

The University of Texas Law School Foundation

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended August 31, 2023 and 2022

The University of Texas Law School Foundation

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The University of Texas Law School Foundation, which comprise the consolidated statements of financial position as of August 31, 2023 and 2022, and the related consolidated statements of activities and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of The University of Texas Law School Foundation as of August 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of The University of Texas Law School Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Restatement of 2022 Financial Statements

As discussed in Note 2 to the financial statements, the 2022 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The University of Texas Law School Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University of Texas Law School Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The University of Texas Law School Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blazek & Vetterling

January 11, 2024

The University of Texas Law School Foundation

Consolidated Statements of Financial Position as of August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 854,893	\$ 1,091,212
Prepaid expenses	45,923	17,264
Non-endowed:		
Contributions receivable (Note 4)	1,818,376	1,842,821
Investments (Notes 5 and 6)	18,159,033	17,958,142
Beneficial interest in charitable remainder trust (Notes 6 and 7)	1,302,534	1,263,510
Endowed:		
Contributions receivable (Note 4)	2,321,133	1,535,685
Investments (Notes 5 and 6)	237,829,413	225,770,112
Beneficial interest in charitable remainder trust (Notes 6 and 7)	<u>14,785,722</u>	<u>13,979,369</u>
TOTAL ASSETS	<u>\$ 277,117,027</u>	<u>\$ 263,458,115</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other liabilities	\$ 58,239	\$ 70,367
Distributions payable	<u>1,311,672</u>	<u>2,152,799</u>
Total liabilities	<u>1,369,911</u>	<u>2,223,166</u>
Commitments (Note 6)		
Net assets:		
Without donor restrictions	8,845,231	7,229,396
With donor restrictions (Notes 8 and 9)	<u>266,901,885</u>	<u>254,005,553</u>
Total net assets	<u>275,747,116</u>	<u>261,234,949</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 277,117,027</u>	<u>\$ 263,458,115</u>

See accompanying notes to consolidated financial statements.

The University of Texas Law School Foundation

Consolidated Statement of Activities for the year ended August 31, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 443,390	\$ 9,464,485	\$ 9,907,875
Investment return <i>(Note 5)</i>	986,066	15,892,213	16,878,279
Change in value of beneficial interests in charitable remainder trusts		845,377	845,377
Oil and gas royalties	<u>361,725</u>		<u>361,725</u>
Total revenue	1,791,181	26,202,075	27,993,256
Net assets released from restrictions:			
Support to The University of Texas School of Law	12,408,490	(12,408,490)	
Endowment management fee	809,877	(809,877)	
Foundation matching gifts	(42,500)	42,500	
Reclassification of donor restrictions	<u>129,876</u>	<u>(129,876)</u>	
Total	<u>15,096,924</u>	<u>12,896,332</u>	<u>27,993,256</u>
EXPENSES:			
Program services:			
Support to The University of Texas School of Law	12,618,400		12,618,400
Other expenses	<u>43,635</u>		<u>43,635</u>
Total program services	12,662,035		12,662,035
Management and general:			
Salaries and related costs	353,164		353,164
Other	<u>269,487</u>		<u>269,487</u>
Total management and general	622,651		622,651
Fundraising:			
Other	<u>196,403</u>		<u>196,403</u>
Total expenses	<u>13,481,089</u>		<u>13,481,089</u>
CHANGES IN NET ASSETS	1,615,835	12,896,332	14,512,167
Net assets, beginning of year	<u>7,229,396</u>	<u>254,005,553</u>	<u>261,234,949</u>
Net assets, end of year	<u>\$ 8,845,231</u>	<u>\$ 266,901,885</u>	<u>\$ 275,747,116</u>

See accompanying notes to consolidated financial statements.

