THE UNIVERSITY OF TEXAS FOUNDATION, INC.

Financial Statements
as of and for the Years Ended
December 31, 2018 and 2017 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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Foundation adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Maxwell Locke & Ritter LLP

Austin, Texas
April 17, 2019

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 2,604,949	$ 966,959
Accounts receivable	101,064	37,429
Interest and dividends receivable	1,416	422
Pledges receivable, net	5,643,107	6,291,216
Prepaid expenses and deposits	8,839	6,306
Investments	43,790,227	45,723,706
Land and minerals	11,219,587	670,780
Equipment, net of accumulated depreciation	9,071	12,706
Total assets	$ 63,378,260	$ 53,709,524
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts and distributions payable	$ 986,238	$ 76,360
Pledges payable, net	5,643,107	6,291,216
Gift annuities	24,244,854	24,978,344
Gift commitment over annuity liability	2,080,931	1,504,010
Total liabilities	32,955,130	32,849,930
NET ASSETS:		
Without donor restrictions	11,906,227	4,833,792
With donor restrictions	18,516,903	16,025,802
Total net assets	30,423,130	20,859,594
Total liabilities and net assets	$ 63,378,260	$ 53,709,524

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Change in net assets without donor restrictions:		
Revenues and gains:		
Contributions	$ 28,437,105	$ 18,216,972
Unrealized and realized gain on investments	6,686,317	426,141
Other income	348,020	140,560
Dividends and interest income	51,648	51,926
Total revenues and gains	35,523,090	18,835,599
Net assets released from restrictions	4,399,022	3,672,888
Total revenues, gains and net assets released from restrictions	39,922,112	22,508,487
Expenses and losses:		
Program services:		
Distributions to and for the benefit of the UT System	29,806,400	19,038,487
Annuity payments	2,413,307	2,398,871
Chancellor’s business expenses	183,381	106,075
Gift payments	25,320	48,266
Total program services	32,428,408	21,591,699
Management and general:		
Office, administrative and business expenses	355,083	343,495
Professional fees	27,550	25,863
Accounting fees	25,233	21,583
Trustee fees	13,403	13,394
Total management and general	421,269	404,335
Total expenses and losses	32,849,677	21,996,034
Change in net assets without donor restrictions	7,072,435	512,453

(continued)

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES (continued)
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Change in net assets with donor restrictions:		
Revenues and gains:		
Contributions	$ 7,030,753	$ 1,793,183
Change in actuarial liability	733,490	1,806,526
Dividend and interest income	725,243	720,582
Other income	28,378	26,308
Change in gift commitment over annuity liability	(576,921)	(1,791,686)
Unrealized and realized (loss) gain on investments	(1,050,820)	4,040,718
Total revenues and gains	6,890,123	6,595,631
Net assets released from restrictions	(4,399,022)	(3,672,888)
Total revenues, gains and net assets released from restrictions	2,491,101	2,922,743
Change in net assets with donor restrictions	2,491,101	2,922,743
TOTAL CHANGE IN NET ASSETS	$ 9,563,536	$ 3,435,196

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Net assets without donor restrictions:		
Net assets, beginning	$ 4,833,792	$ 4,321,339
Change in net assets	7,072,435	512,453
Net assets without donor restrictions, ending	11,906,227	4,833,792
Net assets with donor restrictions:		
Net assets, beginning	16,025,802	13,103,059
Change in net assets	2,491,101	2,922,743
Net assets with donor restrictions, ending	18,516,903	16,025,802
TOTAL NET ASSETS	$ 30,423,130	$ 20,859,594

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 9,563,536	$ 3,435,196
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Depreciation	7,790	8,458
Donation of land	(3,706,830)	-
Unrealized and realized gain on investments	(5,635,497)	(4,394,954)
Change in actuarial liability in gift annuities	(2,414,855)	(2,746,044)
Change in actuarial liability in gift commitment over annuity liability	576,921	1,791,686
Contributions restricted for investment	(10,000)	(10,000)
Changes in assets and liabilities that used cash:		
Accounts receivable	(63,635)	(19,152)
Interest and dividends receivable	(994)	793
Pledges receivable, net	648,109	793,388
Deferred gift annuity receivable	-	799,680
Prepaid expenses and deposits	(2,533)	2
Accounts and distributions payable	909,878	(477,163)
Pledges payable, net	(648,109)	(793,388)
Gift annuities	1,681,365	939,518
Net cash provided by (used in) operating activities	905,146	(671,980)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(4,155)	(1,356)
Purchase of investments	(1,137,183)	(2,198,072)
Sales of investments	1,864,182	2,462,089
Net cash provided by investing activities	722,844	262,661
CASH FLOWS FROM FINANCING ACTIVITIES -		
Contributions restricted for investment	10,000	10,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,637,990	(399,319)
CASH AND CASH EQUIVALENTS, beginning of year	966,959	1,366,278
CASH AND CASH EQUIVALENTS, end of year	$ 2,604,949	$ 966,959
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION-		
Payment of annuity obligations	$ 2,413,307	$ 2,398,871

