UNIVERSITY OF NORTH TEXAS SYSTEM

CONSOLIDATED ANNUAL FINANCIAL REPORT

AND INDEPENDENT AUDITORS' REPORT

For the fiscal year ended August 31, 2014

DALLAS, TEXAS

Lee Jackson, Chancellor

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UNIVERSITY OF NORTH TEXAS SYSTEM

ORGANIZATIONAL DATA

August 31, 2014

Brint Ryan…….(Term expires 5-22-15)..... Dallas
Michael R. Bradford…….(Term expires 5-22-15) .....

015

July 31, 2

University of North Texas System

the University of

and Analysis for State and Local Governments.

employed over 10,5

rees. With a total annual economic impact of over $5

and to serve

continues to innovate, to exce

exas, renowned for its arts and mu

training, business ad

tion, and liberal arts, is expanding its

academics to educate the next generation of healthcare professionals and provide answers to problems

that cross the lines of tradition

affordability, quality and

ing its recently-completed session, the Texas Legi

institutions by increasing funding by [illegible] $78 million dollars over the next two years for instruction

and operations, infrastructure and capital projects, research, and graduate medical education. Unique

strengths of UNT System component institutions

also recognized and funded, including: the UNT

Health Science Center's Institute for Patient

inventable 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 educati

Dallas, Texas 75201

214.752.8627 FAX

940-369-8652 TTY

We are committ

UNT System's [illegible] external [illegible] consolidated annual financi [illegible]

e work we've done to ensure that our stewardship, accountability, and financial viability [illegible] testament to t

ong and impo [illegible] are just as s

[illegible]

[illegible]

[illegible]

Dr. Michael Williams, President UNTHSC

Dr. Ron Brown, President UNT Dallas

Bob Brown, VP Finance and Administration, UNT

John Harman, Senior VP and CFO, UNTHSC

Dan Edelman, CFO, [illegible]

[illegible] General Counsel, UNT System

Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Grant Thornton LLP
1717 Main Street, Suite 1800
Dallas, TX 75201-4605

T 214.561.2300
F 214.561.2370
GrantThornton.com
twitter.com/GrantThornton

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, 2014, and the related notes to the financial statements, which collectively comprise the System's 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 the 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 audits 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 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 entity'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.

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2014

Introduction

- Net investment in capital assets increased by $34.0 million or 8.6% reflecting significant capital project work to benefit the faculty, staff and students of the System. The "Capital Asset and Debt Administration" section of the MD&A provides more details pertaining to this increase

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

Deferred Outflows

Deferred outflows, which consist of unamortized losses on refunding of debt, increased $4.8 million, or 100%, in 2014 due to a restatement in the current year to properly record these amounts in accordance with GASB Statement No. 65, Items Previously Reported as Assets and Liabilities.

TOTAL LIABILITIES

Current Liabilities

The System's current liabilities increased $92 million, or 296%, in 2014 primarily due to increases in accounts payable related to restatements and the various ongoing construction projects throughout the System. Additionally, commercial paper reported as non-current in 2013 was reclassified to current liabilities, resulting in an increase of $49 million to the current liability balance (see Note 4, Short and Long Term Debt and Liabilities in the notes to the Consolidated Financial Statements).

Noncurrent Liabilities

Noncurrent lmyc1Pte tr28(c)-7.3(o)-7(n)4 F1esuri-14.9ril7(ilit)-117so e 29. $1457]TJ 0 2.5-24(S 2-o)-,

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 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 fiscal years ended August 31, 2014 and 2013:

OPERATING REVENUES

Operating revenues totaled $560.9 million for the fiscal year ended August 31, 2014, an increase of $30.9 million or 5.8% over 2013. The System's primary sources of operating revenues come from tuition and fees and federal, state, and local grants. Tuition and fees, representing 49.9% of operating revenues, are reflected gross in the financial statements with associated discounts and allowances shown separately. Net tuition and fees increased $15.3 million, or 5.8%, as a result of increased enrollment and increased tuition rates throughout the System. Federal, state, and local grant revenues, representing 22.1% 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. Federal, state, and local grants include

UNIVERSITY OF NORTH TEXAS SYSTEM
Management's Discussion and Analysis (Unaudited)
For the Year Ended August 31, 2014

The pie chart below shows operating revenue by major source for the year ended August 31, 2014

OPERATING EXPENSES

Operating expenses totaled $661.9

UNIVERSITY OF NORTH TEXAS SYSTEM

OTHER REVENUES, EXPENSES, AND TRANSFERS

Other revenues, expenses, and transfers is comprised of capital and endowment related additions and transfers. There were no significant changes to this balance from the prior year. HEAF comprise the majority of the balance. Annual HEAF-related revenue totaling $36.6 million is reported as Capital Contribution rather than as operating revenue or nonoperating revenue.