The University of Texas Law School Foundation

Consolidated Statement of Activities for the year ended August 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 457,399	\$ 12,710,929	\$ 13,168,328
Investment return <i>(Note 5)</i>	(933,403)	(28,692,473)	(29,625,876)
Change in value of beneficial interests in charitable remainder trusts		1,293,337	1,293,337
Oil and gas royalties	<u>450,826</u>	<u> </u>	<u>450,826</u>
Total revenue	(25,178)	(14,688,207)	(14,713,385)
Net assets released from restrictions:			
Support to The University of Texas School of Law	10,022,302	(10,022,302)	
Endowment management fee	776,788	(776,788)	
Foundation matching gifts	<u>(325,500)</u>	<u>325,500</u>	<u> </u>
Total	<u>10,448,412</u>	<u>(25,161,797)</u>	<u>(14,713,385)</u>
EXPENSES:			
Program services:			
Support to The University of Texas School of Law	10,284,978		10,284,978
Other expenses	<u>29,550</u>		<u>29,550</u>
Total program services	10,314,528		10,314,528
Management and general:			
Salaries and related costs	335,443		335,443
Other	<u>263,149</u>		<u>263,149</u>
Total management and general	598,592		598,592
Fundraising:			
Other	<u>138,029</u>		<u>138,029</u>
Total expenses	<u>11,051,149</u>		<u>11,051,149</u>
CHANGES IN NET ASSETS	(602,737)	(25,161,797)	(25,764,534)
Net assets, beginning of year, as restated <i>(Note 2)</i>	<u>7,832,133</u>	<u>279,167,350</u>	<u>286,999,483</u>
Net assets, end of year	<u>\$ 7,229,396</u>	<u>\$ 254,005,553</u>	<u>\$ 261,234,949</u>

See accompanying notes to consolidated financial statements.

The University of Texas Law School Foundation

Consolidated Statements of Cash Flows for the years ended August 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 14,512,167	\$ (25,764,534)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Donated investments	(191,441)	(1,476,642)
Net realized and unrealized (gain) loss on investments	(13,425,060)	32,901,465
Change in beneficial interests in charitable remainder trusts	(845,377)	(1,293,337)
Contributions restricted for perpetual endowments	(5,851,924)	(7,151,621)
Changes in operating assets and liabilities:		
Contributions receivable	24,445	(1,082,865)
Prepaid expenses	(28,659)	17,740
Accounts payable and other liabilities	(12,128)	17,709
Distributions payable	(841,127)	412,440
Net cash used by operating activities	<u>(6,659,104)</u>	<u>(3,419,645)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(32,313,999)	(29,798,885)
Proceeds from sales of investments	33,298,503	26,903,173
Net change in money market mutual funds	<u>371,805</u>	<u>(527,874)</u>
Net cash provided (used) by investing activities	<u>1,356,309</u>	<u>(3,423,586)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for perpetual endowments	<u>5,066,476</u>	<u>7,839,321</u>
NET CHANGE IN CASH	(236,319)	996,090
Cash, beginning of year	<u>1,091,212</u>	<u>95,122</u>
Cash, end of year	<u>\$ 854,893</u>	<u>\$ 1,091,212</u>

See accompanying notes to consolidated financial statements.

The University of Texas Law School Foundation

Notes to Consolidated Financial Statements for the years ended August 31, 2023 and 2022

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – The University of Texas Law School Foundation (the Foundation) was chartered in 1952 exclusively for the benefit of The University of Texas to support to The University of Texas School of Law’s (the Law School) legal education, legal research, financial assistance to deserving students, and the progress of the law.

UTLSF Holdings, LLC (the LLC), a wholly-owned subsidiary of the Foundation, was formed in 2016 for the purpose of managing and holding the ownership of real estate.

Basis of consolidation – These financial statements include the assets, liabilities, net assets, and activities of the Foundation and the LLC. All balances and transactions between the consolidated entities have been eliminated.

Federal income tax status – The Foundation is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi), except for any net income from unrelated business activities. The LLC is a disregarded entity for federal income tax purposes.

Cash – Bank deposits exceed the federally insured limit per depositor per institution. Cash held for long-term investment purposes is grouped with investments in the statement of financial position and is excluded from cash in the statement of cash flows.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are discounted to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. An allowance for uncollectible amounts is provided when management believes balances may not be collected in full based upon historical experience and analysis of individual balances. Approximately 35% of contributions receivable are from three donors at August 31, 2023.

Investments in marketable securities are reported at fair value. Investments in hedge funds, venture capital, and private equity funds are reported at fair value based upon net asset values as reported by the general partners or managers of each fund. Realized gains and losses on securities sold are determined using the specific identification method. Purchases and sales of marketable securities are recorded on a trade-date basis. Unrealized gains and losses on securities arise from increases or decreases in fair value. Interest and dividends are recognized when earned.

Beneficial interests in charitable remainder trusts – The Foundation is a beneficiary of two irrevocable charitable remainder trusts recorded at fair value.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.

- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Foundation matching gifts – The Board of Trustees (the Board) has established a legacy giving challenge whereby planned gifts are matched to support a project or program stipulated by the donor. At the time of the match, the Board relinquishes its right to remove the designation established and net assets without donor restrictions are reclassified to *with donor restrictions* to match the donor’s restriction.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the Foundation is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Occupancy costs are allocated based on usage of related facilities.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – RESTATEMENT OF BEGINNING NET ASSETS

The Foundation did not recognize certain distributions payable in the period in which an unconditional commitment had been made. The following amounts were restated in the previously issued 2022 financial statements.