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 Classification - 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 restricted by 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. When a restriction is satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Also included in this category are stipulations permanently imposed by the donor. Those net assets are not available for use in operations and limitations neither expire by fulfillment of a specific purpose and/or the passage of time. 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 do not represent income to the Foundation and are 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. Any changes in fair value of investments 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 - 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 net assets from split-interest agreements on the statements of activities. As of December 31, 2018, the assets and liabilities of the split-interest agreements were $29,250,870 and $26,325,784, respectively. As of December 31, 2017, the assets and liabilities of the split-interest agreements were $29,424,837 and $26,482,354, respectively.

Contributions - All contributions, including gifts of land, mineral rights, buildings and other assets, are recorded at their fair value and are considered to be available for operations of the Foundation unless specifically restricted by the donor. 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. Contributions that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions expire in the reporting period in which the contributions are received. Conditional promises to give are recognized when the condition on which they depend are substantially met and the promises become unconditional. 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, such as time and effort.

Federal Income Tax Status - The Foundation is a not-for-profit organization that is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code, except for any unrelated business activities. 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, 2018 or 2017. 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 Adopted Accounting Pronouncement - In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The guidance requires presentation on the face of the statement of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the previously required three classes. Entities are also required to provide enhanced disclosures about liquidity, board designated amounts, and expense by both their natural and functional classification. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. During the year ended December 31, 2018, management implemented the new standard, the effect of which is reflected on the financial statements and within the footnotes.

Recently Issued Accounting Pronouncements - In May 2014 and August 2015, the FASB issued ASU No. 2014-09 and No. 2015-14, *Revenue from Contracts with Customers*, which supersede the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance included in the ASC. The standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard is effective retrospectively for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its financial statements.

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 activities 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, 2019 and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its financial statements.

Reclassification - Certain amounts in the prior year have been reclassified to conform to the presentation adopted in the current year. There was no impact on net assets.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

As of December 31, 2018 the Foundation's financial assets available within one year for general expenditure include only the following amounts reported in the Operating and Winkler Funds and are as follows:

Cash and cash equivalents	$ 914,236
Institution payables	(786,064)
Net cash and cash equivalents	128,172
Investments	2,333,285
Receivables	271,654
Total financial assets available within one year	2,733,111
Less amounts unavailable for general expenditure within one year, due to:	
Funds held for others	(47,476)
Total financial assets available to management for general expenditure within one year	$ 2,685,635

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. The Foundation has no debt and its annuity liabilities are funded by net assets with donor restrictions. As of January 7, 2019, an additional $7,076,699 was added to net assets without donor restrictions from the sale of land holdings (Note 13).

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 statement of financial position.

The Foundation does not maintain collateral for its receivables. Five donors accounted for 67% and 71% of pledges receivable as of December 31, 2018 and 2017, respectively. One donor accounted for 10% of contribution revenue during the year ended December 31, 2018.

5. PLEDGES RECEIVABLE

As of December 31, 2018 and 2017 pledges receivable were comprised of the following:

	2018	2017
Gross pledges receivable	$ 5,819,339	$ 6,509,700
Less unamortized discount	(176,232)	(217,984)
Net pledges receivable	$ 5,643,107	$ 6,291,716

As of December 31, 2018 and 2017, the maturity of pledges receivable is as follows:

	2018	2017
Due in less than one year	$ 3,020,560	$ 3,355,350
Due in one to five years	2,698,779	2,954,350
Due in more than five years	100,000	200,000
Total gross pledges receivable	$ 5,819,339	$ 6,509,700

At December 31, 2018 and 2017, 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. These designations do not represent income to the Foundation and have been recorded as pledges payable at year end.

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, 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			

Land and minerals measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

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

Investments, land, and minerals were classified as follows under the fair value hierarchy as of December 31, 2017:

		Fair Value Measurements Using:		
	Fair Value	Level 1	Level 2	Level 3
Mutual funds:				
Equity funds	$ 14,348,671	14,348,671	-	-
Fixed income funds	11,238,589	11,238,589	-	-
Land	234,722	-	-	234,722
Minerals	436,058	-	-	436,058
Treasury securities	585,326	585,326	-	-
Total investments, land, and minerals	26,843,366	26,172,586	-	670,780
Investments measured at net asset value	19,551,120			
Total investments at fair value	$ 46,394,486			

Land and minerals measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Balance, beginning of year	$ 670,780
Additions	-
Total gains or losses (realized/unrealized)	-
Distributions	-
Balance, end of year	$ 670,780

There were no transfers in or out of Level 3 investments. All Level 1 investments have been valued using a market approach. Level 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.

