THE UNIVERSITY OF TEXAS FOUNDATION, INC.

Financial Statements as of and for the Years Ended December 31, 2016 and 2015 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, 2016 and 2015, 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, 2016 and 2015, 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 31, 2017

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 1,366,278	$ 2,706,655
Accounts receivable	18,277	10,000
Interest and dividends receivable	1,215	2,164
Pledges receivable, net	7,084,604	6,476,727
Deferred gift annuity receivable	799,680	-
Prepaid expenses and deposits	6,308	6,297
Land, art and minerals	670,780	1,783,105
Investments	41,593,081	43,376,276
Equipment, net of accumulated depreciation	19,496	20,245
Total assets	$ 51,559,719	$ 54,381,469
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts and distributions payable	$ 553,523	$ 1,682,122
Pledges payable, net	7,084,604	6,476,727
Gift annuities	26,784,870	25,135,340
Gift commitment over (under) annuity liability	(287,676)	759,797
Total liabilities	34,135,321	34,053,986
NET ASSETS:		
Unrestricted	4,321,339	5,259,897
Temporarily restricted	4,240,764	6,225,291
Permanently restricted	8,862,295	8,842,295
Total net assets	17,424,398	20,327,483
Total liabilities and net assets	$ 51,559,719	$ 54,381,469

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Changes in unrestricted net assets:		
Revenues and gains:		
Contributions	$ 17,058,123	$ 18,362,242
Net unrealized and realized loss on investments	(903,891)	(79,118)
Income on investments	37,841	40,938
Other income	26,847	2,479
Total revenues and gains	16,218,920	18,326,541
Net assets released from restrictions	5,889,965	4,050,419
Total unrestricted revenues, gains and net assets released from restrictions	22,108,885	22,376,960
Expenses and losses:		
Program services:		
Distribution to and for the benefit of the UT System	19,718,694	19,356,302
Gift payment	21,458	19,028
Chancellor’s business expenses	334,596	126,341
Total program services	20,074,748	19,501,671
Management and general:		
Annuity payments	2,525,893	2,471,331
Office, admin and business expenses	389,648	339,182
Accounting fees	24,333	24,100
Professional fees	17,506	29,104
Trustee fees	15,315	38,794
Total management and general	2,972,695	2,902,511
Total expenses and losses	23,047,443	22,404,182
Change in unrestricted net assets	$ (938,558)	$ (27,222)

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF ACTIVITIES (continued)
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Changes in temporarily restricted net assets:		
Contributions	$ 2,303,373	$ 2,989,382
Net unrealized and realized gain (loss) on investments	1,518,717	(761,152)
Income from investments	658,791	574,806
Change in actuarial liability	(1,649,218)	(1,116,912)
Change in gift commitment over (under) annuity liability	1,047,473	1,495,073
Other income	26,302	56,779
Net assets released from restrictions	(5,889,965)	(4,050,419)
Change in temporarily restricted net assets	(1,984,527)	(812,443)
Change in permanently restricted net assets -		
Contributions	20,000	11,966
Change in permanently restricted net assets	20,000	11,966
TOTAL CHANGE IN NET ASSETS	$ (2,903,085)	$ (827,699)

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Unrestricted net assets:		
Net assets, beginning	$ 5,259,897	$ 5,287,119
Change in net assets	(938,558)	(27,222)
Unrestricted net assets, ending	4,321,339	5,259,897
Temporarily restricted net assets:		
Net assets, beginning	6,225,291	7,037,734
Change in net assets	(1,984,527)	(812,443)
Temporarily restricted net assets, ending	4,240,764	6,225,291
Permanently restricted net assets:		
Net assets, beginning	8,842,295	8,830,329
Change in net assets	20,000	11,966
Permanently restricted net assets, ending	8,862,295	8,842,295
TOTAL NET ASSETS	$ 17,424,398	$ 20,327,483

See notes to financial statements.

THE UNIVERSITY OF TEXAS FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (2,903,085)	$ (827,699)
Adjustments to reconcile the change in net assets to net cash (used in) provided by operating activities:		
Depreciation	6,665	5,657
Net unrealized (gain) loss on investments	(614,826)	840,270
Change in actuarial liability	1,649,530	1,116,912
Change in gift commitment over (under) annuity liability	(1,047,473)	(1,495,073)
Contributions restricted for investment	(20,000)	(11,966)
Changes in assets and liabilities that used cash:		
Accounts receivable	(8,277)	24,291
Interest and dividends receivable	949	(858)
Pledges receivable, net	(607,877)	(813,258)
Deferred gift annuity receivable	(799,680)	-
Prepaid expenses and deposits	(11)	(414)
Land, art and minerals	1,112,325	-
Accounts and distributions payable	(1,128,599)	1,046,349
Pledges payable, net	607,877	813,258
Net cash (used in) provided by operating activities	(3,752,482)	697,469
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(5,604)	(11,405)
Net sales of investments	2,397,709	357,842
Net cash provided by investing activities	2,392,105	346,437
CASH FLOWS FROM FINANCING ACTIVITIES -		
Contributions restricted for investment	20,000	11,966
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,340,377)	1,055,872
CASH AND CASH EQUIVALENTS, beginning of year	2,706,655	1,650,783
CASH AND CASH EQUIVALENTS, end of year	$ 1,366,278	$ 2,706,655
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION-		
Payment of annuity obligations	$ 2,525,893	$ 2,471,331