	<u>RESTATED</u>	AS PREVIOUSLY <u>ISSUED</u>	INCREASE/ <u>(DECREASE)</u>
Total liabilities	\$2,223,166	\$70,367	\$2,152,799
Beginning net assets with donor restrictions	\$286,999,483	\$288,739,842	\$(1,740,359)
Ending net assets with donor restrictions	\$261,234,949	\$263,387,748	\$(2,152,799)
Total expenses	\$11,051,149	\$10,638,709	\$412,440

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets are invested for long-term appreciation and current income for the purpose of supporting the Law School. The Foundation has financial assets of \$277.1 million at August 31, 2023 and \$263.4 million at August 31, 2022, including non-liquid investments and beneficial interests in charitable remainder trusts of \$17.2 million at August 31, 2023 and \$22.0 million at August 31, 2022, which are subject to donor restrictions and prudent spending policies. The Foundation's general expenditures consist of distributions to the Law School for legal education, legal research, financial assistance to deserving students, and the progress of the law, as well as the conduct of services undertaken to support those activities. The Foundation makes financial assets available to fund general expenditures, as needed. At August 31, 2023, the Foundation has approved distributions from its endowment of approximately \$8.9 million for 2024. At August 31, 2022, the Foundation had approved distributions from its endowment of approximately \$8.4 million for 2023.

The Foundation's Board, in conjunction with the Outsourced Chief Investment Officer (OCIO), are responsible for reviewing asset allocations and risk profiles needed to reasonably support the liquidity and spending needs of the Foundation.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2023</u>	<u>2022</u>
Contributions receivable	\$ 4,423,522	\$ 3,662,519
Less allowance for uncollectible accounts	(163,635)	(163,635)
Discount to net present value at 3.46%	<u>(120,378)</u>	<u>(120,378)</u>
Total contributions receivable, net	4,139,509	3,378,506
Less: Contributions receivable for endowment, net	<u>(2,321,133)</u>	<u>(1,535,685)</u>
Contributions receivable, operating	<u>\$ 1,818,376</u>	<u>\$ 1,842,821</u>

Contributions receivable at August 31, 2023 are due to be collected as follows:

Receivable in one year	\$ 1,814,222
Receivable in one to five years	2,449,300
Receivable in more than five years	<u>160,000</u>
Total contributions receivable	<u>\$ 4,423,522</u>

NOTE 5 – INVESTMENTS

Investments consist of the following:

	<u>2023</u>	<u>2022</u>
Mutual funds	\$ 146,563,735	\$ 142,012,232
Hedge funds	56,002,207	50,725,116
Venture capital	20,243,980	21,697,409
Private equity	10,723,547	6,786,706
Real estate	6,930,147	6,930,147
Exchange-traded funds – real estate	6,610,749	7,072,636
Common trust fund	5,254,963	4,844,890
Art	<u>3,659,118</u>	<u>3,659,118</u>
Total investments	<u>\$ 255,988,446</u>	<u>\$ 243,728,254</u>

Investment return includes earnings on cash and consists of the following:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 3,740,422	\$ 3,636,684
Net realized and unrealized gain (loss)	13,425,060	(32,901,465)
Rental income, net	231,197	218,947
Investment fees	<u>(518,400)</u>	<u>(580,042)</u>
Total investment return, net	<u>\$ 16,878,279</u>	<u>\$ (29,625,876)</u>

NOTE 6 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Investments in partnerships, which do not have a readily determinable fair value and are not traded on a public exchange, are measured at net asset value per share (or its equivalent) using the practical expedient and are not required to be assigned a level within the fair value hierarchy.

Assets measured at fair value at August 31, 2023 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Mutual funds:				
Equity:				
Large blend	\$ 64,490,424			\$ 64,490,424
International	34,985,734			34,985,734
Small cap	11,330,223			11,330,223
Fixed income	19,957,856			19,957,856
Balanced	15,043,668			15,043,668
Money market	755,830			755,830
Real estate		\$ 6,930,147		6,930,147
Exchange-traded funds – real estate	6,610,749			6,610,749
Common trust fund		5,254,963		5,254,963
Art		3,659,118		3,659,118
Beneficial interests in charitable remainder trusts			<u>\$ 16,088,256</u>	<u>16,088,256</u>
Total assets in fair value hierarchy	<u>\$ 153,174,484</u>	<u>\$ 15,844,228</u>	<u>\$ 16,088,256</u>	185,106,968
Investments in partnerships measured at net asset value as a practical expedient:				
Hedge funds				56,002,207
Venture capital				20,243,980
Private equity				<u>10,723,547</u>
Total assets measured at fair value				<u>\$ 272,076,702</u>

