THE UNIVERSITY OF TEXAS LAW SCHOOL FOUNDATION

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

MAXWELL
& LOCKE
RITTER

THE UNIVERSITY OF TEXAS LAW SCHOOL FOUNDATION

TABLE OF CONTENTS

MAXWELL LOCKE & RITTER LLP
Accountants and Consultants
An Affiliate of CPAmerica International
tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 411 West Main Street, Suite 300
Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The University of Texas Law School Foundation:

We have audited the accompanying financial statements of The University of Texas Law School Foundation (a nonprofit organization) (the "Foundation"), which comprise the statements of financial position as of August 31, 2019 and 2018, the related statements of activities, functional expenses, 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 August 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Foundation adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended August 31, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Maxwell Locke & Ritter LLP

Austin, Texas
November 6, 2019

THE UNIVERSITY OF TEXAS LAW SCHOOL FOUNDATION

STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 858,098	$ 11,445,148
Investments	192,282,508	176,684,341
Contributions receivable, net	8,761,257	10,111,620
Notes receivable	50,000	75,000
Prepaid expenses	2,063	158,066
Beneficial interests in charitable remainder trusts	12,335,015	11,643,227
Property and improvements, net	5,318,834	5,353,798
TOTAL ASSETS	$ 219,607,775	$ 215,471,200
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 167,587	$ 9,203
Deferred revenue	7,829	5,829
Total liabilities	175,416	15,032
NET ASSETS:		
Without donor restrictions	4,090,526	3,997,604
With donor restrictions	215,341,833	211,458,564
Total net assets	219,432,359	215,456,168
TOTAL LIABILITIES AND NET ASSETS	$ 219,607,775	$ 215,471,200

See notes to financial statements.

THE UNIVERSITY OF TEXAS LAW SCHOOL FOUNDATION

STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS:			
Contributions	$ 204,272	8,470,426	8,674,698
(Loss) return on investments, net	(13,043)	3,518,135	3,505,092
Change in value of beneficial interests in charitable remainder trusts	-	691,788	691,788
Oil and gas royalties	258,392	-	258,392
Other revenues	183,349	-	183,349
Net assets released from restrictions	8,801,030	(8,801,030)	-
Total revenues and net assets released from restrictions	9,434,000	3,879,319	13,313,319
EXPENSES:			
Program services	8,259,076	-	8,259,076
General and administrative	866,814	-	866,814
Fundraising	211,238	-	211,238
Total expenses	9,337,128	-	9,337,128
RECLASSIFICATION OF NET ASSETS-			
Donation matching (Note 9)	(3,950)	3,950	-
CHANGE IN NET ASSETS	92,922	3,883,269	3,976,191
NET ASSETS, beginning of year	3,997,604	211,458,564	215,456,168
NET ASSETS, end of year	$ 4,090,526	215,341,833	219,432,359

See notes to financial statements.

THE UNIVERSITY OF TEXAS LAW SCHOOL FOUNDATION

STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND NET ASSETS RELEASED FROM RESTRICTIONS:			
Contributions	$ 464,023	10,023,711	10,487,734
Return on investments, net	591,354	9,733,296	10,324,650
Change in value of beneficial interests in charitable remainder trusts	-	1,025,880	1,025,880
Oil and gas royalties	465,620	-	465,620
Other revenues	165,561	51,510	217,071
Net assets released from restrictions	7,093,694	(7,093,694)	-
Total revenues and net assets released from restrictions	8,780,252	13,740,703	22,520,955
EXPENSES:			
Program services	7,693,744	-	7,693,744
General and administrative	766,606	-	766,606
Fundraising	383,357	-	383,357
Total expenses	8,843,707	-	8,843,707
RECLASSIFICATIONS OF NET ASSETS:			
Changes in donor restrictions	(441,099)	441,099	-
Donation matching (Note 9)	(88,500)	88,500	-
Total reclassifications of net assets	(529,599)	529,599	-
CHANGE IN NET ASSETS	(593,054)	14,270,302	13,677,248
NET ASSETS, beginning of year	4,590,658	197,188,262	201,778,920
NET ASSETS, end of year	$ 3,997,604	211,458,564	215,456,168

See notes to financial statements.

