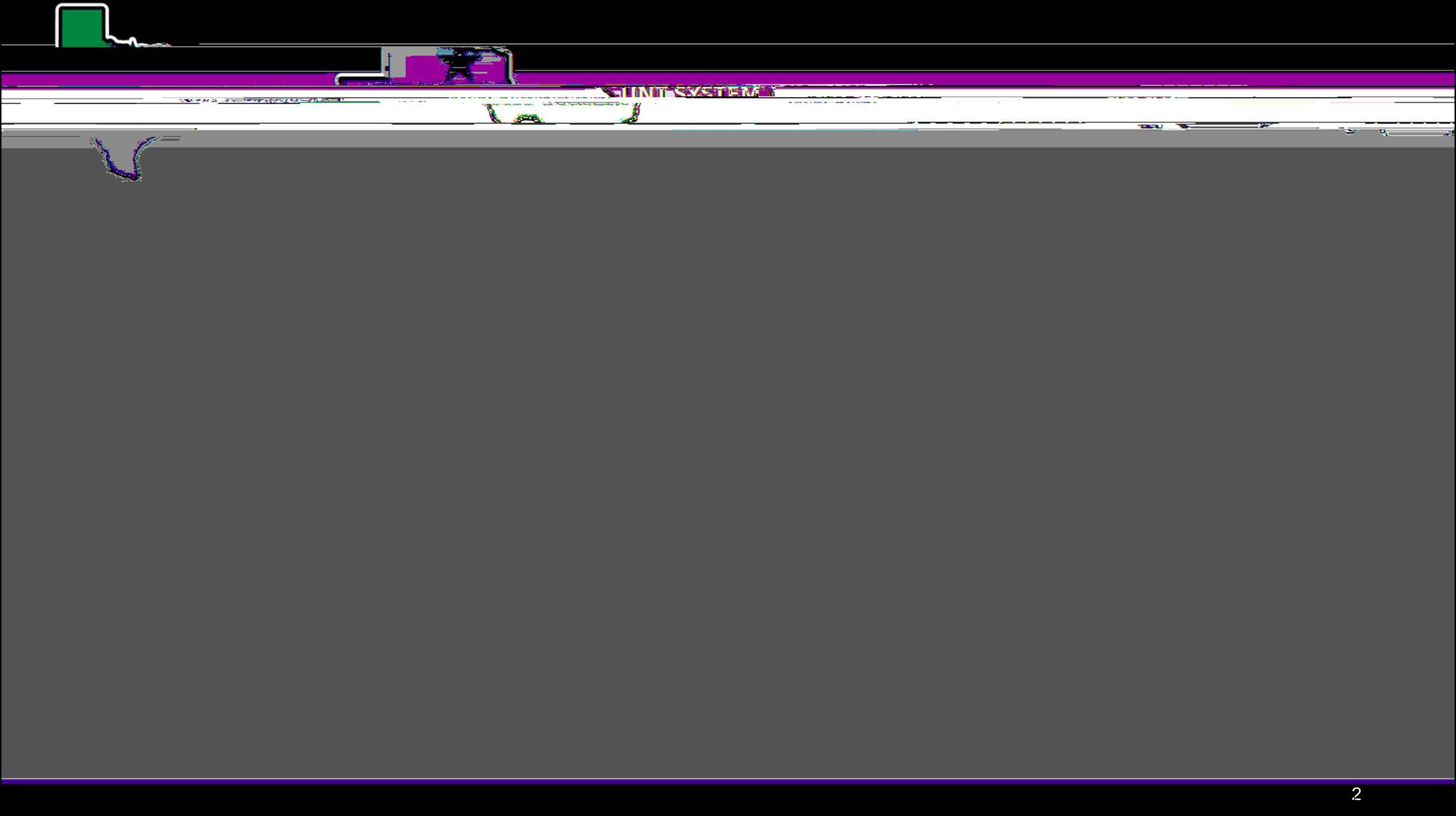
” Single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset

” *Other content obscured by a large watermark*

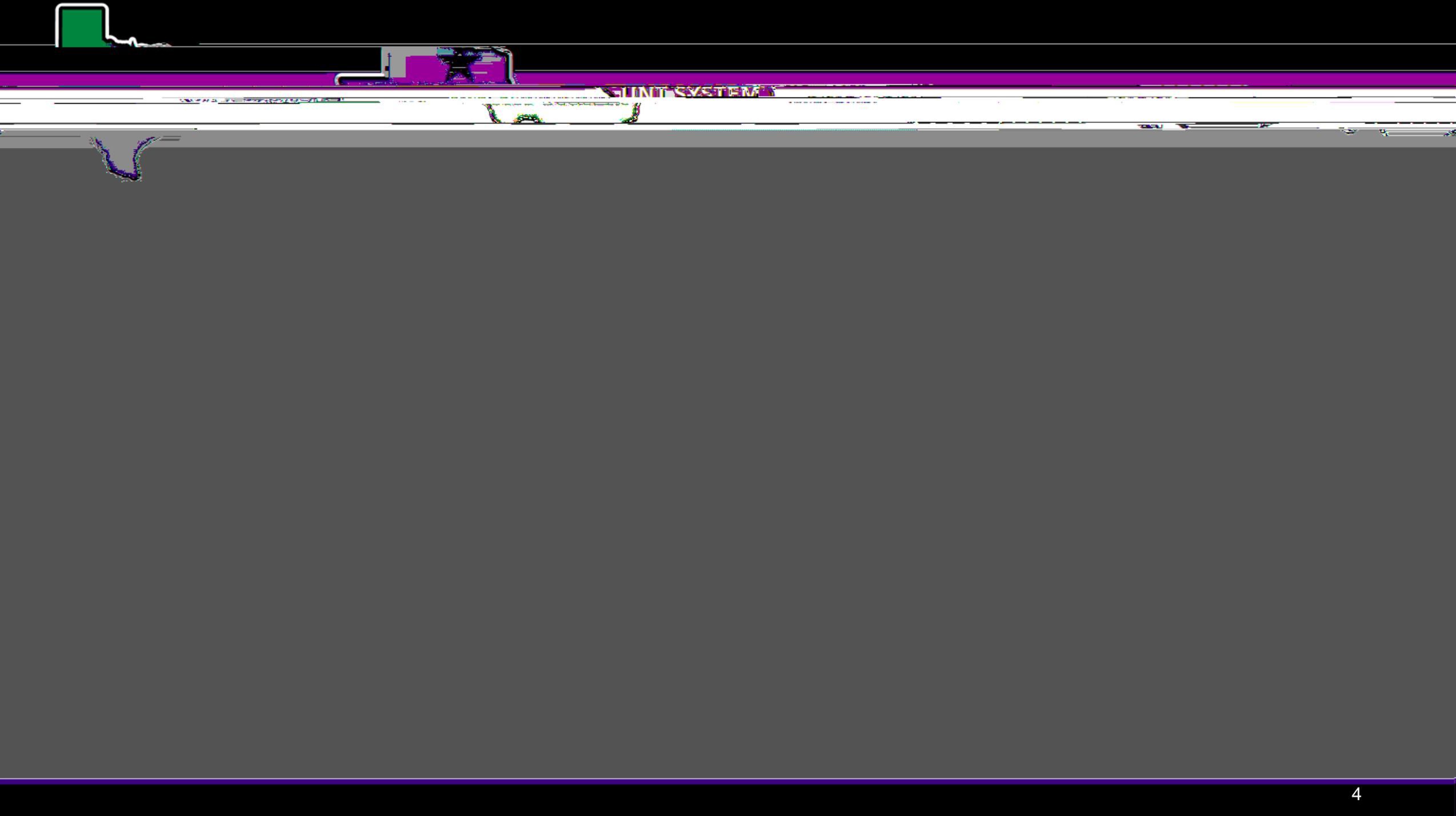