Assets measured at fair value at August 31, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Mutual funds:				
Equity:				
Large blend	\$ 61,425,835			\$ 61,425,835
International	31,561,081			31,561,081
Small cap	10,950,672			10,950,672
Fixed income	26,087,572			26,087,572
Balanced	10,859,437			10,859,437
Money market	1,127,635			1,127,635
Real estate		\$ 6,930,147		6,930,147
Exchange-traded funds – real estate	7,072,636			7,072,636
Common trust fund		4,844,890		4,844,890
Art		3,659,118		3,659,118
Beneficial interests in charitable remainder trusts			\$ 15,242,879	15,242,879
Total assets in fair value hierarchy	<u>\$ 149,084,868</u>	<u>\$ 15,434,155</u>	<u>\$ 15,242,879</u>	179,761,902
Investments in partnerships measured at net asset value as a practical expedient:				
Hedge funds				50,725,116
Venture capital				21,697,409
Private equity				<u>6,786,706</u>
Total assets measured at fair value				<u>\$ 258,971,133</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* and *common trust fund* are valued at the reported net asset value.
- *Private equity*, *hedge funds* and *venture capital funds* are valued using the net asset value (NAV) per share. Certain partnerships and hedge funds are valued at NAV (or its equivalent) as a practical expedient to determine fair value and are not required to be categorized by level in the fair value hierarchy. NAV is based on information provided to the Foundation by the general partners or fund manager of each fund. Management takes into consideration consultation with fund investment managers and audited financial information to determine the overall reasonableness of the recorded fair values.
- *Real estate* and *art collection* are valued at estimated fair value as determined by management based upon periodic independent appraisals.
- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Beneficial interests in charitable remainder trusts* are valued as described in Note 7.

There were no purchases or sales of investments categorized as Level 3 during 2023 and 2022.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

<u>STRATEGY</u>	<u>2023 FAIR VALUE</u>	<u>2022 FAIR VALUE</u>	<u>UNFUNDED COMMITMENTS</u>	<u>REMAINING LIFE FOR LOCK-OUT PERIOD</u>	<u>REDEMPTION TERMS</u>
Hedge – Invests in and sells long and short securities and instruments with the goal of maximizing long-term return while emphasizing preservation of capital.	\$56,002,207	\$50,725,116	\$3,158,350	None.	Quarterly or annual liquidity with 45-days’ to 90-days’ notice. The general partner is not required to liquidate or encumber assets to satisfy redemption requests and may defer requests.
Venture capital – Invests globally in multiple asset classes and in both publicly 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 to maximize annual returns, net of all costs over rolling 10-year periods.	\$20,243,980	\$21,697,409	\$3,616,618	None.	Quarterly liquidity with 180-days’ notice. The general partner may suspend or limit withdrawals.
Private equity – Invests in a diversified portfolio of partnerships that invest in less liquid and/or longer duration private and public securities, real estate and real estate related assets, equity and equity-related securities of management buyout transactions, debt and equity financing, leveraged buyouts, venture capital, and technology.	\$10,723,547	\$6,786,706	\$25,699,271	Funds dissolve between 2026 and 2033 subject to extension or early termination. May be further extended by the general partners subject to approval by the limited partners.	Distributions are made solely at the discretion of the general partners. The Foundation has no ability for redemption, except in limited cases.
Total	\$86,969,734	\$79,209,231	\$32,474,239		

NOTE 7 – BENEFICIAL INTERESTS IN CHARITABLE REMAINDER TRUSTS

The charitable remainder trusts hold investments in cash and cash equivalents, common stock, fixed-income funds, and mineral interests. 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 students with financial need at the Law School. These trusts provide for the payment of distributions to designated beneficiaries over the trust terms (the designated beneficiaries' lifetimes).

The present value attributable to the future interest of the Foundation was treated as a perpetually restricted contribution in the period that each trust was established, and the amounts are reflected in donor-restricted endowments (see Note 8). 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 consolidated financial statements.