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 14 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 ("FASB") Accounting Standards Codification ("ASC").

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:

<u>Unrestricted net assets</u> **-** 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.

<u>Temporarily restricted net assets</u> **-** 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.

<u>Permanently restricted net assets</u> **-** 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 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. These designations do not represent income to the Foundation and are recorded as a liability at year end.

Deferred Gift Annuity Receivable - Deferred gift annuity receivable is recorded at the amount in the annuity contract the Foundation expects to collect.

Land, Art, Minerals and 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.

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/(Under) Annuity Liability - All gift annuity contracts held by the Foundation provide a 90% residual to the UT System and 10% to the Foundation at the termination of the gift annuity agreement per donors' stipulations. There is a net asset recorded, Gift Commitment Under Annuity Liability, for the amount by which the residual from gift annuities in the Annuities Trust Fund exceeds the liability for payments to the annuitants.

Conversely, there is a liability recorded, Gift Commitment Over Annuity Liability, for the amount by which the residual from gift annuities in the Annuities Trust Fund falls below the liability 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, 2016 the assets and liabilities of the split-interest agreements were $28,096,781 and $26,784,560, respectively. At December 31, 2015 the assets and liabilities of the split-interest agreements were $29,352,901 and $25,135,340, 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. Conditional promises to give are recognized when the condition on which they depend are substantially met. The Foundation reports gifts of land, art, mineral rights, buildings and other assets 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, 2016 or 2015. The Foundation files Form 990 tax returns in the U.S. federal jurisdiction, and is subject to routine examinations of its returns; however, there are no examinations currently in progress.

Recently Issued Accounting Pronouncements - In May 2014 and August 2015, the FASB issued Accounting Standards Update ("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 new 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 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, 2019 and early adoption is permitted. The Foundation is currently evaluating the impact the standard will have on its financial statements.

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, which requires presentation on the face of the statements 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 currently required three classes. The standard also requires the presentation on the face of the statements of activities the amount of the change in each of these two classes of net assets. The standard will no longer require the presentation or disclosure of the indirect method of reporting cash flows if an entity elects to use the direct method, however it will be required for an entity to provide enhanced disclosures about liquidity in the footnotes to the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 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. 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, 2016 and 2015.

4. PLEDGES RECEIVABLE

As of December 31, 2016 and 2015 pledges receivable were comprised of the following:

	2016	2015
Gross pledges receivable	$ 7,355,000	$ 6,738,805
Less unamortized discount	(270,396)	(262,078)
Net pledges receivable	$ 7,084,604	$ 6,476,727

As of December 31, 2016 and 2015, the maturity of pledges receivable is as follows:

	2016	2015
Due in less than one year	$ 3,790,000	$ 2,878,805
Due in one to five years	3,265,000	3,860,000
Due in more than five years	300,000	-
Total gross pledges receivable	$ 7,355,000	$ 6,738,805

At December 31, 2016 and 2015, 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.

5. LAND, ART, MINERALS AND INVESTMENTS

The Foundation's land, art, minerals, and investments as detailed below are held by an agent as directed by the Foundation's Board and were reported at fair value at December 31, 2016 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	$ 30,122,291	12,172,471	14,718,852	-
Fixed Income Funds	10,894,824	10,894,824	3,230,968	-
Treasury Securities	575,966	575,966	-	-
Real Estate	234,722	-	-	234,722
Minerals	436,058	-	-	436,058
Total Land, Minerals and Investments	$ 42,263,861	23,643,261	17,949,820	670,780

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

Balance, beginning of year	$ 1,783,105
Additions	-
Total losses (realized/unrealized)	(1,015,415)
Distributions	(96,910)
Balance, end of year	$ 670,780

Land, art, minerals and investments were reported at fair value at December 31, 2015 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	$ 27,983,432	12,748,079	15,235,353	-
Fixed Income Funds	14,820,057	11,918,085	2,901,972	-
Treasury Securities	572,787	572,787	-	-
Real Estate	234,722	-	-	234,722
Art	115,250	-	-	115,250
Minerals	1,433,133	-	-	1,433,133
Total Land, Art, Minerals and Investments	$ 45,159,381	25,238,951	18,137,325	1,783,105

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

Balance, beginning of year	$ 1,783,105
Additions	-
Total gains or losses (realized/unrealized)	-
Distributions	-
Balance, end of year	$ 1,783,105

All Level 1 and Level 2 investments have been valued using a market approach. Level 3 real estate investments and donated art have been valued using a market approach while the Level 3 mineral interest have been valued at appraisal values.