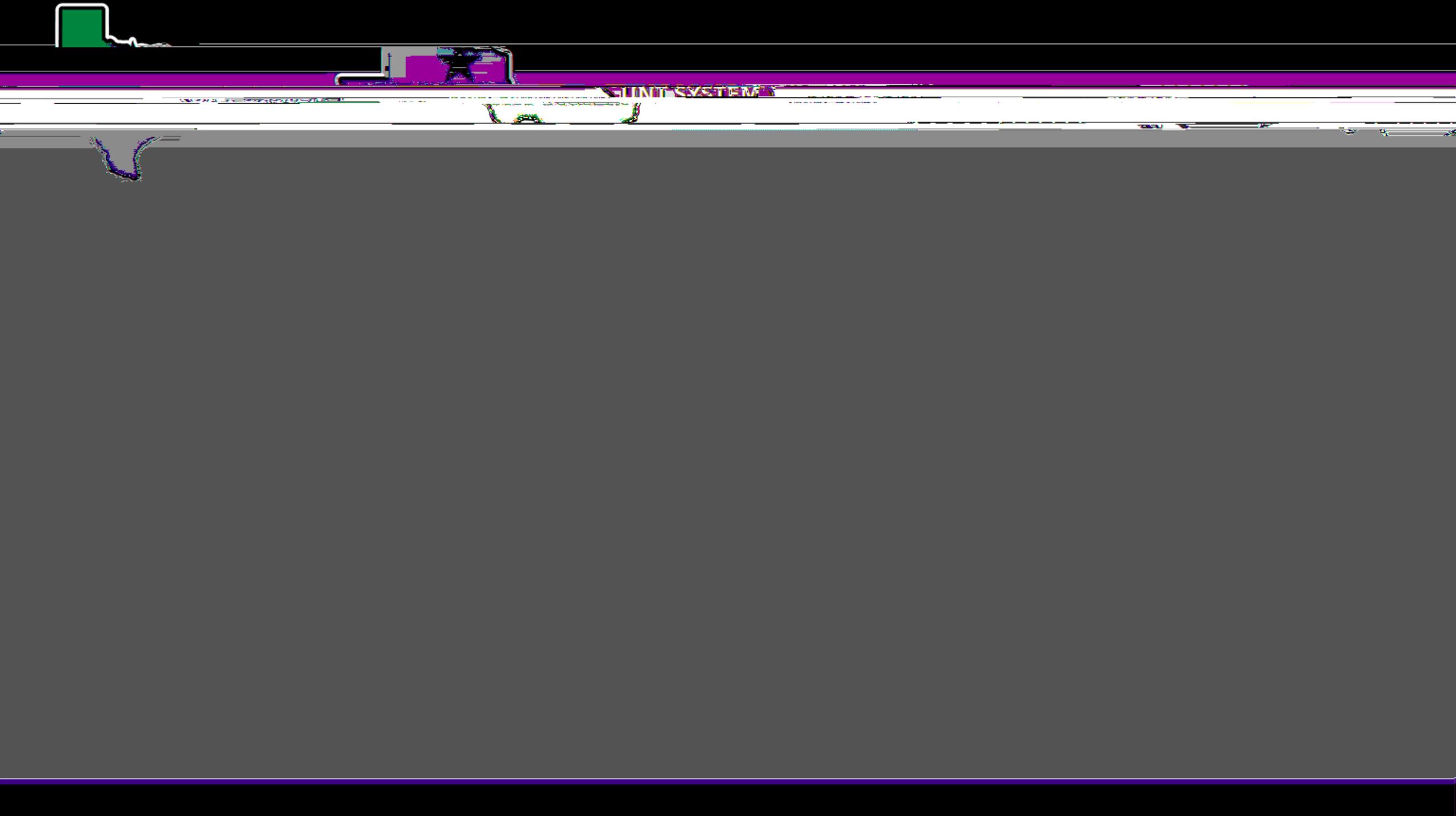
STUNT SYSTEM

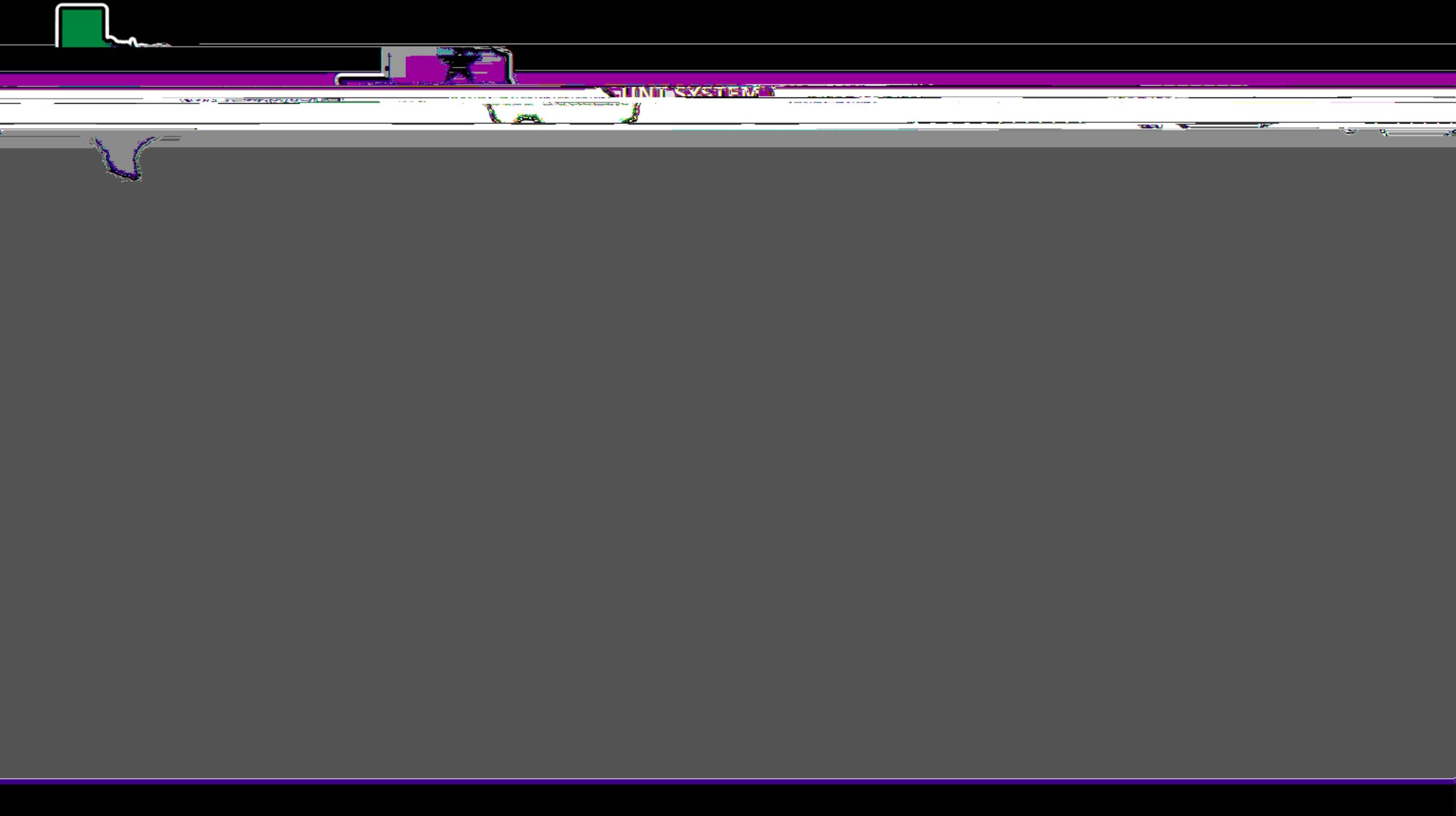




SLINT SYSTEM

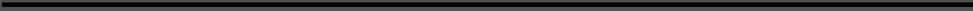
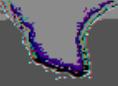


