THE UNIVERSITY OF TEXAS FOUNDATION, INC.

Financial Statements as of and for the Years Ended December 31, 2019 and 2018 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The University of Texas Foundation, Inc.:

We have audited the accompanying financial statements of The University of Texas Foundation, Inc. (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying combining schedule of financial position, the combining schedule of activities and the combining schedule of changes in net assets are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maxwell Locke & Ritter LLP

Austin, Texas
March 18, 2020

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 3,009,860	$ 2,604,949
Accounts receivable	142,433	101,064
Interest and dividends receivable	933	1,416
Pledges receivable, net	9,640,181	5,643,107
Deferred gift annuity receivable	999,393	-
Prepaid expenses and deposits	3,078	8,839
Investments	54,408,458	43,790,227
Land and minerals	4,881,898	11,219,587
Property and equipment, net of accumulated depreciation	603,313	9,071
Total assets	$ 73,689,547	$ 63,378,260
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts and distributions payable	$ 2,274,938	$ 986,238
Pledges payable, net	9,640,181	5,643,107
Gift annuities	25,644,352	24,244,854
Gift commitment over annuity liability	1,774,116	2,080,931
Total liabilities	39,333,587	32,955,130
NET ASSETS:		
Without donor restrictions	13,343,729	11,906,227
With donor restrictions	21,012,231	18,516,903
Total net assets	34,355,960	30,423,130
Total liabilities and net assets	$ 73,689,547	$ 63,378,260

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Change in net assets without donor restrictions:		
Revenues and gains:		
Contributions	$ 31,261,886	$ 28,437,105
Unrealized and realized gain on investments	1,139,631	6,686,317
Other income	151,703	348,020
Dividends and interest income	188,232	51,648
Total revenues and gains	32,741,452	35,523,090
Net assets released from restrictions	5,254,741	4,399,022
Total revenues, gains and net assets released from restrictions	37,996,193	39,922,112
Expenses:		
Program services:		
Distributions to and for the benefit of the UT System	33,363,010	29,806,400
Annuity payments	2,392,415	2,413,307
Chancellor's business expenses	240,655	183,381
Gift payments	33,015	25,320
Total program services	36,029,095	32,428,408
Management and general:		
Office, administrative and business expenses	463,457	355,083
Professional fees	25,123	27,550
Accounting fees	26,040	25,233
Trustee fees	13,441	13,403
Depreciation	1,535	-
Total management and general	529,596	421,269
Total expenses	36,558,691	32,849,677
Change in net assets without donor restrictions	1,437,502	7,072,435

(continued)

See notes to financial statements.

STATEMENTS OF ACTIVITIES (continued)
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Change in net assets with donor restrictions:		
Revenues and gains:		
Contributions	$ 2,560,484	$ 7,030,753
Change in actuarial liability	(1,399,494)	733,490
Dividend and interest income	813,667	725,243
Other income	19,348	28,378
Change in gift commitment over annuity liability	306,815	(576,921)
Unrealized and realized (loss) gain on investments	5,449,249	(1,050,820)
Total revenues and gains	7,750,069	6,890,123
Net assets released from restrictions	(5,254,741)	(4,399,022)
Total revenues, gains and net assets released from restrictions	2,495,328	2,491,101
Change in net assets with donor restrictions	2,495,328	2,491,101
TOTAL CHANGE IN NET ASSETS	$ 3,932,830	$ 9,563,536

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net assets without donor restrictions:		
Net assets, beginning	$ 11,906,227	$ 4,833,792
Change in net assets	1,437,502	7,072,435
Net assets without donor restrictions, ending	13,343,729	11,906,227
Net assets with donor restrictions:		
Net assets, beginning	18,516,903	16,025,802
Change in net assets	2,495,328	2,491,101
Net assets with donor restrictions, ending	21,012,231	18,516,903
TOTAL NET ASSETS	$ 34,355,960	$ 30,423,130

