THE UNIVERSITY OF TEXAS FOUNDATION, INC.

Financial Statements as of and for the Years Ended December 31, 2014 and 2013 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, 2014 and 2013, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, 2014 and 2013, 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, 2015

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 1,650,783	$ 1,264,865
Accounts receivable	34,291	66,010
Interest and dividends receivable	1,306	1,507
Pledges receivable, net	5,663,469	4,999,344
Prepaid expenses and deposits	5,883	7,279
Long-term investments	46,357,493	44,993,184
Equipment, net of accumulated depreciation	14,497	3,884
Total assets	$ 53,727,722	$ 51,336,073

	2014	2013
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts and distributions payable	$ 635,773	$ 112,999
Pledges payable, net	5,663,469	4,999,344
Deferred revenue	-	400,000
Gift annuities	24,018,428	25,881,525
Gift commitment in excess of annuity liability	2,254,870	1,239,806
Total liabilities	32,572,540	32,633,674
NET ASSETS:		
Unrestricted net assets	5,287,119	3,572,855
Temporarily restricted net assets	7,037,734	6,493,866
Permanently restricted net assets	8,830,329	8,635,678
Total net assets	21,155,182	18,702,399
Total liabilities and net assets	$ 53,727,722	$ 51,336,073

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Changes in unrestricted net assets:		
Revenues and gains:		
Contributions	$ 15,373,395	$ 15,075,736
Net unrealized and realized gains on long-term investments	105,835	106,357
Income on long-term investments	47,948	48,840
Other income	6,890	3,520
Total revenues and gains	15,534,068	15,234,453
Net assets released from restrictions	5,126,060	4,412,390
Total unrestricted revenues and gains	20,660,128	19,646,843
Expenses and losses:		
Program services:		
Distribution to and for the benefit of the UT System	15,851,663	16,372,492
Chancellor’s business expenses	153,831	214,059
Gift payment	24,352	69,606
Total program services	16,029,846	16,656,157
Management and general:		
Annuity payments	2,517,288	2,468,276
Business expenses	212,657	206,019
Office and administrative expenses	93,735	86,437
Trustee fees	46,642	52,256
Professional fees	26,345	24,001
Accounting fees	19,351	23,449
Total management and general	2,916,018	2,860,438
Total expenses and losses	18,945,864	19,516,595
Change in unrestricted net assets	$ 1,714,264	$ 130,248

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES (continued)
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Changes in temporarily restricted net assets:		
Contributions	$ 2,150,953	$ 2,377,580
Net unrealized and realized gains on long-term investments	1,953,659	2,162,923
Income from long-term investments	710,331	810,822
Change in the value of split-interest agreements	-	164,707
Change in actuarial liability	1,863,097	722,638
Change in gift commitment in excess of annuity liability	(1,015,064)	(2,202,200)
Other income	6,952	59
Net assets released from restrictions	(5,126,060)	(4,412,390)
Change in temporarily restricted net assets	543,868	(375,861)
Change in permanently restricted net assets -		
Contributions	194,651	148,480
TOTAL CHANGE IN NET ASSETS	$ 2,452,783	$ (97,133)

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Unrestricted net assets:		
Net assets, beginning	$ 3,572,855	$ 3,442,637
Change in net assets	1,714,264	130,218
Unrestricted net assets, ending	5,287,119	3,572,855
Temporarily restricted net assets:		
Net assets, beginning	6,493,866	6,869,727
Change in net assets	543,868	(375,861)
Temporarily restricted net assets, ending	7,037,734	6,493,866
Permanently restricted net assets:		
Net assets, beginning	8,635,678	8,487,198
Change in net assets	194,651	148,480
Permanently restricted net assets, ending	8,830,329	8,635,678
TOTAL NET ASSETS	$ 21,155,182	$ 18,702,399