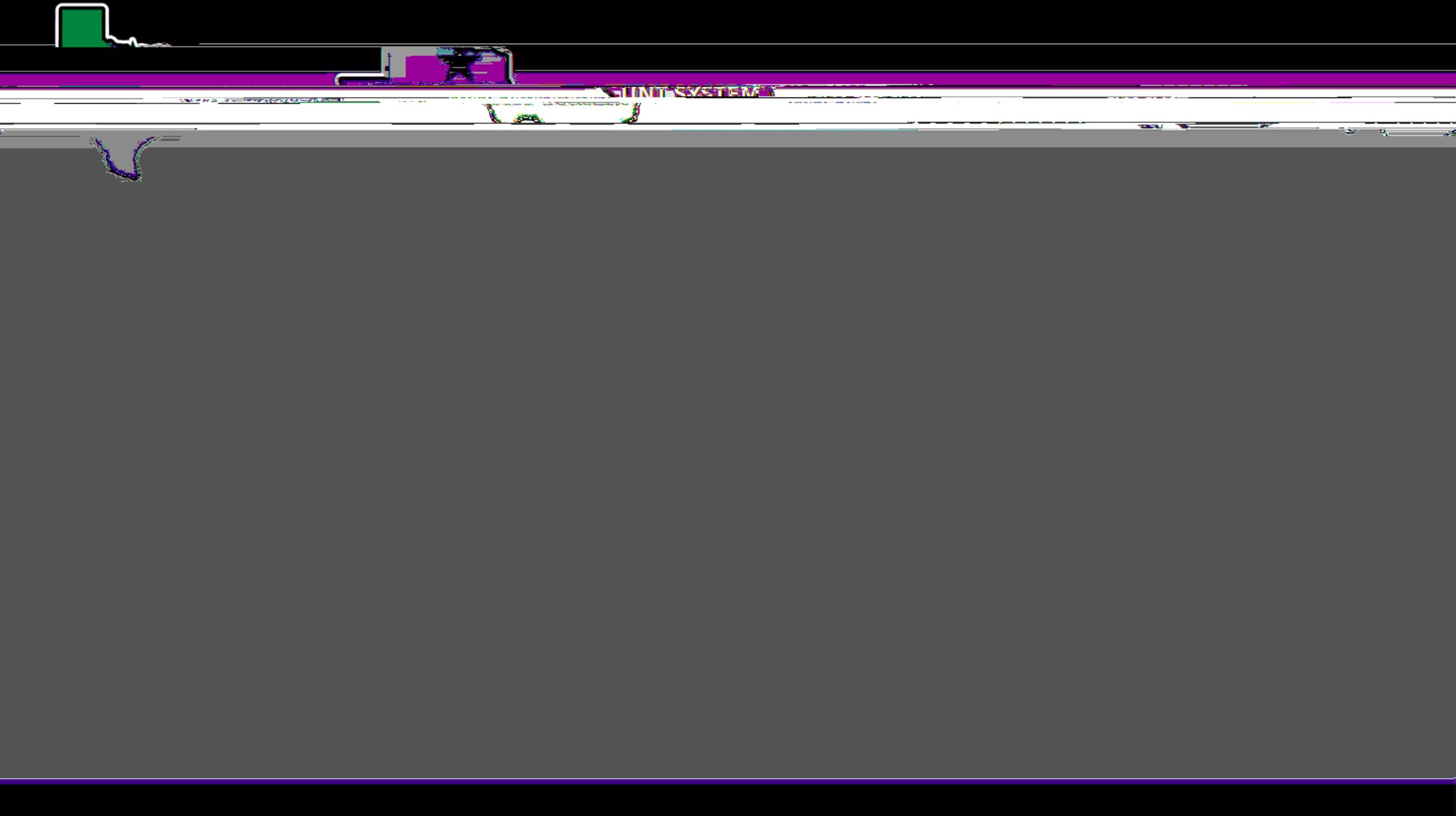






STUNT SYSTEM







SLIDE SYSTEM



Committee: Audit & Finance

Date Filed: December 9, 2020

Title: Acceptance of the Externally Audited UNT System FY20 Comprehensive Annual Financial Report

Background:

BKD will present results of the External Audit of the UNT System FY20 Comprehensive Annual Financial Report. 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 Comprehensive Annual Financial Report (CAFR) and Independent Auditor's Report.

Financial Analysis/History:

The Board of Regents directed management to obtain an external audit of the FY2020 Comprehensive Annual 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 FY20 Comprehensive Annual 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 FY20 Comprehensive Annual Financial Report, and direct that the External Audit Opinion Letter be included in the System's Annual Report.

Recommended By:

Dan Tenney

Vice Chancellor

Lesa B. Roe

Digitally signed by Lesa B. Roe
Date: 2020.12.11 14:23:28
-06'00'

Chancellor

Attachments Filed Electronically:

BKD report on the 2020 financial statement audit, internal control matters and other required communications.