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 3,932,830	$ 9,563,536
Adjustments to reconcile the change in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,535	7,790
Donation of land	-	(3,706,830)
Unrealized and realized gain on investments	(6,588,201)	(5,635,497)
Change in actuarial liability in gift annuities	1,399,498	(733,490)
Change in actuarial liability in gift commitment over annuity liability	(306,815)	576,921
Contributions restricted for investment	(20,000)	(10,000)
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(41,369)	(63,635)
Interest and dividends receivable	483	(994)
Pledges receivable, net	(3,997,074)	648,109
Deferred gift annuity receivable	(999,393)	-
Prepaid expenses and deposits	5,761	(2,533)
Accounts and distributions payable	1,288,700	909,878
Pledges payable, net	3,997,074	(648,109)
Net cash (used in) provided by operating activities	(1,326,971)	905,146
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(595,777)	(4,155)
Purchase of investments	(8,811,902)	(1,137,183)
Sales of investments	11,119,561	1,864,182
Net cash provided by investing activities	1,711,882	722,844
CASH FLOWS FROM FINANCING ACTIVITIES -		
Contributions restricted for investment	20,000	10,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	404,911	1,637,990
CASH AND CASH EQUIVALENTS, beginning of year	2,604,949	966,959
CASH AND CASH EQUIVALENTS, end of year	$ 3,009,860	$ 2,604,949
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION-		
Payment of annuity obligations	$ 2,392,415	$ 2,413,307

See notes to financial statements.

1. NATURE OF OPERATIONS

The University of Texas Foundation, Inc. (the "Foundation") is a nonprofit corporation organized for the advancement of education through financial support of The University of Texas System (the "UT System"). The Foundation's primary source of revenue is contributions from the public. The Foundation accepts and manages gifts in support of the UT System and the 14 educational institutions ("UT Institutions") that UT System oversees. While the UT System and the Institutions are the beneficiaries of the Foundation, the Foundation functions independently under its own Board of Directors (the "Board") and pursues its own investment policies in the management of its portfolios.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

Net Asset Classifications - Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions **-** These net assets are not subject to donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation or by law. Net assets without donor restrictions are those currently available for use by the Foundation or at the discretion of the Board for the Foundation's use.

With Donor Restrictions **-** These net assets are subject to donor-imposed stipulations, which limit their use by the Foundation to a specific purpose and/or the passage of time, or which require them to be maintained permanently.

The Foundation classifies as net assets with donor restrictions all trusts and endowment funds in which the donor has granted the Board authority regarding beneficiary selection. Split-interest agreements having any charitable component that must be maintained in perpetuity as designated by the donor are also classified as net assets with donor restrictions.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Fair Value Measurements - Fair value is 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. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 **-** Inputs based on quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 **-** Observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 **-** Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value: 1) market approach **-** uses prices generated by market transactions involving identical or comparable assets or liabilities, 2) cost approach **-** uses the amount that currently would be required to replace the service capacity of an asset (replacement cost), and 3) income approach **-** uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Cash and Cash Equivalents - The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts Receivable - Accounts receivable are recorded at the amount the Foundation expects to collect on outstanding balances. No allowance for doubtful accounts has been recorded as management believes all significant accounts receivable to be collectible.

Pledges Receivable and Pledges Payable - As part of its mission, the Foundation collects amounts that contributors have designated to be distributed to the UT System and its affiliated institutions. Pledges receivable are recorded at the amount the Foundation expects to receive from the contributors. Donors with significant pledges are contacted annually to confirm gifts will be received. No allowance for uncollectible pledges receivable has been recorded as, historically, the Foundation has not experienced material uncollectible amounts. Unconditional promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year (Note 5). These designations are also recorded as a liability at year end.

Investments, Land, and Minerals - Investments, land, and minerals are valued at their fair value in the statements of financial position. Investment transactions are recorded on the trade date and investment income is recorded when earned. Any changes in fair value of investments, land and minerals between reporting periods are reported in the statements of activities as unrealized gains and losses. Realized gains and losses are recorded as the difference between historical cost and the proceeds received from the sale of investments, land, or minerals.

Gift Annuities - The Foundation has entered into irrevocable agreements with donors whereby donors contribute assets in exchange for the right to receive a fixed dollar annual return for their benefit. Upon receipt of each such gift, the Foundation calculates the present value of the periodic payments due to the annuitants and classifies this amount as a liability. The Foundation uses the rates published by the American Council on Gift Annuities ("ACGA") to compute these periodic payments.

