The University of Texas Foundation, Inc.

Financial Statements as of and for the Years Ended December 31, 2020 and 2019 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, 2020 and 2019, 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, 2020 and 2019, 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.

Maxwell Locke & Ritter LLP

Austin, Texas
March 26, 2021

The University of Texas Foundation, Inc.

Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	$ 1,910,681	$ 3,009,860
Accounts receivable	1,700,899	142,433
Interest and dividends receivable	9	933
Pledges receivable, net	8,764,953	9,640,181
Deferred gift annuity receivable	-	999,393
Prepaid expenses and deposits	-	3,078
Investments	59,593,894	54,408,458
Land and minerals	5,834,028	4,881,898
Property and equipment, net of accumulated depreciation	600,797	603,313
Total assets	$ 78,405,261	$ 73,689,547
Liabilities and Net Assets		
Liabilities:		
Accounts and distributions payable	$ 2,697,751	$ 2,274,938
Pledges payable, net	8,764,953	9,640,181
Gift annuities	29,166,805	25,644,352
Gift commitment over annuity liability	-	1,774,116
Total liabilities	40,629,509	39,333,587
Net Assets:		
Without donor restrictions	12,357,631	13,343,729
With donor restrictions	25,418,121	21,012,231
Total net assets	37,775,752	34,355,960
Total liabilities and net assets	$ 78,405,261	$ 73,689,547

See notes to financial statements.

The University of Texas Foundation, Inc.

Statements of Activities
Years Ended December 31, 2020 and 2019

	2020	2019
Change in net assets without donor restrictions:		
Revenues and gains:		
Contributions	$ 28,395,679	$ 31,261,886
Unrealized and realized gain on investments	1,354,127	1,139,631
Other income	166,056	151,703
Dividends and interest income	156,298	188,232
Total revenues and gains	30,072,160	32,741,452
Net assets released from restrictions	5,045,587	5,254,741
Total revenues, gains and net assets released from restrictions	35,117,747	37,996,193
Expenses:		
Program services:		
Distributions to and for the benefit of the UT System	32,890,251	33,363,010
Annuity payments	2,368,842	2,392,415
Gift payments	147,542	33,015
Chancellor's business expenses	137,130	240,655
Total program services	35,543,765	36,029,095
Management and general:		
Office, administrative and business expenses	469,343	463,457
Professional fees	27,167	25,123
Depreciation	26,973	1,535
Accounting fees	25,775	26,040
Trustee fees	10,822	13,441
Total management and general	560,080	529,596
Total expenses	36,103,845	36,558,691
Change in net assets without donor restrictions	(986,098)	1,437,502

(continued)

See notes to financial statements.

The University of Texas Foundation, Inc.

Statements of Activities (continued)
Years Ended December 31, 2020 and 2019

	2020	2019
Change in net assets with donor restrictions:		
Revenues and gains:		
Unrealized and realized gain on investments	$ 5,365,618	$ 5,449,249
Contributions	5,148,763	2,560,484
Change in gift commitment over annuity liability	1,774,116	306,815
Dividend and interest income	674,800	813,667
Change in actuarial liability	(3,522,087)	(1,399,494)
Other income	10,267	19,348
Total revenues and gains	9,451,477	7,750,069
Net assets released from restrictions	(5,045,587)	(5,254,741)
Total revenues, gains and net assets released from restrictions	4,405,890	2,495,328
Change in net assets with donor restrictions	4,405,890	2,495,328
Total change in net assets	$ 3,419,792	$ 3,932,830

See notes to financial statements.

The University of Texas Foundation, Inc.

Statements of Changes in Net Assets
Years Ended December 31, 2020 and 2019

	2020	2019
Net assets without donor restrictions:		
Net assets, beginning	$ 13,343,729	$ 11,906,227
Change in net assets	(986,098)	1,437,502
Net assets without donor restrictions, ending	12,357,631	13,343,729
Net assets with donor restrictions:		
Net assets, beginning	21,012,231	18,516,903
Change in net assets	4,405,890	2,495,328
Net assets with donor restrictions, ending	25,418,121	21,012,231
Total net assets	$ 37,775,752	$ 34,355,960

See notes to financial statements.

The University of Texas Foundation, Inc.

Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities:		
Change in net assets	$ 3,419,792	$ 3,932,830
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	26,973	1,535
Unrealized and realized gain on investments	(6,719,748)	(6,588,201)
Change in actuarial liability in gift annuities	3,522,453	1,399,498
Change in actuarial liability in gift commitment over annuity liability	(1,774,116)	(306,815)
Contributions restricted for investment	(21,689)	(20,000)
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(1,558,466)	(41,369)
Interest and dividends receivable	924	483
Pledges receivable, net	875,228	(3,997,074)
Deferred gift annuity receivable	999,393	(999,393)
Prepaid expenses and deposits	3,078	5,761
Accounts and distributions payable	422,813	1,288,700
Pledges payable, net	(875,228)	3,997,074
Net cash used in operating activities	(1,678,593)	(1,326,971)
Cash Flows from Investing Activities:		
Purchase of property and equipment	(24,457)	(595,777)
Purchase of investments	(4,386,149)	(8,811,902)
Sales of investments	4,968,331	11,119,561
Net cash provided by investing activities	557,725	1,711,882
Cash Flows from Financing Activities-		
Contributions restricted for investment	21,689	20,000
Net change in cash and cash equivalents	(1,099,179)	404,911
Cash and cash equivalents, beginning of year	3,009,860	2,604,949
Cash and cash equivalents, end of year	$ 1,910,681	$ 3,009,860
Supplemental Disclosure of Cash Flow Information-		
Payment of annuity obligations	$ 2,368,842	$ 2,392,415

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.

On December 3, 2020, the Foundation formed UK Foundation UK Limited (the "UK Foundation"), a nonprofit in the United Kingdom with a similar mission as the Foundation. The UK Foundation had no activity during the year ended December 31, 2020.

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 in 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, 2020, the assets and liabilities of the split-interest agreements were $31,633,438 and $29,344,154, respectively. As of December 31, 2019, the assets and liabilities of the split-interest agreements were $30,464,962 and $27,574,063, 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. Because the Foundation exists to raise assets for the UT System and UT Institutions, the Foundation recognizes contribution revenue when it receives assets designated for others. 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 conditions on which they depend are substantially 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. The Foundation did not have any costs that benefited both the program and supporting services during the years ended December 31, 2020 and 2019.

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, 2020 and 2019. 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 2018, the FASB issued Accounting Standards Update ("ASU") No. 2018-13**,** *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which includes amendments intended to improve the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies and adds certain disclosure requirements and affects entities that are required to include fair value measurement disclosures. The amendments in this update are effective for fiscal years beginning after December 15, 2019. The Foundation adopted the amendments of ASU 2018-13 and has applied the accounting guidance to the fair value disclosure included in the financial statements dated December 31, 2020.

Recently Issued Accounting Pronouncement - 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, 2021 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

The Foundation's financial assets available within one year for general expenditure were as follows as of December 31:

	2020	2019
Cash and cash equivalents	1,181,632	$ 2,362,032
Institution payables	(1,097,340)	(2,271,063)
Net cash and cash equivalents	84,292	90,969
Investments	11,089,726	9,850,114
Receivables	296,329	274,855
	11,470,347	10,215,938
Less amounts unavailable for general expenditure within one year-		
Funds held for others	(194,635)	(58,444)
Total financial assets available for general expenditure within one year	$ 11,275,712	$ 10,157,494

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 $46,000. The Foundation has no debt and its annuity liabilities are funded by restricted assets.

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. Two donors accounted for 47% of pledges receivable as of December 31, 2020. Three donors accounted for 75% of pledges receivable as of December 31, 2019. Two donors accounted for 25% of contribution revenue during the year ended December 31, 2019.

5. Pledges Receivable

Pledges receivable were comprised of the following as of December 31:

	2020	2019
Gross pledges receivable	$ 9,032,068	$ 10,078,728
Less unamortized discount	(267,115)	(438,547)
Net pledges receivable	$ 8,764,953	$ 9,640,181

The maturity of pledges receivable is as follows as of December 31:

	2020	2019
Due in less than one year	$ 5,077,068	$ 3,984,682
Due in one to five years	3,955,000	6,094,046
Total gross pledges receivable	$ 9,032,068	$ 10,078,728

At December 31, 2020 and 2019, 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, 2020:

		Fair Value Measurements Using:		
	Fair Value	Level 1	Level 2	Level 3
Mutual funds:				
Fixed income funds	$ 17,305,650	17,305,650	-	-
Equity funds	13,104,441	13,104,441	-	-
Land	5,397,970	-	-	5,397,970
Minerals	436,058	-	-	436,058
Treasury securities	350,996	350,996	-	-
Total investments, land, and minerals	36,595,115	30,761,087	-	5,834,028
Investments measured at net asset value	28,832,807			
Total investments at fair value	$ 65,427,922			

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:				
Equity funds	$ 17,401,847	17,401,847	-	-
Fixed income 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			

Additions of Level 3 investments during the year ended December 31, 2019 were $737,650.