THE UNIVERSITY OF TEXAS LAW SCHOOL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2019

	Program Services	General and Administrative	Fundraising	Total
Endowment payout	$ 5,474,790	-	-	5,474,790
Support to the Law School	2,759,185	50,000	140,500	2,949,685
Personnel	-	289,528	-	289,528
Other assistance to the Law School (Note 13)	-	170,000	-	170,000
Building management	-	118,079	-	118,079
Finance and accounting	-	28,741	60,503	89,244
Insurance	-	38,682	-	38,682
Travel	-	4,613	-	4,613
Communications	-	1,788	-	1,788
Other	25,101	104,019	10,235	139,355
Total expenses before depreciation	8,259,076	805,450	211,238	9,275,764
Depreciation	-	61,364	-	61,364
Total expenses	$ 8,259,076	866,814	211,238	9,337,128

See notes to financial statements.

THE UNIVERSITY OF TEXAS LAW SCHOOL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED AUGUST 31, 2018

	Program Services	General and Administrative	Fundraising	Total
Endowment payout	$ 4,380,770	-	-	4,380,770
Support to the Law School	3,287,874	50,000	335,351	3,673,225
Personnel	-	278,843	-	278,843
Other assistance to the Law School (Note 13)	-	170,000	-	170,000
Building management	-	76,963	-	76,963
Finance and accounting	-	28,540	47,781	76,321
Insurance	-	17,529	-	17,529
Travel	-	2,609	-	2,609
Communications	-	1,788	-	1,788
Other	25,100	78,970	225	104,295
Total expenses before depreciation	7,693,744	705,242	383,357	8,782,343
Depreciation	-	61,364	-	61,364
Total expenses	$ 7,693,744	766,606	383,357	8,843,707

See notes to financial statements.

THE UNIVERSITY OF TEXAS LAW SCHOOL FOUNDATION

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

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 3,976,191	$ 13,677,248
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated investments	(398,540)	(2,058,525)
Net realized and unrealized losses (gains) on investments	3,006,453	(5,779,963)
Change in allowance for uncollectible contributions receivable	91,823	-
Change in discount to net present value for contributions receivable	(82,957)	-
Change in value of beneficial interests in charitable remainder trusts	(691,788)	(1,025,880)
Depreciation	61,364	61,364
Contributions restricted for perpetual endowments	(7,151,931)	(8,873,120)
Changes in operating assets and liabilities that provided (used) cash:		
Contributions receivable	1,341,497	1,101,445
Notes receivable	25,000	25,000
Prepaid expenses	156,003	(155,623)
Accounts payable and accrued expenses	158,384	6,980
Deferred revenue	2,000	(26,171)
Net cash provided by (used in) operating activities	493,499	(3,047,245)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(119,965,608)	(7,953,989)
Proceeds from sales of investments	101,759,528	5,346,735
Purchases of property and improvements	(26,400)	-
Net cash used in investing activities	(18,232,480)	(2,607,254)
CASH FLOWS FROM FINANCING ACTIVITIES-		
Contributions restricted for perpetual endowments	7,151,931	8,873,120
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,587,050)	3,218,621
CASH AND CASH EQUIVALENTS, beginning of year	11,445,148	8,226,527
CASH AND CASH EQUIVALENTS, end of year	$ 858,098	$ 11,445,148

See notes to financial statements.

1. ORGANIZATION

The University of Texas Law School Foundation (the "Foundation") was chartered in 1952 for the purpose of providing support to The University of Texas School of Law (the "Law School"). Such support includes administrative, faculty, and student support. The Foundation's revenues are derived primarily from investment return and contributions from donors, typically Law School alumni or law firms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements are presented 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").

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.

Net Asset Classifications - Net assets, revenues, gains, losses, and expenses 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 of Trustees (the "Board") for the Foundation's use.
>
> With Donor Restrictions **-** These net assets are subject to donor-imposed stipulations, which limit their use to a specific purpose and/or the passage of time, or which require them to be maintained permanently. Net assets which are required to be maintained permanently are not available for use in operations and limitations neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

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.

Investments - Investments are reported at fair value using a market approach. Investment transactions in marketable securities are recorded on the trade date and investment income is recorded when earned. Realized gains and losses are recorded as the difference between historical cost and the proceeds received from the sale of the investment. Unrealized gains and losses are recorded for the change in fair value of investments between reporting periods. Realized and unrealized gains or losses, interest, and dividends are reported as investment return or loss, net of related fees, in the statements of activities.