Capital Asset and Debt Administration

Investments in capital asset additions were $8.9 million in 2014. Major capital projects activity in 2014 include:

- Land Acquisitions (UNT) – 1811 Maple Street and 915 North Texas Boulevard
- Land Improvements (UNT) – 2350 North I-35E
- Building Improvements (System Administration) – 1900 Elm Majestic Lofts, 1901 Main (Interim College of Law)
- Building Improvements (UNT) – Several (Academic Building 2, Sycamore Hall, Eagle Stadium)

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Net Position (Continued)

		August 31, 2014
LIABILITIES		
Current Liabiliti		
Accounts Payable	$	39,896,190.88
Payroll Payable		43,347,386.72
Other Payables		6,717,585.81
Accrued Interest		5,772,835.15
Due To Other Agencies		229,844.57
Unearned Revenues		193,887,202.14
Notes and Loans Payable - Commercial Paper		76,067,000.00
Revenue Bonds Payable - Current Portion		26,375,415.73
Claims and Judgments		5,845,946.84
Employees' Compensable Leave - Current Portion		2,619,848.00
Capital Lease Obligations		118,483.23
Funds Held for Others		19,441,472.16
Other Current Liabilities		376,575.75
Total Current Liabilities		420,695,786.98
Non-Current Liabilities		
Notes and Loans Payable		15,000,000.00
Revenue Bonds Payable		389,737,317.09
Employees' Compensable Leave		20,102,475.12
Capital Lease Obligations		59,984.70
Other Non-current Liabilities		2,465,907.01
Total Non-Current Liabilities		427,365,683.92
Total Liabilities		848,061,470.90
NET POSITION		
Net Investment in Capital Assets		429,302,977.48

UNIVERSITY OF NORTH TEXAS SYSTEM

	Unrestricted	Temporarily Restricted	Permanently Restricted	Year Ended August 31, 2014 Total
REVENUES, GAINS AND OTHER SUPPORT:				
Contributions	$ -	$ 2,677,788	$ 5,692,383	$ 8,370,171
Investment income	(49,773)	2,250,936	-	2,201,163
Management fee income	1,496,108	-	-	1,496,108
Other income	153	241,944	-	242,097
Realized and unrealized g4.4(o)12.u(o)(e)1,1635t64 Tm [(Re)0.6(a)(l)5. 6 67. 6 67. 6 67. 6 67.8(R9 Td	24(J7.)r01 Tw -51.053 -1.329 Td [((			

UNIVERSITY OF NORTH TEXAS SYSTEM
Statement of Cash Flows
For the Year Ended August 31, 2014

	August 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES	
Proceeds from Customers	96,564,011.21
Proceeds from Tuition & Fees	280,829,217.06

THE UNIVERSITY OF NORTH TEXAS SYSTEM
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2014

Note 1: Summary of Significant Accounting Policies

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 and three academic institutions of the System. Amounts due between and among institutions, amounts held for institutions by the University of North Texas System Administration and other duplications in reporting are eliminated in consolidating the financial statements.

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

Assets Held By Affiliated Organizations

The authoritative guidance of the Governmental Accounting Standards Board (GASB) provides criteria for

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, 2014 related to pass-through grants were $25,765,952.08 and $217,375.67 respectively.

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

Basis of Accounting

The financial statements of the System have been prepared using the economic resources measurement focus and the

Receivables

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

Accounts receivable mainly consists of tuition and fee charges to students. Accounts receivable are shown net of an allowance for doubtful accounts of $22.1 million or 7.4% of outstanding student receivables at August 31, 2014. The System reserves for student receivables based on collections history over the previous five years.

Gift receivables include amounts pledged to the System by donors and are presented net of an allowance for doubtful accounts of $1.3 million. Multiyear gift pledges are reported at the discounted present value. At the beginning of each

Claims and Judgements

Claims and judgements 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 Notes 9, **Contingencies and Commitments**, and 10, **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 gene obligcelau taed lan ecomnetlie(e)aiu(1)5.3(1)15.4(e)32.7(ant)92.4(e)8.1(

REVENUES AND EXPENSES

Operating Revenues and Expenses

Operating revenues include activities such as net student tuition and fees; net sales and services of hospitals; net professional fees

THE UNIVERSITY OF NORTH TEXAS SYSTN11.9(I)4.4(tR)]TJ 002 Tw6 0 22.761Tw6 d SNT

Note 3: Cash, Cash Equivalents, and Investments

Deposits of Cash in Bank

As of August 31, 2014, the carrying amount of cash and cash equivalents was $38,559,007.18 and the bank reported a balance of $47,103,102.90. The carrying amount consists of all cash in local banks and

As of August 31, 2014, the fair values of investments are presented below. Included in this amount is $162,662,016 classified as cash equivalents.