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, 2020 and 2019, land is 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, 2020 and 2019, respectively.

	Fair Value at December 31, 2020	Fair Value at December 31, 2019	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
PIF	$ 28,832,807	$ 23,533,292	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, 2020 and 2019, gift annuity liabilities were actuarially determined using the 2012 IA mortality table and the annualized Section 7520 rate of 0.95% and 2.60%, respectively.

Gift annuity obligations are as follows as of December 31:

	2020	2019
Annuities Trust Fund		
Since March 21, 1991 the Foundation has entered into various gift annuities with payout percentages ranging from 4.0% to 11.1% payable in installments ranging from approximately $80 to $18,001. The gift annuities have payment frequencies ranging from monthly to annually.	$ 23,479,890	$ 18,527,913
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 June 30, 2021.	5,686,915	7,116,439
	$ 29,166,805	$ 25,644,352

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:

	2020	2019
Beginning of year	$ 25,644,352	$ 24,244,854
Additions	2,237,662	2,515,076
Transfers/terminations	(2,823,916)	(2,759,106)
Actuarial adjustment	4,108,707	1,643,528
End of year	$ 29,166,805	$ 25,644,352

8. Gift Commitment Over Annuity Liability

The liability recorded for the gift commitment over annuity liability at December 31, 2020 and 2019 was measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as follows as of December 31:

	2020	2019
Beginning of year	$ 1,774,116	$ 2,080,931
Actuarial adjustment	(1,774,116)	(306,815)
End of year	$ -	$ 1,774,116

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:

	2020	2019
Registration States Fund	$ 1,486,609	$ 1,873,711
California Annuity Fund	1,143,684	605,348
Tennessee Annuity Fund	566,415	596,829
Hawaii Annuity Fund	291,260	272,562
Total annuity reserve funds	$ 3,487,968	$ 3,348,450

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, 2020 and 2019.

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, 2020 and 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.

The Drs. Cathy and Glenn Miller Endowment is a donor-restricted permanent endowment for the use and benefit of the University of Texas Tyler School of Nursing, created to fund research, participant incentives, travel for research dissemination, and other related costs for human trafficking and research.

Changes in endowment net assets were as follows during the year ended December 31, 2020:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 10,374,071	$ 10,374,071
Investment return	-	1,332,315	1,332,315
Contributions	-	21,689	21,689
Net assets released from restrictions	-	(496,934)	(496,934)
Endowment net assets, end of year	$ -	$ 11,231,141	$ 11,231,141

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 loss	-	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

Descriptions of endowment net assets classified with donor restrictions were as follows as of December 31:

	2020	2019
Permanently donor-restricted net assets- The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by TUPMIFA	$ 8,734,265	$ 8,755,954
Temporarily donor-restricted net assets- The portion of perpetual endowment funds subject to a restriction under TUPMIFA	$ 2,496,876	$ 1,618,117

11. Net Assets With Donor Restrictions

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

	2020	2019
Time restrictions-		
Gift annuity agreements	$ 2,289,279	$ 2,890,901
Purpose restrictions - Endowment:		
Albert and Jesse Cudlipp Memorial Endowed Scholarship	6,166,115	5,717,681
Bill Archer Center Endowment	3,570,846	3,297,096
George W. Brackenridge Foundation Endowment	1,108,752	1,031,631
Wayne and Joanne Moore Endowed Scholarship	230,750	211,712
Drs. Morvitz & Judith Craven Endowed Scholarship Fund	131,033	115,951
Drs. Cathy and Glenn Miller Endowment	23,646	-
Purpose restrictions:		
White Family Outdoor Learning Center	5,396,610	4,444,480
Chancellor's use	2,716,545	2,340,582
Benefit of institution	2,583,228	-
Donor advised fund	875,711	810,409
Winkler county land	1,360	1,360
College of Business teaching supplement	103,789	91,984
Emergency fund	196,549	26,054
Gene Woodfin Prize	22,843	22,843
UTHSCH Dr. Chen discretionary funds	-	8,482
UTHSCH Discretionary funds	1,065	1,065
Total net assets with donor restrictions	$ 25,418,121	$ 21,012,231

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.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the world. While the disruption is expected to be temporary, there is uncertainty around the severity and duration. Therefore, while this issue may negatively impact the Foundation's business, results of operations, and financial position, the related financial impact cannot be reasonably estimated at this time. The Foundation is actively managing the business to maintain its cash flow and management believes that the Foundation has adequate liquidity.

13. Subsequent Events

The Foundation has evaluated subsequent events through March 26, 2021 (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.