Contributions Receivable - Contributions receivable are recorded at the amount the Foundation expects to receive from donors. 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. Although the Foundation has not historically experienced significant uncollectible amounts, an allowance for uncollectible contributions receivable has been established (Note 5).

Beneficial Interests in Charitable Remainder Trusts - The Foundation has been named as a beneficiary of two irrevocable charitable remainder trusts. The investments are considered Level 2 under the fair value hierarchy and are recorded at fair value based on market prices provided by the third-party trustees.

Property and Improvements - Property and improvements are recorded at cost if purchased and at fair value on the date of receipt if donated. The Foundation capitalizes all additions over $5,000 with a useful life of at least one year and expenses maintenance and repairs that do not improve or extend the useful lives of the respective assets. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which is 22 years for the building and improvements.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the amount recorded may not be recoverable. An impairment loss is recognized by the amount in which the carrying amount of the asset exceeds fair value, if the carrying amount of the asset is not recoverable.

Deferred Revenue - Deferred revenue includes prepayments of rent from tenants or other prepayments for which the activity pertains to the subsequent fiscal year and will be included with other revenues in the statements of activities when the revenue is earned.

Contributions Revenue - All contributions are recorded at their fair value and are considered to be available for operations of the Foundation unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as net assets with donor restrictions, if they are received with donor stipulations that limit the use of donated assets. When donor restrictions expire, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the related net assets with donor restrictions are reclassified to net assets without donor restrictions. This is reported in the statements of activities as net assets released from restrictions. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

In-Kind Contributions - Non-cash items and other in-kind contributions are recorded at their fair value on the date they are received. Donated services are recognized as contributions during the period services are rendered if the services (a) create or enhance non-financial assets, and (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. In-kind contributions were not significant during the years ended August 31, 2019 and 2018.

Functional Allocation of Expenses - The accompanying financial statements present expenses by functional and natural classification. Natural expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Accordingly, certain costs have been allocated among the programs and supporting services using a variety of cost allocation techniques, such as time and effort.

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

Recently Adopted Accounting Pronouncement - In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not for Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not for profit entity's liquidity, financial performance, and cash flows. The guidance requires presentation on the face of the statement of financial position amounts for two classes of net assets at the end of the period, net assets with donor restrictions and net assets without donor restrictions, rather than the previously required three classes of net assets, unrestricted, temporarily restricted, and permanently restricted. Entities are also required to provide enhanced disclosures about liquidity, Board-designated amounts, and expense by both their natural and functional classification. The standard is effective for fiscal years beginning after December 15, 2017. During the year ended August 31, 2019, management implemented the new standard, the effect of which is reflected in the financial statements and within the footnotes.

As of August 31, 2018, reclassifications driven by the adoption of ASU 2016-14 consisted of amounts previously reported as unrestricted net assets now presented as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets now presented as net assets with donor restrictions.

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

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

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

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

Cash and cash equivalents	$ 858,098
Investments, excluding Level 3 investments (Note 6)	189,261,979
Contributions receivable due in less than one year	4,615,092
Beneficial interests in charitable remainder trusts	12,335,015
	207,070,184
Less amounts unavailable for general expenditure within one year:	
Donor-restricted endowment funds (Note 9)	(196,267,103)
Donor-restricted term endowment funds (Note 9)	(417,927)
Permanently donor-restricted contributions receivable for the endowment	(3,337,672)
Total financial assets available for general expenditure within one year	$ 7,047,482

The Board ensures the Foundation's financial stability by approving an annual budget prior to the start of each fiscal year. The Foundation maintains financial policies to ensure funds are allocated in a manner consistent with the mission of the Foundation. Certain net assets with donor restrictions that are temporarily restricted as to purpose have not been removed from the balance disclosed as available for general expenditure within one year, as those restrictions can or will be met as part of general operations within the next year.

4. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, investments, beneficial interests in charitable remainder trusts, and contributions receivable. 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. Investment securities, including those underlying the beneficial interests in charitable remainder trusts, 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 statements of financial position. Two third-party trustees hold beneficial interests in trust for the benefit of the Foundation. One trust accounted for 90% of the total balance as of August 31, 2019 and 2018.

The Foundation does not maintain collateral for its contributions receivable. As of August 31, 2019 and 2018, one donor accounted for 13% and 17%, respectively, of total contributions receivable. One donor comprised 16% and three donors comprised 32% of total contribution revenue during the years ended August 31, 2019 and 2018, respectively.

5. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following as of August 31:

Amounts expected to be collected in:	2019	2018
Less than one year	$ 4,615,092	$ 4,466,525
One to five years	4,635,748	6,120,312
More than five years	5,000	10,500
	9,255,840	10,597,337
Less allowance for uncollectible accounts	(329,000)	(237,177)
Less discount to net present value	(165,583)	(248,540)
Contributions receivable, net	$ 8,761,257	$ 10,111,620

The present value of anticipated future cash flows on long-term unconditional promises to give was calculated using a discount rate of 2% as of August 31, 2019 and 2018.

6. INVESTMENTS

Investments reported at fair value were as follows as of August 31, 2019:

	Fair Value Measurements Using:			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Equity and balanced mutual funds	$ 88,833,946	$ -	$ -	$ 88,833,946
Common stock	22,988,944	-	-	22,988,944
Fixed income mutual funds	19,559,232	-	-	19,559,232
Cash and cash equivalents	8,522,990	-	-	8,522,990
Art	-	-	2,882,348	2,882,348
Real estate and other investments	919,665	-	138,181	1,057,846
	$ 140,824,777	$ -	$ 3,020,529	143,845,306
Investments measured at NAV (TIFF Funds)				48,437,202
Total investments at fair value				$ 192,282,508

Investments reported at fair value were as follows as of August 31, 2018:

	Fair Value Measurements Using:			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Common stock	$ 21,452,385	$ -	$ -	$ 21,452,385
Cash and cash equivalents	10,172,884	-	-	10,172,884
Art	-	-	2,882,348	2,882,348
Real estate and other investments	87,586	-	153,806	241,392
	$ 31,712,855	$ -	$ 3,036,154	34,749,009
Investments measured at NAV (TIFF Funds)				141,935,332
Total investments at fair value				$ 176,684,341

The $15,625 decrease in Level 3 investments during the year ended August 31, 2019 is due to a sale of property held in donor-restricted endowment funds. There were no other changes in fair value or transfers in or out of the Foundation's Level 3 investments during the years ended August 31, 2019 and 2018.

Common stock and mutual funds are valued at the closing price reported by an active market on which the individual securities are traded. Art and real estate are valued at appraised values and, as the observable inputs are minimal, these assets are classified within Level 3 of the fair value hierarchy.

The TIFF Multi-Asset Fund ("MAF") consisted primarily of common stocks, private investment funds, bonds, exchange-traded funds, and other short-term investments valued daily. The MAF was liquidated during the year ended August 31, 2019. The TIFF Keystone Fund, L.P. ("TKF") is a limited partnership in which the Foundation holds an ownership as a limited partner. TKF invests globally in multiple asset classes and in both publically traded and privately placed securities, properties, and other assets, either directly or through investment funds, including private equity funds, private realty funds, natural resources funds, and hedge funds. The Foundation takes into consideration consultation with the funds' investment managers and related audited financial information to determine the overall reasonableness of fair values reported. Both the MAF and TKF investments (collectively, the "TIFF Funds") are measured at fair value using the NAV practical expedient and have therefore been excluded from the fair value hierarchy leveling table. There are no unfunded commitments to the TIFF Funds, and funds are redeemable upon request, subject to the time limits noted below; however, the private equity funds within TKF may not be able to be liquidated quarterly. It may take a year or more to redeem all of these funds.

The investment strategy for these investments is to attain a growing stream of current income and appreciation of principal that offsets inflation (Note 9).

Liquidation restrictions related to the TIFF Funds consisted of the following as of August 31:

	Fair Value at August 31, 2019	Fair Value at August 31, 2018	Number of Investments	Redemption Frequency
MAF	$ -	$ 96,633,636	1	Daily
TKF	48,437,202	45,301,696	1	Quarterly
Total TIFF Funds	$ 48,437,202	$ 141,935,332		

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. Furthermore, the regulatory environment for private equities is evolving, and changes in regulation related to these funds could affect the fair value of the investments held by the Foundation. The Foundation believes that the effect of any future regulatory change on the Foundation's assets would not be material.