Gift Commitment Over Annuity Liability - All gift annuity contracts held by the Foundation provide a 90% residual to the UT Institutions and 10% to the Foundation at the termination of the gift annuity agreement per donors' stipulations. A liability is recorded as gift commitment over annuity liability for the amount by which the residual from gift annuities in the annuity funds exceeds the estimated liability payments to annuitants.

Split-Interest Agreements - Since the remaining amount of all annuity gifts will be distributed to the UT Institutions and the Foundation upon termination of each annuity agreement per the donors' stipulations, all annuity contracts held by the Foundation represent split-interest agreements. The Foundation records the excess of the annuity gift over the present value of the estimated liability as contribution revenue upon gift receipt. The carrying value of the gift annuities is determined annually based on actuarial estimates. Any changes in the present value of the liability are recorded as changes in actuarial liability on the statements of activities. Assets of the Foundation that are derived from split-interest agreements are included in investments and are invested in mutual funds and other investments measured at net asset value. As of December 31, 2019, the assets and liabilities of the split-interest agreements were $30,464,962 and $27,574,063, respectively. As of December 31, 2018, the assets and liabilities of the split-interest agreements were $29,250,870 and $26,666,280, respectively.

Contributions - The Foundation recognizes contributions when cash, securities, other assets (including gifts of land, mineral rights, and buildings), an unconditional promise to give, or notification of a beneficial interest is received. Contributions designated for others by the donor are also recorded in contributions. Contributions are recorded at their fair value and are generally restricted by the donor for the benefit of the UT System and Institutions. Unconditional promises to give cash and other assets are reported as net assets with donor restrictions, if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give, defined as those with a measurable performance or other barrier and a right of return, are recognized when the condition on which they depend are met and the promises become unconditional. Contributions received with donor-imposed conditions and restrictions are reported as increases in net assets without restrictions if the conditions and restrictions are met within the fiscal year in which the contributions are received. The Foundation reports gifts of long-lived assets as net assets without donor restrictions when the asset is placed in service.

Functional Allocation of Expenses - The costs of providing the Foundation's various programs and supporting services have been reported on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services using a variety of cost allocation techniques.

Federal Income Tax Status - The Foundation is a nonprofit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except as it relates to any unrelated business income. The Foundation is not classified as a private foundation under Section 509(a) of the Internal Revenue Code. The Foundation did not incur any significant tax liabilities due to unrelated business income during the years ended December 31, 2019 and 2018. The Foundation files Form 990 tax returns in the U.S. federal jurisdiction, and is subject to routine examinations of its returns; however, there are no examinations currently in progress.

Recently Issued Accounting Pronouncements - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for all leases, including leases previously classified as operating leases, and modifies the classification criteria and accounting for sales-type and direct financing leases by lessors. Leases continue to be classified as finance or operating leases by lessees and both classifications require the recognition of a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in the statement of financial position. Interest on the lease liability and amortization of the right-of-use asset are recognized separately in the statement of operations for finance leases and as a single lease cost recognized on the straight-line basis over the lease term for operating leases. The standard is effective using a modified retrospective approach for fiscal years beginning after December 15, 2020 and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its financial statements.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

As of December 31, 2019 and 2018, the Foundation's financial assets available within one year for general expenditure were as follows:

	2019	2018
Cash and cash equivalents	2,362,032	$ 914,236
Institution payables	(2,271,063)	(786,064)
Net cash and cash equivalents	90,969	128,172
Investments	9,850,114	2,333,285
Receivables	274,855	271,654
	10,215,938	2,733,111
Less amounts unavailable for general expenditure within one year- Funds held for others	(58,444)	(47,476)
Total financial assets available for general expenditure within one year	$ 10,157,494	$ 2,685,635

These amounts are held within the unrestricted Operating and Winkler funds, and the majority of the Foundation's investments are convertible to cash within 24 hours. The Foundation keeps approximately $100,000 in cash to fund its average monthly operating costs of $42,000.

4. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, investments, land and minerals and receivables. The Foundation places its cash and cash equivalents with a limited number of high-quality financial institutions and may exceed the amount of insurance provided on such deposits.

The Foundation's investments, land, and minerals do not represent a significant concentration of credit risk due to the diversification of the Foundation's portfolio among instruments and issues. However, investments, land, and minerals are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, land, and minerals, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statements of financial position.