Findings Required to be Reported by Government Auditing Standards

UNTS Response to FY20 Externally Audited CAFR

Title: Acceptance of the Externally Audited UNT System FY20 Comprehensive Annual Financial Report

At an official meeting of the Board of Regents of the University of North Texas System properly posted and held on February 4-5, 2021, 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 Comprehensive Annual Financial Report (CAFR) and Independent Auditor's Report, and

Whereas, the external audit firm, BKD, LLP, conducted an audit of UNT System

University of North Texas System

Report to the Board of Regents

December 17, 2020

Results of the 2020 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, 2020

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, 2020. 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, 2020, 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 Governors and others within the System and is not



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
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Management override of controls

Significant Estimates

The preparation of the financial statements requires considerable judgment because some assets, liabilities, 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:

– Management’s estimate for the 2020 collection is based on historical collection, payer mix and anticipated trends.

Valuation of Investment Securities – Management values investments at fair value as of the end of the reporting period. The fair value of a financial asset is 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.

Opinion

Unmodified, or “Clean,” Opinion Issued on Financial Statements

We have issued 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, 2020, 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. A schedule of these uncorrected misstatements is attached.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	587,765,428		587,765,428	
Non-Current Assets & Deferred Outflows	2,248,317,200	(6,616,303)	2,241,700,897	-0.29%
Current Liabilities	(513,551,575)	5,955,639	(507,595,936)	-1.16%
Non-Current Liabilities & Deferred Inflows	(1,623,025,345)		(1,623,025,345)	
Current Ratio	1.145		1.158	1.14%
Total Assets & Deferred Outflows	2,836,082,628	(6,616,303)	2,829,466,325	-0.23%
Total Liabilities & Deferred Inflows	(2,136,576,920)	5,955,639	(2,130,621,281)	-0.28%
Total Net Position	(699,505,708)		(699,505,708)	
Operating Revenues	(668,258,616)		(668,258,616)	
Operating Expenses	1,161,488,859	1,457,968	1,162,946,827	0.13%
Nonoperating (Revenues) Exp	(473,151,238)		(473,151,238)	
Change in Net Position	20,079,004	1,145,968	21,536,972	7.26%

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.

Area	Comments
<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>	<p>No matters are reportable</p>
<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>	<p>Refer to Significant Estimates section of this report</p>
<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>	<p>Investments and determination of fair values</p> <p>Defined benefit pension plan</p> <p>Post-employment benefits other than pensions</p>

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement

Area	Comments
<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>	<p>No matters are reportable</p>

Other Material Communications

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

Management representation letter (*attached*)

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the System as of and for the year ended August 31, 2020, 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, we considered the System’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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. Accordingly, we do not express an opinion on the effectiveness of System’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

Deficiency – exis0 0 7(oc-TJ/Te8d TD01n)0 TDstateg our opinion7(h)-2.0009 nwaitime04 ale5.4639 0 TDgnificant5163 n

Significant Deficiency – A deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies or significant deficiencies.

Significant Deficiency

Adjustments were required for net position to be reported in accordance with generally accepted accounting principles between net investment in capital assets, restricted net position and unrestricted net position. We recommend management review procedures to ensure controls are in place related to the proper classification of net position.

Deficiencies

During the 2020 audit, management and BKD identified misstatements within capital assets as noted below:

Ending construction in progress and accounts payable were overstated due to the manual accrual of retainage and invoices for work performed at year end

2020 additions were overstated related to construction that was completed in 2019

Classification of some property in 2019 was misclassified between non-depreciable and depreciable, which also resulted in depreciation expense being understated in 2019 and 2020

Management should review these manual processes and see what additional controls could be put in place to ensure amounts are correct at the end of the year.

We also observed matters that we consider to be deficiencies that we communicated to management or orally.

This communication is intended solely for the information and use of management, the Board of Regents, the Finance and Audit Committee, 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, 2020

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.

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.