Return on investments was comprised of the following during the years ended August 31:

	2019	2018
Interest and dividends	$ 7,293,964	$ 4,822,974
Unrealized gains, net	14,279,868	6,193,014
Realized losses, net	(17,286,321)	(413,051)
Investment fees	(782,419)	(278,287)
Return on investments, net	$ 3,505,092	$ 10,324,650

7. BENEFICIAL INTERESTS IN CHARITABLE REMAINDER TRUSTS

The charitable remainder trusts hold investments in cash equivalent funds, common stock, and bond funds. The larger of the two trusts will establish an endowed chair for the Law School. The smaller trust will establish a scholarship fund to assist financially needy students at the Law School. These trusts provide for the payment of distributions to designated beneficiaries over the trusts' terms (the designated beneficiaries' lifetimes). The present value attributable to the future interest of the Foundation was treated as a permanently donor-restricted contribution in the period that each trust was established, and the amounts are reflected in the donor-restricted endowment (Note 9). In subsequent years, the change in present value attributable to the future interest is recorded as an increase or decrease in net assets with donor restrictions.

Because the third-party trustees have the discretion to make gifts of net income to charitable, religious, and educational organizations, and based on the trustees' history of distributing gifts to such organizations, it has been assumed that the return on investments not distributed by the trustees approximates the discount rate used by the Foundation to calculate the present value of its remainder interest. Therefore, the present value is assumed to be the current value of the assets in the trust. There are certain real estate and mineral interests where only book value is provided by the trustee. Therefore, balances presented may be different between the fair value and book value of those assets; however management does not believe any differences would be material to the financial statements.

8. PROPERTY AND IMPROVEMENTS

Property and improvements consisted of the following as of August 31:

	2019	2018
Buildings and improvements	$ 1,376,400	$ 1,350,000
Less accumulated depreciation	(258,906)	(197,542)
Buildings and improvements, net	1,117,494	1,152,458
Land	4,201,340	4,201,340
Total property and improvements, net	$ 5,318,834	$ 5,353,798

9. ENDOWMENTS

The Foundation's endowments comprised approximately 600 individual funds, classified according to donors' restrictions as term endowments or true donor-restricted endowments. Term endowments are similar to true donor-restricted endowment funds except that both the income and corpus of the funds may be used for purposes stipulated by the donors. The term endowment funds are classified as net assets with donor restrictions until those funds are appropriated for expenditure by the Foundation in a manner consistent with the donor intention.

Net assets with donor restrictions included term endowments to support the following purposes as of August 31:

	2019	2018
Faculty development and excellence	$ -	$ 374,837
Scholarships	105,951	114,502
Lectureships	53,755	58,230
Others	258,221	253,836
Total term endowments	$ 417,927	$ 801,405

The Foundation 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 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. The earnings portion of the donor-restricted 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:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

In certain donor endowment agreements the Foundation has agreed to match donations and these contributions are to be included in the corpus of the permanent endowment. These changes in donor restrictions and donation matching amounts are reflected as reclassifications of net assets in the statements of activities.

Net assets with permanent donor restrictions comprised true donor-restricted endowments to support the following purposes as of August 31:

	2019	2018
Scholarships	$ 77,792,996	$ 71,873,706
Chairs	35,524,103	34,371,005
Faculty development and excellence	16,610,140	16,510,140
Centers and clinics	11,233,269	7,538,422
Professorships	5,406,406	5,406,406
Library	3,228,971	3,218,971
Advocacy	2,035,368	2,035,368
Research professorships	1,212,508	2,212,508
Lectureships	782,356	782,356
Fellowships	194,099	194,099
Other purposes	9,008,172	12,523,298
	$ 163,028,388	$ 156,666,279

Investment Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

The Foundation employs independent professional asset managers and financial advisors to manage its endowment assets. The Foundation's Investment Committee provides oversight and recommends asset managers and the allocation of assets among managers.

MAF sought to achieve a total return (price appreciation plus dividends) that, over a majority of market cycles, exceeds inflation, as measured by the Consumer Price Index ("CPI"), plus 5%. MAF invested in a globally broad portfolio of equities, fixed income instruments, real estate investment trusts, commodities, and other securities. A portion of the fund was also carefully allocated to select hedge fund investments. MAF was liquidated as of August 31, 2019 and the funds were transferred to US Bank. US Bank funds are invested in cash and equivalents and mutual funds as of August 31, 2019.