Land is measured at fair value based on the sales contract the Foundation entered into for the sale of the land as of December 31, 2018 (Note 13). In previous reporting periods, land was measured at fair value using property tax appraisal values.

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, 2018 and 2017, respectively.

	Fair Value at December 31, 2018	Fair Value at December 31, 2017	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
PIF	$ 18,671,563	$ 19,551,120	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, 2018 and 2017, gift annuity liabilities were actuarially determined using the 2012 IA and the Ann2000 mortality tables and the annualized Section 7520 rate of 3.25% and 2.42%, respectively.

Gift annuity obligations are as follows as of December 31:

	2018	2017
Annuities Trust Fund		
Since March 21, 1991 the Foundation has entered into various gift annuities with interest rates ranging from 4.4% to 14.9% payable in installments ranging from approximately $135 to $20,250. The gift annuities have payment frequencies ranging from monthly to annually.	$ 18,865,485	$ 19,138,834
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 December 1, 2020.	5,379,369	5,839,510
	$ 24,244,854	$ 24,978,344

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

	2018	2017
Beginning of year	$ 24,978,344	$ 26,784,870
Additions	3,273,768	1,706,227
Transfers/terminations	(1,592,403)	(766,709)
Actuarial adjustment	(2,414,855)	(2,746,044)
End of year	$ 24,244,854	$ 24,978,344

8. GIFT COMMITMENT OVER ANNUITY LIABILITY

The liability recorded for the gift commitment over annuity liability at December 31, 2018 and 2017 was measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as follows as of December 31:

	2018	2017
Beginning of year	$ 1,504,010	$ (287,676)
Actuarial adjustment	576,921	1,791,686
End of year	$ 2,080,931	$ 1,504,010

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:

	2018	2017
Registration States Fund	$ 1,722,551	$ 1,701,930
California Annuity Fund	590,522	585,326
Tennessee Annuity Fund	418,558	480,411
Hawaii Annuity Fund	252,555	252,840
Total annuity reserve funds	$ 2,984,186	$ 3,020,507

10. ENDOWMENTS

The Board of the Foundation has interpreted 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. Permanently restricted net assets are classified at the original value of gifts donated to the donor-restricted permanent endowment, plus the original value of subsequent gifts to the donor-restricted permanent endowment. Also included are accumulations to the donor-restricted permanent endowment if directed by the donor gift instrument. Absent donor stipulations, the remaining portion of the donor-restricted permanent endowment fund is classified as net assets with donor restrictions until those funds are appropriated for expenditure by the organization 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 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 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, 2018 and 2017.

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. The deficient amount is reflected in net assets with donor restrictions.

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 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

Changes in Endowment Net Assets during the year ended December 31, 2017:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ (138,706)	$ 9,058,692	$ 8,919,986
Investment return	-	1,537,341	1,537,341
Contributions	-	10,000	10,000
Net assets released from restrictions	-	(511,111)	(511,111)
Endowment net assets, end of year	$ (138,706)	$ 10,094,922	$ 9,956,216

11. NET ASSETS WITH DONOR RESTRICTIONS

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

	2018	2017
Time restrictions-		
Gift annuity agreements	$ 2,584,590	$ 2,794,743
Purpose restrictions - Endowment:		
Albert and Jesse Cudlipp Memorial Endowed Scholarship	5,088,508	5,508,590
Bill Archer Center Endowment	2,934,903	3,162,591
George W. Brackenridge Foundation Endowment	921,581	1,139,905
Wayne and Joanne Moore Endowed Scholarship	167,715	169,846
Drs. Morvitz & Judith Craven Endowed Scholarship Fund	105,848	113,990
Purpose restrictions:		
White Family Outdoor Learning Center	3,706,830	-
Chancellor’s use	1,892,744	1,975,435
Donor advised fund	733,754	798,406
Winkler county land	145,187	145,187
Mineral classified land	89,535	89,535
College of Business teaching supplement	82,657	82,361
Emergency fund	30,661	22,370
Gene Woodfin Prize	22,843	22,843
UTHSCH Dr. Chen discretionary funds	8,482	-
UTHSCH Discretionary funds	1,065	-
Total net assets with donor restrictions	$ 18,516,903	$ 16,025,802

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 April 17, 2019 (the date the financial statements were available to be issued).

In January 2019, the Foundation sold the Winkler land for total proceeds of $7,076,699.