(1) Externally managed investments represent the System's share of the Foundation managed long-term investment pool. See the "Internal Investment Pool" section of this note for more information.

Fair values of investments that are not managed c -0.00325 736[.9(.-5.1(lu9(n)e)-7.7.2(d c -0.s)5.1(U)-7.7.2(2go6ng 0 Td

Custodial Credit Risk

The 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 regulations do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. As of August 31, 2014, the System did

As of August 31, 2014, the following redemption terms that pertain to the long-term alternative investments susceptible to liquidation restrictions are outlined in the table below.

Note 4: Short- and Long-Term Debt and Liabilities

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. The System considers all commercial paper to be short-term debt.

Long-Term Liabilities

Changes in LongTerm Liabilities

During the year ended August 31, 2014, the following changes occurred in long-term liabilities:

(1) See Note 8, **Adjustments to Net Position**, for more information on restatement of fiscal year 2013 balances.

Revenue Bonds Payable

At August 31, 2014, the System had principal outstanding related to bonds of $391,915,000.00. Revenue Financing System (RFS) debt is secured by and payable from Pledged Revenues as defined in the Master Resolution establishing the Revenue Financing System. Pledged Revenues consist of all lawfully available revenues, funds and balances, with

THE UNIVERSITY OF NORTH TEXAS SYSTEM
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2014

General information related to bonds outstanding as of August 31, 2014, is summarized in the following table.

Bond	Purpose	Issue Date	Interest Rate	Amount Issued	Total Principal Outstanding as of 8/31/14
RFS Refunding					

As of August 31, 2014, all refunded bonds have been paid off by funds held in escrow.

LIBOR rate on the reset date plus .48%. The variable interest rate at August 31, 2014 was .58%. Interest is reset monthly.

Capital Lease Obligations

See Note 5, **Leases**, for more information on lease obligations.

Claims and Judgments

As of August 31, 2014, there are two outstanding material claims 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 9, **Contingencies and Commitments**, for more information on the claims and judgments against the System.

Employees' Compensable Leave

According to the **Texas Human Resources Management Statutes Inventory** provided by the State Auditor's Office, State agency employees, who have accrued six months of continuous state employment, are entitled to be paid for the accrued balance of the employee's vacation leave as of the date of separation, if the employee is not reemployed by a state agency or institution of higher education in a position which accrues vacation leave during the 30-day period immediately following the date of separation from State employment.

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The System has also leased buildings, land, 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, 2014 were as follows:

Assets Leased		2014
Buildings:		
Cost	$	41,775,784.93
Less: Accumulated Depreciation		(16,601,377.08)
Carrying Value of Buildings		25,174,407.85
Parking Garage		
Cost		10,655,156.80
Less: Accumulated Depreciation		

Note 6: Pension Plans

Teacher Retirement System (TRS)

The State has joint contributory retirement plans for the majority of its employees. One of the primary plans in which the System participates is a cost-sharing multi-employer defined benefit pension plan administered by the TRS. TRS is primarily funded through State and employee contributions. Depending upon the source of funding for a participant's salary, the System may be required to make contributions in lieu of the State.

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 retirement 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 TRS participation on or after September 1, 2007 must be age 60 to retire and members who are not vested in TRS on August 31, 2014, must be age 62 to retire under the second option. Members are fully vested after five years of service and are entitled to any reduced benefits for which the eligibility requirements have been met prior to meeting the eligibility requirements for unreduced benefits.