TKF provides a multi-manager core endowment strategy for nonprofit organizations. TKF has a broad return goal of CPI plus 5%. TKF seeks to maximize annualized returns net of all costs over rolling ten-year periods while limiting to not greater than 10% the probability of a 25% or greater decline in inflation-adjusted value measured over any rolling three-year period.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of appropriating for distribution each year a percentage of its endowment funds' average fair values over the 12 quarters ending December 31 of the preceding year. For the years ended August 31, 2019 and 2018, the spending rates from endowments was 4.0%. The Foundation also has a policy to annually evaluate distributions from endowments where the fair value is less than 100% of the corpus, and make distributions from these endowments on a case by case basis. In establishing these policies, the Foundation considered the long-term expected return on its endowment assets and the long-term nature of an endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowments to grow at a rate greater than inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets with donor restrictions, excluding term endowments, during the year ended August 31, 2019 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 191,107,732	$ 191,107,732
Contributions	-	7,157,149	7,157,149
Change in beneficial interests	-	691,788	691,788
Donation matching	-	3,950	3,950
Return on investments	-	3,518,135	3,518,135
Management fee		(699,679)	(699,679)
Appropriations	-	(5,511,972)	(5,511,972)
Endowment net assets, end of year	$ -	$ 196,267,103	$ 196,267,103

Changes in endowment net assets with donor restrictions, excluding term endowments, during the year ended August 31, 2018 were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ (5,296)	172,764,909	$ 172,759,613
Contributions	-	8,941,247	8,941,247
Change in beneficial interests	-	1,025,880	1,025,880
Change in donor restrictions	-	3,292,289	3,292,289
Donation matching	-	88,500	88,500
Return on investments	5,296	9,733,296	9,738,592
Appropriations	-	(4,738,389)	(4,738,389)
Endowment net assets, end of year	$ -	191,107,732	$ 191,107,732

Descriptions of endowment net assets, excluding term endowments, classified with donor restrictions were as follows as of August 31:

	2019	2018
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	$ 156,526,995	$ 148,727,413
Temporarily donor-restricted net assets- The portion of perpetual endowment funds subject to a restriction under TUPMIFA	$ 39,740,108	$ 42,380,319

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes as of August 31:

	2019	2018
Temporarily donor-restricted net assets, including unappropriated endowment earnings:		
Scholarships	$ 14,853,012	$ 14,723,698
Faculty development and excellence	13,286,910	14,364,302
Chairs	8,361,698	9,278,632
Professorships	4,034,302	4,271,717
Centers and clinics	3,494,010	2,882,738
Library	1,801,954	1,928,987
Advocacy	663,086	729,712
Research professorships	548,652	814,792
Lectureships	380,974	348,416
Fellowships	163,947	172,810
Other purposes	4,724,900	5,276,481
Permanently donor-restricted endowments (corpus only, including contributions receivable)	163,028,388	156,666,279
Total	$ 215,341,833	$ 211,458,564

11. CONDITIONAL PROMISES TO GIVE

The Foundation has received indications of gifts in the form of bequests which are revocable during the donors' lifetime. Due to the uncertain nature of these intentions, the Foundation has not recognized an asset or contribution revenue for these gifts. Further, the total amount of these intentions cannot be determined. These gifts will be recorded as contribution revenue in the period that they become unconditional.

12. EMPLOYEE RETIREMENT PLAN

The Foundation sponsors a safe harbor 401(k) retirement plan (the "Plan") for certain employees over the age of 21 who have completed 1,000 hours of service. Eligible participants may elect to contribute a percentage of their compensation within the limits established by the Internal Revenue Code. The Foundation makes a contribution equal to 15% of the employee's salary each Plan year, which is 100% vested to the employee. The Foundation may also make additional discretionary contributions to eligible participants. The Foundation contributed $34,316 and $32,376 to the Plan during the years ended August 31, 2019 and 2018, respectively.

13. RELATED PARTY TRANSACTIONS

Board members made contributions to the Foundation during the years ended August 31, 2019 and 2018 totaling $1,014,075 and $287,654, respectively. Contributions receivable from Board members totaled $1,356,830 and $1,054,251 as of August 31, 2019 and 2018, respectively.

The Foundation has a memorandum of understanding with the Law School to provide space, utilities, equipment, and assistance with development activities. Payments made to the Law School for such assistance during the years ended August 31, 2019 and 2018 totaled $170,000.

14. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through November 6, 2019 (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.