The fair value of long-term investments at December 31, 2016 and 2015 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.

Treasury Securities - Treasury securities 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.

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

Minerals - Minerals consist of oil and gas interests and are reflected in these financial statements at appraisal values.

6. 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. At December 31, 2016 and 2015 gift annuity liabilities were actuarially determined using the 2012 IA and the Ann2000 mortality tables, and the annualized Section 7520 rate of 1.77% and 2.03%, respectively.

Gift annuity obligations are as follows at December 31:

	2016	2015
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.	$ 20,107,749	$ 20,171,761
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.	6,677,121	4,963,579
	$ 26,784,870	$ 25,135,340

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:

	2016	2015
Beginning of year	$ 25,135,340	$ 24,018,428
Additions	2,288,848	2,967,872
Transfers/terminations	(2,550,822)	(954,990)
Actuarial adjustment	1,911,504	(895,970)
End of year	$ 26,784,870	$ 25,135,340

7. GIFT COMMITMENT OVER/(UNDER) ANNUITY LIABILITY

The asset and the liability recorded for the gift commitment over/(under) annuity liability at December 31, 2016 and 2015, respectively, were measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as follows at December 31:

	2016	2015
Beginning of year	$ 759,797	$ 2,254,870
Actuarial adjustment	(1,047,473)	(1,495,073)
End of year	$ (287,676)	$ 759,797

8. 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:

	2016	2015
Registration States Fund	$ 1,660,503	$ 1,616,841
California Annuity Fund	575,966	572,787
Tennessee Annuity Fund	512,075	294,098
Hawaii Annuity Fund	244,718	239,608
Total annuity reserve funds	$ 2,993,262	$ 2,723,334

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 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 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, 2016 and 2015.

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 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 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 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 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 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.

Changes in Endowment Net Assets for the Year Ended December 31, 2016:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,043,923	8,674,265	9,718,188
Investment return	315,218	-	315,218
Contributions	-	20,000	20,000
Net assets released from restrictions	(368,465)	-	(368,465)
Endowment net assets, end of year	$ 990,676	8,694,265	9,684,941

Changes in Endowment Net Assets for the Year Ended December 31, 2015:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 1,436,450	8,662,299	10,098,749
Investment return	(7,552)	-	(7,552)
Contributions	-	11,966	11,966
Net assets released from restrictions	(384,975)	-	(384,975)
Endowment net assets, end of year	$ 1,043,923	8,674,265	9,718,188

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

	2016	2015
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	$ 8,694,265	$ 8,674,265
Temporarily Restricted Net Assets- The portion of perpetual endowment funds subject to a restriction under TUPMIFA- With donor imposed purpose restrictions	$ 990,676	$ 1,043,923

10. TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Time restrictions:		
Gift annuity agreements	$ 1,365,353	$ 2,612,780
Purpose restrictions:		
Chancellor’s use	1,597,680	1,648,733
Donor advised fund	723,594	748,201
Albert and Jesse Cudlipp Memorial Endowed Scholarship	261,442	295,722
Mineral classified land	89,535	105,298
College of Business teaching supplement	74,579	71,047
Bill Archer Center Endowment	71,486	437,579
George W. Brackenridge Endowed Scholarship	25,766	157,718
Emergency fund	25,596	-
Wayne and Joanne Moore Endowed Scholarship	3,156	17,191
Drs. Morvitz & Judith Craven Endowed Scholarship Fund	2,577	15,772
Donated art	-	115,250
Total	$ 4,240,764	$ 6,225,291

11. PERMANENTLY RESTRICTED NET ASSETS

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

	2016	2015
Albert and Jesse Cudlipp Memorial Endowed Scholarship	$ 4,680,831	$ 4,680,831
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
Wayne and Joanne Moore Endowed Scholarship	139,000	119,000
Drs. Morvitz & Judith Craven Endowed Scholarship Fund	100,000	100,000
Gene Woodfin prize	22,843	22,843
Total	$ 8,862,295	$ 8,842,295

12. RELATED PARTY TRANSACTIONS

In addition to gift annuities, the Foundation receives contributions for the direct benefit of the UT System as designated by contributors. The Foundation distributed approximately $19,719,000 and $19,356,000 in such contributions to the UT System during 2016 and 2015, 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 31, 2017 (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.