TRS contribution rates for both employers and employees are not actuarially determined but are legally established by the State Legislature. Contributions by employees are 6.4 percent of gross earnings for 2014. Depending upon the

annual compensation) and the employer (6.6 percent state base rate for 2014 plus any local supplement for a maximum 8.50 percent of annual compensation) for the fiscal year ended August 31, 2014, is provided in the following table:

Note 7: Employees Retirement System (ERS)

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 35 hours per week are eligible for partial health benefits under ERS. UNTS employees that work 35 or more hours are eligible for full health benefits under ERS.7.1(2df-8.2(e)-2.8(n)5(1(a)4.2)2.9(o)-2.4(e).1(92 (d)-7.1f.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by such agencies, principally the United States Government. Any disallowed claims may constitute 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

Proportional Benefits

In the fall of 2013, UNT System Internal Audit began an investigation of obtaining payment of state funded benefits associated with certain salaries at the System which were funded by local funds, as opposed to state appropriations. The investigation determined that the System received excess state benefits during the period September 1, 2003 through April 30, 2012. The System provided the results of the UNT System Internal Audit analysis to the Texas State Comptroller and the State Auditor in May of 2014. During the fiscal year ended August 31, 2014, incurrence of a loss in the amount of $4.7 million, representing fiscal years 2012, 2013, and 2014, was considered probable and this amount was accrued as a liability for this loss contingency in the System's financial statements for that fiscal year. The System voluntarily repaid $4.7 million to the Texas State Comptroller on February 11, 2015.

Subsequent to the fiscal year end on August 31, 2014, and prior to this financial report being completed, the FY16-17 General Appropriations Act for the State of Texas (the "Appropriations Act") was enacted. The Appropriations Act requires each institution of higher education to conduct, no later than August 31, 2016, an internal audit of benefits proportionalby fund for fiscal years 2012, 2013, and 2014 using a methodology approved by the State Auditor's Office and submit a reimbursement payment to the Texas State Comptroller as a result of receiving excess benefits within two years from the conclusion of the institution's audit. The Appropriations Act further provides that if an institution has previously conducted an internal audit of benefits proportionalby fund for fiscal years 2012, 2013, and 2014 using a methodology acceptable to the State Auditor, the State Auditor may waive the requirement of an additional audit. On July 23, 2015, the System received written notification from the State Auditor's Office confirming their position that the combined work, including the State Auditor's Office investigative report released in September 2014, and the work performed by the UNT System Internal Audit, in conjunction with an external consulting firm, has satisfied the intent of the benefit proportionality internal audit requirement in the Article III rider for the fiscal years 2012, 2013, and 2014, and therefore the State Auditor's Office waived the requirement for the System to conduct an additional internal audit related to these fiscal years.

THE UNIVERSITY OF NORTH TEXAS SYSTEM

is purchased for allied health care professionals and medical students with entity coverage, which provides a maximum

Property

The System carries property insurance to finance loss arising from damage to or destruction of capital assets, including

Note 11: Matrix of Operating Expenses Reported by Function

For the year ended August 31, 2014, 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	$ 20,298.67	$ 1,829.00	$ -	$ 32,616.92	$ 141,044.29
Salaries and Wages	176,837,263.88	29,371,917.38	9,145,487.56	90,054,872.66	31,831,744.28
Payroll Related Costs	49,793,166.00	6,471,310.05	2,165,921.23	20,714,537.92	7,154,014.40
Professional Fees and Services	3,152,717.18	6,582,406.97	3,035,790.02	25,087,559.20	946,498.14
Federal Pass-Through Expenses	5,490.85	336,975.12	(1,454.27)	-	-
State Pass-through Expenses	-	217,375.67	-	-	-
Travel	2,433,573.78	1,869,436.96	276,354.88	3,026,375.54	3,472,341.46

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THE UNIVERSITY OF NORTH TEXAS SYSTEM

Note 15: Subsequent Events

Subsequent events were evaluated through July 31, 2015. The System drew $6.5 million, $30 million, $15 million, and $15 million from its private bond purchase arrangement on September 2, 2014, January 2, 2015, f4c.6(A)-4.8(9c, 0 9

5. 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, 2014 there was $7,273,320 of cash equivalents in the Foundation's investment accounts awaiting investment.

6. 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 statements 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 Fund of Funds are carried at their fair value as determined using significant unob9.1(h)8(e Li9.1(n)-4.1(g)8.8.1(s)5.5(i)-9.2(g)-.006 Tc 0.02

16.E. Contributions and Other Receivables

Contributions and other receivables as of August 31, 2014 are as follows:

Contributions receivable in more than one year have been discounted to net present value using an interest rate of eight percent. Contributions receivable in one to five years include one promise to give of $22,000,000 from Mr. Charn Uswachoke. The contribution is expected to be collected by December 31, 2015, and has been recorded at a net present value of $19,853,046.

16.F. –Permanently Restricted Net Assets

Net assets were permanently restricted for the following purposes at August 31, 2014:

16.G. Life Insurance Policies