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 2,452,783	$ (97,163)
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,588	1,912
Net unrealized gains on long-term investments	865,736	(1,503,409)
Change in the value of split-interest agreements	(1,863,097)	(887,345)
Change in gift commitment in excess of annuity liability	1,015,064	2,202,200
Contributions restricted for long-term investment	(194,651)	(148,480)
Changes in assets and liabilities that used cash:		
Accounts receivable	31,719	(33,964)
Interest and dividends receivable	201	(672)
Pledges receivable, net	(664,125)	(4,974,344)
Prepaid expenses and deposits	1,396	(759)
Accounts and distributions payable	522,774	(61,398)
Pledges payable, net	664,125	4,999,344
Deferred revenue	(400,000)	400,000
Net cash provided by (used in) operating activities	2,434,513	(104,078)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(13,201)	(2,159)
Net sales (purchases) of long-term investments	(2,230,045)	(486,654)
Net cash used in investing activities	(2,243,246)	(488,813)
CASH FLOWS FROM FINANCING ACTIVITIES -		
Contributions restricted for long-term investment	194,651	148,480
NET CHANGE IN CASH AND CASH EQUIVALENTS	385,918	(444,411)
CASH AND CASH EQUIVALENTS, beginning of year	1,264,865	1,709,276
CASH AND CASH EQUIVALENTS, end of year	$ 1,650,783	$ 1,264,865
Supplemental disclosure of cash flow information:		
Payment of annuity obligations	$ 2,517,288	$ 2,468,276

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 its now 15 institutions. While the UT System and its 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 on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") as defined by the Financial Accounting Standards Board Accounting Standards Codification.

Classification of Net Assets - Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified as unrestricted, temporarily restricted or permanently restricted as follows:

Unrestricted net assets **-** Net assets not subject to donor-imposed stipulations. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Temporarily restricted net assets **-** Net assets subject to donor-imposed stipulations that require passage of time or the occurrence of a specific event. Additionally, unconditional promises to give without explicit donor-imposed stipulations that are due in future periods require the passage of time to release the donor's implicit time restriction.

Permanently restricted net assets **-** Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The income earned from these assets is recorded as temporarily restricted as directed by the donor, or in the absence of donor restrictions on earnings, until appropriated by the Board for expenditure.

Use of Estimates - The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. 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 when purchased 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 - Pledges receivable are recorded at the amount the Foundation expects to receive from donors. No allowance for uncollectible pledges receivable has been recorded as, historically, the Foundation has not experienced material uncollectible amounts.

Long-Term Investments - All investments are valued at their fair values in the statements of financial position. Any changes in market value are reported in the statements of activities.

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. These designations do not represent income to the Foundation and are recorded as a liability at year end.

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.

Deferred Revenue - Deferred revenue represents funds received from annuitant prior to the gift annuity contractual start term.

Gift Commitment in Excess of Annuity Liability - All annuity contracts held by the Foundation provide a 90% guaranteed residual to the UT System and 10% to the Foundation at the termination of the annuity agreement per donors' stipulations. There is an asset or liability recorded for the gift commitment in excess of annuity liability that represents the amount by which the guaranteed residual from gift annuities in the Annuities Trust Fund exceeds or falls below the liability for payments to annuitants.

Split Interest Agreements - Since the remaining amount of all annuity gifts will be distributed to the UT System and the Foundation upon termination of each annuity agreement per 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. At December 31, 2014 the assets and liabilities of the split-interest agreements were $29,730,112 and $24,018,428, respectively. At December 31, 2013 the assets and liabilities of the split-interest agreements were $30,134,813 and $25,881,525, respectively.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. The Foundation reports gifts of land and buildings as unrestricted contributions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are 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 statement of activities and functional expenses. Accordingly, certain costs have been allocated among the programs benefited and supporting services based on estimates provided by management.

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 tax liabilities due to unrelated business income during the years ended December 31, 2014 or 2013. 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. The fiscal year 2011 and subsequent tax years remain subject to examination by the Internal Revenue Service.

Recently Issued Accounting Pronouncements - In April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08, *Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, which amended the reporting requirements for discontinued operations in ASC 205-20, *Presentation of Financial Statements - Discontinued Operations*, and limits discontinued operations reporting to a disposal of a component or a group of components of an entity in which the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when certain events occur. The standard is effective for disposals that occur within fiscal years beginning after December 15, 2014 and is to be applied prospectively. Due to the change in requirements for reporting discontinued operations, presentation and disclosure of future disposal transactions may be different than under current standards.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes 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 for fiscal years beginning after December 15, 2017, and is to be applied retrospectively, with early application permitted for fiscal years beginning after December 15, 2016. The Foundation is in the process of evaluating the impact the new standard will have on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements - Going Concern*, which provides guidance about management's responsibility to evaluate on an annual basis whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are available to be issued and to provide certain related footnote disclosures. The standard is effective for fiscal years ending after December 15, 2016, and due to the change in requirements for reporting, presentation and disclosure of future evaluations of the entity's ability to continue as a going concern may be different than under current standards.