- (e) All significant contracts and grants.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
 6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by entity procedures with respect to:
 - (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets, liabilities or net position.
 7. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
 8. We have no knowledge of any known or suspected:
 - (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
 9. We have no knowledge of any allegations of fraud or suspected fraud affecting the System received in communications from employees, customers, regulators, suppliers or others.
 10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; management, and members of their immediate families, component units; and any other party with which the entity may deal if it can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with us.
 11. Except as reflected in the financial statements, there are no:

19. With regard to deposit and investment activities:

- (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
- (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
- (c)

27. We have provided our views on any findings, conclusions and recommendations, as well as our planned corrective actions with respect thereto, to you for inclusion in the findings and recommendations referred to in your report on internal control over financial reporting and on

UNIVERSITY OF NORTH TEXAS SYSTEM

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflect the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	587,765,428		587,765,428	
Non-Current Assets & Deferred Outflows	2,248,317,200	(6,616,303)	2,241,700,897	-0.29%
Current Liabilities	(513,551,575)	5,955,639	(507,595,936)	-1.16%
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Current Ratio	1.145		1.158	1.14%
Total Assets & Deferred Outflows	2,836,082,628	(6,616,303)	2,829,466,325	-0.23%
Total Liabilities & Deferred Inflows	(2,136,576,920)	5,955,639	(2,130,621,281)	-0.28%
Total Net Position	(699,505,708)	660,664	(698,845,044)	-0.09%
Operating Revenues	(668,258,616)		(668,258,616)	
Operating Expenses	1,161,488,859	1,457,968	1,162,946,827	0.13%
Nonoperating (Revenues) Exp	(473,151,238)		(473,151,238)	
Change in Net Position	20,079,004	1,457,968	21,536,972	7.26%

Misstatements within Notes to the Financial Statements
1 Alternative investment reported as Level

SCHEDULE OF UNCORRECTED MISSTATEMENTS (NOTES TO THE FINANCIAL STATEMENTS)

2 Alternative investment reported as Level 1

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

Board of Regents
University of North Texas System
Denton, Texas

We have audited, 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, the financial statements of the business-type activities and aggregate discretely presented component units of University of North Texas System (System) as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 17, 2020, which contained a reference to the reports of other auditors and an emphasis of matter paragraph regarding comparative footnote information. The financial statements of University of North Texas Foundation, Inc. and University of North Texas Health Science Center Foundation, Inc. (Foundations), aggregate discretely presented component units included in the financial statements, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundations.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of System's internal control.

A *deficiency in internal control* 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 and correct, 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 entity's financial statements will not be prevented, or detected and corrected, 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 charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may

exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from

University of North Texas System
Schedule of Findings and Responses
Year Ended August 31, 2020

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2020-001	<p>Criteria or specific requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting and for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).</p> <p>Condition – The System’s calculation of net investment in capital assets included debt associated with unspent bond proceeds and amounts that were board designated were improperly included in restricted net position.</p> <p>Effect – Unrestricted and restricted expendable net position were overstated, and net investment in capital assets were understated.</p> <p>Cause – Funds were originally set up as restricted in the general ledger and were not moved when it was determined that there was no donor or legal restriction. Additionally, guidance was followed to not include unspent bond proceeds in the net investment in capital asset calculation, but the related bond proceeds were incorrectly still included in the calculation.</p> <p>Recommendation – Management should review procedures to ensure controls are in place related to the proper classification of net position.</p> <p>Views of responsible officials and planned corrective actions – Net Investment in Capital Assets (NICA) reported for FY2020 has been adjusted to include unspent bond proceeds. The previous presentation was based on guidance from the National Association of College and University Business Officers (NACUBO) Financial, Accounting and Reporting Manual (FARM). We have updated our procedures and templates to include new guidance for unspent bond proceeds in future calculations. Updated procedures have been reviewed with staff responsible for this area. Going forward, NICA will be calculated quarterly using the new approach as a part of quarterly financial reporting.</p> <p>Proceeds from the sale of historical tax credits and one quasi-endowment originally reported as Restricted Net Position have been reclassified and reported for FY2020 as Unrestricted Net Position. We will examine restricted quasi-endowments held at all institutions and validate related restrictions as external or internal. Any found to be governed by internal restrictions will be reclassified to Unrestricted Net Position in FY2021. Going forward, restrictions will be reviewed and documented for new quasi-endowments to ensure they are reported correctly. Staff will receive training on restricted v unrestricted net position classification as well.</p>