The Foundation does not maintain collateral for its receivables. Three donors accounted for 75% of pledges receivable as of December 31, 2019. Five donors accounted for 67% of pledges receivable as of December 31, 2018. Two donors accounted for 25% of contribution revenue during the year ended December 31, 2019. One donor accounted for 10% of contribution revenue during the year ended December 31, 2018.

5. PLEDGES RECEIVABLE

As of December 31, 2019 and 2018 pledges receivable were comprised of the following:

	2019	2018
Gross pledges receivable	$ 10,078,728	$ 5,819,339
Less unamortized discount	(438,547)	(176,232)
Net pledges receivable	$ 9,640,181	$ 5,643,107

As of December 31, 2019 and 2018, the maturity of pledges receivable is as follows:

	2019	2018
Due in less than one year	$ 3,984,682	$ 3,020,560
Due in one to five years	6,094,046	2,698,779
Due in more than five years	-	100,000
Total gross pledges receivable	$ 10,078,728	$ 5,819,339

At December 31, 2019 and 2018, a discount rate of 4% was used to discount the anticipated cash flows on long-term unconditional promises to give. All pledges receivable were designated by contributors to benefit other organizations.

6. INVESTMENTS, LAND, AND MINERALS

The Foundation's investments, land, and minerals are held by an agent as directed by the Foundation's Board. Investments, land, and minerals were classified as follows under the fair value hierarchy as of December 31, 2019:

		Fair Value Measurements Using:		
	Fair Value	Level 1	Level 2	Level 3
Mutual funds:				
Fixed income funds	$ 17,401,847	17,401,847	-	-
Equity funds	12,867,971	12,867,971	-	-
Land	4,444,480	-	-	4,444,480
Minerals	437,418	-	-	437,418
Treasury securities	605,348	605,348	-	-
Total investments, land, and minerals	35,757,064	30,875,166	-	4,881,898
Investments measured at net asset value	23,533,292			
Total investments at fair value	$ 59,290,356			

Changes in Level 3 assets measured at fair value on a recurring basis during the year ended December 31, 2019 were as follows:

Balance, beginning of year	$ 11,219,587
Total gains (realized/unrealized)	737,650
Sale of land	(7,075,339)
Balance, end of year	$ 4,881,898

Investments, land, and minerals were classified as follows under the fair value hierarchy as of December 31, 2018:

		Fair Value Measurements Using:		
	Fair Value	Level 1	Level 2	Level 3
Mutual funds:				
Equity funds	$ 12,605,072	12,605,072	-	-
Fixed income funds	11,923,070	11,923,070	-	-
Land	10,783,529	-	-	10,783,529
Minerals	436,058	-	-	436,058
Treasury securities	590,522	590,522	-	-
Total investments, land, and minerals	36,338,251	25,118,664	-	11,219,587
Investments measured at net asset value	18,671,563			
Total investments at fair value	$ 55,009,814			

Changes in Level 3 assets measured at fair value on a recurring basis during the year ended December 31, 2018 were as follows:

Balance, beginning of year	$	670,780
Additions		3,705,480
Total gains or losses (realized/unrealized)		6,843,327
Balance, end of year	$	11,219,587

There were no transfers in or out of Level 3 investments. All Level 1 and 3 investments have been valued using a market approach. Certain pooled investment funds ("PIF") are measured at fair value using the net asset value practical expedient and have therefore been excluded from the fair value hierarchy leveling table.

As of December 31, 2019, land is measured at fair value using property tax appraisal values. Land was measured at fair value based on a sales contract the Foundation entered into for the sale of the land as of December 31, 2018.

Minerals consist of oil and gas interests and are measured at fair value using appraisal values.

The PIF invests in approximately 13,600 privately raised endowments and other long-term funds established to benefit the University of Texas and Texas A&M Systems. The fund only invests in General Endowment Funds established by the Board of Regents of UT System. The fund takes a diversified approach and includes investments in hedge funds, private investments, public markets, debt securities, and equity securities.

Management reviews and approves the Foundation's fair value measurement policies and procedures annually. At least annually, management determines if the valuation techniques used in fair value measurements are still appropriate.

The following table summarizes the investments for which fair value is measured using the net asset value practical expedient as of December 31, 2019 and 2018, respectively.