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

3. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, long-term investments 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. Management believes no significant risk exists with respect to cash and cash equivalents. The Foundation's long-term investments do not represent a significant concentration of credit risk due to the diversification of the Foundation's portfolio among instruments and issues. However, investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, 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 and does not believe significant risk exists at December 31, 2014 and 2013.

4. PLEDGES RECEIVABLE

As of December 31, 2014 and 2013 pledges receivable were comprised of the following:

	2014	2013
Gross pledges receivable	$ 5,950,009	$ 5,196,645
Less unamortized discount	(286,540)	(197,301)
Net pledges receivable	$ 5,663,469	$ 4,999,344

As of December 31, 2014 and 2013, the maturity of the pledges receivables is as follows:

	2014	2013
Due in less than one year	$ 2,424,205	$ 2,071,245
Due in one to five years	3,525,804	3,125,400
Total gross pledges receivable	$ 5,950,009	$ 5,196,645

At December 31, 2014 and 2013, a discount rate of 4% was used discount the anticipated cash flows on long-term unconditional promises to give.

All pledges receivable were designated by donors to benefit other organizations. These designations do not represent income to the Foundation and have been recorded as pledges payable at year end.

5. LONG-TERM INVESTMENTS

The Foundation's long-term investments are held by an agent as directed by the Foundation's Board and were reported at fair value at December 31, 2014 as follows:

		Fair Value Measurements Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds:				
Equity Funds	$ 22,368,644	-	22,368,644	-
Fixed Income Funds	22,205,744	17,394,991	4,810,753	-
Real Estate	234,722	-	-	234,722
Donated Art	115,250	-	-	115,250
Oil and Gas Interest	1,433,133	-	-	1,433,133
Total Long-Term Investments	$ 46,357,493	17,394,991	27,179,397	1,783,105

Long-term investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Balance, beginning of year	$ 351,322
Additions	1,431,783
Total gains or losses (realized/unrealized)	-
Purchases, issuance, and settlements	-
Balance, end of year	$ 1,783,105

Long-term investments were reported at fair value at December 31, 2013 as follows:

		Fair Value Measurements Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds:				
Equity Funds	$ 28,361,168	-	28,361,168	-
Fixed Income Funds	15,875,409	15,582,902	292,507	-
Treasuries	405,285	405,285	-	-
Real Estate	234,722	-	-	234,722
Donated Art	115,250	-	-	115,250
Oil and Gas Interest	1,350	-	-	1,350
Total Long - Term Investments	$ 44,993,184	15,988,187	28,653,675	351,322

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

Balance, beginning of year	$ 351,322
Additions	-
Total gains or losses (realized/unrealized)	-
Purchases, issuance, and settlements	-
Balance, end of year	$ 351,322

All Level 1 and Level 2 investments have been valued using a market approach. Level 3 real estate investments and donated art has been valued using a market approach while the Level 3 oil and gas interest investment has been valued using an income approach.

The fair value of long-term investments at December 31, 2014 and 2013 is based on the following:

Equity Funds - Equity funds are valued based upon market values provided by investment advisors.

Fixed Income Funds - Fixed income funds are valued based upon market quotations published by a securities exchange registered with the Securities and Exchange Commission, as investment advisors.

Treasuries - Treasuries are valued based upon market quotations published by the Federal Reserve, as reported by U.S. Bank.

Real Estate - Real estate is reflected in these financial statements at property tax appraisal values.

Donated Art - Donated art is reflected in these financial statements at appraisal values.

Oil and Gas Interest - Oil and gas interests are reflected in these financial statements at estimated fair values based upon cash flow generation.

6. GIFT ANNUITIES

The annuity payments, as authorized by the Board in a resolution dated April 19, 1996, states gift annuities issued by the Foundation will pay a rate no higher than the rates most recently adopted by the ACGA. At December 31, 2014 and 2013 gift annuity liabilities were actuarially determined using the Ann2000 mortality tables and the annualized Section 7520 rate of 2.22% and 1.60%, respectively.