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Faculty development and excellence	\$ 4,624,597	\$ 5,794,992
Centers and clinics	3,219,569	2,271,504
Scholarships	1,175,449	1,673,891
Pipeline program diversity initiative	1,173,950	1,274,450
Strauss Center cybersecurity program	670,000	400,000
Atheneum project	548,912	728,912
Lectureships	25,000	25,000
Other	<u>528,140</u>	<u>551,638</u>
Total subject to expenditure for specified purpose	11,965,617	12,720,387
Donor-restricted endowments subject to spending policy and appropriation:		
Scholarships	130,091,405	120,616,316
Chairs	54,273,379	52,353,643
Faculty development and excellence	25,175,282	24,549,148
Centers and clinics	16,095,522	15,274,192
Professorships	10,905,927	10,618,449
Library	5,673,876	5,533,244
Advocacy	5,477,699	5,339,451
Research professorships	2,051,298	1,998,264
Dean's discretionary fund	1,647,648	1,606,674
Lectureships	1,380,031	1,344,547
Fellowships	420,120	409,201
Other	<u>1,744,081</u>	<u>1,642,037</u>
Total endowments subject to spending policy and appropriation	<u>254,936,268</u>	<u>241,285,166</u>
Total net assets with donor restrictions	<u>\$ 266,901,885</u>	<u>\$ 254,005,553</u>

NOTE 9 – ENDOWMENTS

The endowment includes more than 750 individual funds that were established to support a variety of purposes. The Foundation is subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA), which has been enacted by the State of Texas. The Foundation has interpreted 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. As a result of this interpretation, the Foundation classifies the original value of gifts donated to the perpetual endowment and accumulated investment return subject to appropriation as *net assets with donor restrictions*. In accordance with TUPMIFA, the Foundation considers the duration and preservation of the funds and other resources of the Law School in making a determination to appropriate accumulated donor-restricted funds.

An endowment fund is *underwater* if the fair value of the fund’s investments falls below the amount required to be maintained in perpetuity because of declines if the fair value of investments and/or continued appropriation and spending in accordance with prudent spending policies. There were no such deficiencies at August 31, 2023 or 2022.

Changes in endowment net assets, excluding term endowments, are as follows:

	WITH DONOR RESTRICTIONS		TOTAL
	AVAILABLE FOR APPROPRIATION	REQUIRED TO BE MAINTAINED IN PERPETUITY	
Endowment net assets, August 31, 2021	\$ 96,903,684	\$ 172,500,942	\$ 269,404,626
Contributions		7,151,621	7,151,621
Change in beneficial interests	(147,106)	1,440,443	1,293,337
Return on investments	(28,692,473)		(28,692,473)
Appropriations	<u>(7,871,945)</u>		<u>(7,871,945)</u>
Endowment net assets, August 31, 2022	60,192,160	181,093,006	241,285,166
Contributions		5,861,924	5,861,924
Change in beneficial interests	39,024	806,353	845,377
Return on investments	15,892,213		15,892,213
Appropriations	<u>(8,948,412)</u>		<u>(8,948,412)</u>
Endowment net assets, August 31, 2023	<u>\$ 67,174,985</u>	<u>\$ 187,761,283</u>	<u>\$ 254,936,268</u>

Investment Objectives

The Foundation’s investment objective is to preserve its purchasing power, while providing a continuing and stable funding source to support the current and future mission of the Law School. To accomplish this objective, the Foundation seeks to generate a total return that will exceed not only its operating expenses, but also all expenses associated with managing the fund and the eroding effects of inflation. It is the intention that all total return (interest income, dividends, realized gains, and unrealized gains), above and beyond the amount approved for expenditure or distribution, will be reinvested. Investments will be managed on a total return basis, consistent with the applicable standard of conduct set forth in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Foundation employs an outsourced investment office to provide expertise in the management of the investment portfolio. The Foundation’s Investment Committee provides oversight and monitors the investment and financial objectives of the Foundation.

Spending Policies

The Foundation has a policy of appropriating for distribution each year a percentage of its endowment funds' average fair value over the 12 quarters ending December 31 of the preceding fiscal year. For the years ended August 31, 2023 and 2022, the distribution 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.

NOTE 10 – 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 \$43,331 and \$41,082 to the Plan during the years ended August 31, 2023 and 2022, respectively.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Foundation has a memorandum of understanding with the Law School to provide space, utilities, equipment, and assistance with development activities. During 2023 and 2022, the Foundation paid the Law School \$80,000 under this memorandum for each year, respectively. Additionally, the Foundation reimburses the Law School for expenses incurred on its behalf relating to development activities. During 2023 and 2022, the Foundation paid the Law School \$175,000 and \$115,000, respectively, for such expenses.

NOTE 12 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 11, 2024, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