	Fair Value at December 31, 2019	Fair Value at December 31, 2018	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
PIF	$ 23,533,292	$ 18,671,563	not applicable	once a quarter	quarterly

7. GIFT ANNUITIES

The annuity payments, as authorized by the Board in a resolution dated April 19, 1996, will pay a rate no higher than the rates most recently adopted by the ACGA. As of December 31, 2019 and 2018, gift annuity liabilities were actuarially determined using the 2012 IA mortality table and the annualized Section 7520 rate of 2.60% and 3.25%, respectively.

Gift annuity obligations are as follows as of December 31:

	2019	2018
Annuities Trust Fund		
Since March 21, 1991 the Foundation has entered into various gift annuities with payout percentages ranging from 4.3% to 14.9% payable in installments ranging from approximately $80 to $20,250. The gift annuities have payment frequencies ranging from monthly to annually.	$ 18,527,913	$ 18,865,485
Deferred Charitable Gift Annuity Fund		
Since August 6, 1997, the Foundation has entered into various deferred gift annuities. Payments on the deferred annuities are scheduled to commence on various dates beginning May 31, 2020.	7,116,439	5,379,369
	$ 25,644,352	$ 24,244,854

The liability under split-interest gift annuity agreements measured at fair value on a recurring basis using significant unobservable inputs (Level 3) changed as follows during the years ended December 31:

	2019	2018
Beginning of year	$ 24,244,854	$ 24,978,344
Additions	2,515,076	3,273,768
Transfers/terminations	(2,759,106)	(1,592,403)
Actuarial adjustment	1,643,528	(2,414,855)
End of year	$ 25,644,352	$ 24,244,854

8. GIFT COMMITMENT OVER ANNUITY LIABILITY

The liability recorded for the gift commitment over annuity liability at December 31, 2019 and 2018 was measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as follows as of December 31:

	2019	2018
Beginning of year	$ 2,080,931	$ 1,504,010
Actuarial adjustment	(306,815)	576,921
End of year	$ 1,774,116	$ 2,080,931

9. ANNUITY RESERVE FUNDS

Included in the investments of the Annuities Trust Fund are certain assets set aside, invested and held in reserve in compliance with various state laws as follows:

	2019	2018
Registration States Fund	$ 1,873,711	$ 1,722,551
California Annuity Fund	605,348	590,522
Tennessee Annuity Fund	596,829	418,558
Hawaii Annuity Fund	272,562	252,555
Total annuity reserve funds	$ 3,348,450	$ 2,984,186

10. ENDOWMENTS

The Board interprets the Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted permanent endowment funds absent explicit donor stipulations to the contrary. Donor-restricted net assets are classified at the original value of gifts donated to the permanent endowment, plus the original value of subsequent gifts to the permanent endowment. Also included are accumulations to the permanent endowment if directed by the donor gift instrument. Absent donor stipulations, the remaining portion of the permanent endowment fund is classified as net assets with donor restrictions until those funds are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

The Component Endowment Fund ("CEF") is invested with a total return philosophy which emphasizes principal growth and allows for distributions of 4.5% from the annuitized fund, computed as follows:

At the end of each calendar quarter (March, June, September and December) the pre-unit value will be computed.

A. At the end of the calendar year (December) the unit values from the preceding twelve quarters will be averaged to determine the Average Unit Value ("AUV") for the preceding three years.

B. The AUV will be multiplied by the then number of units held by each account in the CEF to determine the Account Average Value ("AAV").

C. The AAV will then be multiplied by the distribution rate set by the Board to determine the annual distribution. Currently the distribution rate is 4.5%.

This policy is applied only in the absence of direct instruction by the donor. None of the distributions to the donors' designated beneficiaries were due as of December 31, 2019 and 2018.

In accordance with U.S. GAAP, the Foundation considers an endowment to be deficient if its fair value is less than the sum of: (a) the original value of initial and subsequent gifts donated to the endowment and (b) any donor-imposed accumulations to the endowment that must be maintained in perpetuity. The Foundation complies with TUPMIFA and has interpreted it to permit spending from deficient endowments in accordance with the prudent measures required under the law. As of December 31, 2018, an endowment with an original gift value of $1,000,000 was deficient by $78,419 and was reflected in net assets with donor restrictions. As of December 31, 2019, there were no deficient endowments.