Gift annuity obligations as so determined consist of the following at December 31:

	2014	2013
Annuities Trust Fund		
Since March 21, 1991 the Foundation has entered into various gift annuities with interest rates ranging from 5.7% to 13.4% payable in installments ranging from approximately $89 to $180,000. The gift annuities have payment frequencies ranging from monthly to annually.	$ 20,853,864	$ 22,402,096
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 March 31, 2014.	3,164,564	3,479,429
	$ 24,018,428	$ 25,881,525

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 at December 31:

	2014	2013
Beginning of year	$ 25,881,525	$ 26,854,105
Additions	2,108,656	2,457,883
Transfers/terminations	(2,619,714)	(994,030)
Actuarial adjustment	(1,352,039)	741,084
End of year	$ 24,018,428	$ 25,881,525

7. GIFT COMMITMENT IN EXCESS OF ANNUITY LIABILITY

The asset and the liability recorded for the gift commitment in excess of annuity liability at December 31, 2014 and 2013, respectively, were measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as follows at December 31:

	2014	2013
Beginning of year	$ 1,239,806	$ (1,047,629)
Actuarial adjustment	1,015,064	2,287,435
End of year	$ 2,254,870	$ 1,239,806

8. ANNUITY RESERVE FUNDS

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

	2014	2013
Registration States Fund	$ 2,140,337	$ 1,513,167
Hawaii Annuity Fund	238,004	234,352
California Annuity Fund	324,493	170,932
Tennessee Annuity Fund	292,366	231,444
Total annuity reserve funds	$ 2,995,200	$ 2,149,895

9. 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 endowment funds absent explicit donor stipulations to the contrary. Permanently 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 donor restricted endowment fund is classified as temporarily restricted net assets until those funds are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by TUPMIFA.

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 of 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 at December 31, 2014 and 2013.

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 George W. Brackenridge Foundation Endowment is a permanently restricted 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 Bill Archer Center Endowment is a permanently restricted 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 Drs. Morvitz and Judith Craven Endowed Scholarship is a permanently restricted endowment created to fund scholarships for one or more dental students at the University of Texas Dental Branch at Houston.

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

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

Changes in Endowment Net Assets for the Year Ended December 31, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,374,179	8,467,648	9,841,827
Investment return	373,547	-	373,547
Contributions	21,511	194,651	216,162
Net assets released from restrictions	(332,787)	-	(332,787)
Endowment net assets, end of year	$ 1,436,450	8,662,299	10,098,749

Changes in Endowment Net Assets for the Year Ended December 31, 2013:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,297,379	8,319,168	9,916,547
Investment return	403,296	-	403,296
Contributions	-	148,480	148,480
Net assets released from restrictions	(326,496)	-	(326,496)
Endowment net assets, end of year	$ 1,374,179	8,467,648	9,841,827

Endowment Net Asset Composition by type of Fund as of December 31:

	2014	2013
Permanently Restricted Net Assets- The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by TUPMIFA	$ 8,662,299	$ 8,467,648
Temporarily Restricted Net Assets- The portion of perpetual endowment funds subject to a restriction under TUPMIFA- With donor imposed purpose restrictions	$ 1,436,450	$ 1,374,179

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31:

	2014	2013
Time restrictions:		
Gift annuity agreements	$ 2,401,776	$ 2,103,317
Deferred charitable gift fund	299,663	290,262
Purpose restrictions:		
Chancellor's use	1,694,652	1,575,398
Donor advised fund	793,811	767,517
Albert and Jesse Cudlipp Memorial Endowed Scholarship	648,279	612,300
Bill Archer Center Endowment	685,193	601,294
George W. Brackenridge Endowed Scholarship	183,847	214,748
Donated art	115,250	115,250
Mineral classified land	99,313	102,882
College of Business teaching supplement	71,766	67,948
Drs. Morvitz & Judith Craven Scholarship Fund	20,802	25,770
Wayne and Joanne Moore Endowed Scholarship	23,071	17,180
Total	$ 7,037,423	$ 6,493,866

11. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following at December 31:

	2014	2013
Albert and Jesse Cudlipp Memorial Endowed Scholarship	$ 4,678,865	$ 4,494,214
Bill Archer Center Endowment	2,774,434	2,774,434
George W. Brackenridge Endowed Scholarship	1,000,000	1,000,000
Winkler County land	145,187	145,187
Drs. Morvitz & Judith Craven Endowed Scholarship Fund	100,000	100,000
Wayne and Joanne Moore Endowed Scholarship	109,000	99,000
Gene Woodfin prize	22,843	22,843
Total	$ 8,830,329	$ 8,635,678

12. RELATED PARTY TRANSACTIONS

In addition to gift annuities, the Foundation receives contributions for the direct benefit of the UT System. The Foundation distributed approximately $15,852,000 and $16,372,000 in such contributions to the UT System during 2014 and 2013, respectively.

13. 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.

14. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through March 26, 2015 (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.