The primary goals of the endowments are as follows: 1) Provide the highest sustainable, consistent flow of funds to support the activities of the Foundation or those designed by the donor, 2) Protect the future purchasing power of the principal of the endowed funds by reserving an appropriate portion of investment return to offset the cumulative effects of inflation and provide future real growth of the Foundation assets, and 3) Manage the spending distribution over time to reduce, as far as possible, annual variations in the level of support provided by the Foundation.

The Investment Committee of the Foundation outlines the asset allocations, permissible investments and objectives of the portfolios in the Investment Policy.

The Albert and Jessie Cudlipp Memorial Endowed Scholarship is a donor-restricted permanent endowment created to fund scholarships for students at The University of Texas in Austin.

The Bill Archer Center Endowment is a donor-restricted permanent endowment created to establish the Bill Archer Center, to serve as the physical hub for a variety of academic, professional and social activities and for the UT in D.C. Fellowship Program-a semester-long internship plus academics package.

The George W. Brackenridge Foundation Endowment is a donor-restricted permanent endowment for the use and benefit of the University of Texas Health Science Center at San Antonio, created to fund scholarships for academically qualified South Texas residents committed to serving South Texas.

The Wayne and Joanne Moore Endowed Scholarship is a donor-restricted permanent endowment created to fund scholarships for tuition, fees and books for students at The University of Texas of the Permian Basin.

The Drs. Morvitz and Judith Craven Endowed Scholarship is a donor-restricted permanent endowment created to fund scholarships for one or more dental students at The University of Texas Dental Branch at Houston.

Changes in endowment net assets were as follows during the year ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 9,218,555	$ 9,218,555
Investment return	-	1,659,140	1,659,140
Contributions	-	20,000	20,000
Net assets released from restrictions	-	(523,624)	(523,624)
Endowment net assets, end of year	$ -	$ 10,374,071	$ 10,374,071

Changes in endowment net assets were as follows during the year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ (138,706)	$ 10,094,922	$ 9,956,216
Investment loss	-	(241,026)	(241,026)
Contributions	-	10,000	10,000
Reclassification	138,706	(138,706)	-
Net assets released from restrictions	-	(506,635)	(506,635)
Endowment net assets, end of year	$ -	$ 9,218,555	$ 9,218,555

11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31:

	2019	2018
Time restrictions-		
Gift annuity agreements	$ 2,890,901	$ 2,584,590
Purpose restrictions - Endowment:		
Albert and Jesse Cudlipp Memorial Endowed Scholarship	5,717,681	5,088,508
Bill Archer Center Endowment	3,297,096	2,934,903
George W. Brackenridge Foundation Endowment	1,031,631	921,581
Wayne and Joanne Moore Endowed Scholarship	211,712	167,715
Drs. Morvitz & Judith Craven Endowed Scholarship Fund	115,951	105,848
Purpose restrictions:		
White Family Outdoor Learning Center	4,444,480	3,706,830
Chancellor's use	2,340,582	1,892,744
Donor advised fund	810,409	733,754
Winkler county land	1,360	145,187
Mineral classified land	-	89,535
College of Business teaching supplement	91,984	82,657
Emergency fund	26,054	30,661
Gene Woodfin Prize	22,843	22,843
UTHSCH Dr. Chen discretionary funds	8,482	8,482
UTHSCH Discretionary funds	1,065	1,065
Total net assets with donor restrictions	$ 21,012,231	$ 18,516,903

12. COMMITMENTS AND CONTINGENCIES

The Foundation is in receipt of charitable gift annuities which commit it to a stream of guaranteed annuity payments. These contracted payments are calculated based on the payout rates established by ACGA. The ACGA projects 50% of the original gift will be available for the remainderman, which is an institution within the UT System, as designated by the annuitant. The projected residuum is an average, and the actual remainder interest can vary substantially. The Foundation assumes, on average, the earnings and 50% of the face value of an annuity will be paid out to the annuitant through the annuity payments. The residuum will be distributed as established in the annuity contract. The annuity payments are secured by the assets of the Foundation. There is no guaranteed residual value.

13. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through March 18, 2020 (the date the financial statements were available to be issued), and no events have occurred from the statement of financial position date through that date that would impact the financial statements.