



**FINANCIAL STATEMENTS**

**Years Ended December 31, 2022 and 2021  
with Report of Independent Auditors**

**SOUTHWESTERN  
MEDICAL FOUNDATION**

**FINANCIAL STATEMENTS**

**Years Ended December 31, 2022 and 2021**

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## REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of  
Southwestern Medical Foundation

### Opinion

We have audited the financial statements of Southwestern Medical Foundation (the “Foundation”), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and the results of its activities and 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 (“GAAP”).

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (“GAAS”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, 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 Foundation’s ability to continue as a going concern for one year after the date that the financial statements are issued.

## **Auditor's 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 auditor's 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 GAAS 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 GAAS, 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 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 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.

*Whitley Penn LLP*

Dallas, Texas  
April 20, 2023

**SOUTHWESTERN MEDICAL FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Assets</b>		
Investments, at market:		
Pooled investments	\$ 1,096,795,318	\$ 1,291,905,357
Non-pooled investments		
Assets held in charitable remainder trusts	2,050,335	2,411,072
Assets held in charitable gift annuities	6,070,358	7,312,776
Beneficial interest in perpetual trusts	694,286	876,339
Real estate	49,014	49,014
Other	334,598	334,598
Total non-pooled investments	9,198,591	10,983,799
Total investments	1,105,993,909	1,302,889,156
Cash and cash equivalents	7,764,277	7,955,238
Accrued interest and dividends receivable	306,730	447,280
Pledges receivable, net	7,518,179	5,919,960
Other receivables	2,140	570,706
Right-of-use asset	719,213	-
Other assets	698,719	715,646
Total assets	\$ 1,123,003,167	\$ 1,318,497,986
<b>Liabilities and Net Assets</b>		
Liabilities:		
Grants and scholarships payable	\$ 1,110,009	\$ 1,275,506
Accrued liabilities	528,009	483,796
Liability under split-interest agreements	3,255,158	3,944,891
Lease liability	785,924	-
Total liabilities	5,679,100	5,704,193
Commitments and contingencies		
Net assets:		
Without donor restrictions	58,650,743	70,872,009
With donor restrictions	1,058,673,324	1,241,921,784
Total net assets	1,117,324,067	1,312,793,793
Total liabilities and net assets	\$ 1,123,003,167	\$ 1,318,497,986

See accompanying notes to financial statements.

**SOUTHWESTERN MEDICAL FOUNDATION**

**STATEMENT OF ACTIVITIES**

**Year Ended December 31, 2022**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenue and support:			
Contributions and pledges at present value	\$ 2,065,081	\$ 21,843,878	\$ 23,908,959
Change in value of split interest agreements	(98,211)	(684,234)	(782,445)
Investment income, net of expenses	922,756	13,600,438	14,523,194
Net assets released from restrictions	76,517,486	(76,517,486)	-
Total revenue and support	<u>79,407,112</u>	<u>(41,757,404)</u>	<u>37,649,708</u>
Expenses:			
Program services through grants benefiting:			
Medical education and scholarships	7,672,145	-	7,672,145
Medical research activities	57,773,134	-	57,773,134
Medical care, centers, hospitals, and other	9,659,929	-	9,659,929
Grant support expenses	1,298,935	-	1,298,935
Total program services	<u>76,404,143</u>	<u>-</u>	<u>76,404,143</u>
Supporting services:			
Management and general	2,406,709	-	2,406,709
Stewardship and engagement	1,579,838	-	1,579,838
Total support services	<u>3,986,547</u>	<u>-</u>	<u>3,986,547</u>
Total expenses	<u>80,390,690</u>	<u>-</u>	<u>80,390,690</u>
Change in net assets from operations	(983,578)	(41,757,404)	(42,740,982)
Nonoperating activities:			
Federal income tax expense	(19,934)	-	(19,934)
Net realized and unrealized loss on investments	(7,468,118)	(145,240,692)	(152,708,810)
Other reclassifications	(3,749,636)	3,749,636	-
Total nonoperating activities	<u>(11,237,688)</u>	<u>(141,491,056)</u>	<u>(152,728,744)</u>
Change in net assets	(12,221,266)	(183,248,460)	(195,469,726)
Net assets at beginning of year	<u>70,872,009</u>	<u>1,241,921,784</u>	<u>1,312,793,793</u>
Net assets at end of year	<u>\$ 58,650,743</u>	<u>\$ 1,058,673,324</u>	<u>\$ 1,117,324,067</u>

See accompanying notes to financial statements.

**SOUTHWESTERN MEDICAL FOUNDATION**

**STATEMENT OF ACTIVITIES**

**Year Ended December 31, 2021**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue and support:</b>			
Contributions and pledges at present value	\$ 641,578	\$ 27,017,142	\$ 27,658,720
Change in value of split interest agreements	320,001	867,431	1,187,432
Investment income, net of expenses	811,099	12,195,939	13,007,038
Net assets released from restrictions	41,025,312	(41,025,312)	-
<b>Total revenue and support</b>	<b>42,797,990</b>	<b>(944,800)</b>	<b>41,853,190</b>
<b>Expenses:</b>			
<b>Program services through grants benefitting:</b>			
Medical education and scholarships	6,207,269	-	6,207,269
Medical research activities	23,229,344	-	23,229,344
Medical care, centers, hospitals, and other	19,497,956	-	19,497,956
Grant support expenses	1,229,447	-	1,229,447
<b>Total program services</b>	<b>50,164,016</b>	<b>-</b>	<b>50,164,016</b>
<b>Supporting services:</b>			
Management and general	2,109,732	-	2,109,732
Stewardship and engagement	1,504,168	-	1,504,168
<b>Total support services</b>	<b>3,613,900</b>	<b>-</b>	<b>3,613,900</b>
<b>Total expenses</b>	<b>53,777,916</b>	<b>-</b>	<b>53,777,916</b>
<b>Change in net assets from operations</b>	<b>(10,979,926)</b>	<b>(944,800)</b>	<b>(11,924,726)</b>
<b>Nonoperating activities:</b>			
Net realized and unrealized gain on investments	11,464,329	201,481,485	212,945,814
Other reclassifications	2,671,437	(2,671,437)	-
<b>Total nonoperating activities</b>	<b>14,135,766</b>	<b>198,810,048</b>	<b>212,945,814</b>
<b>Change in net assets</b>	<b>3,155,840</b>	<b>197,865,248</b>	<b>201,021,088</b>
<b>Net assets at beginning of year</b>	<b>67,716,169</b>	<b>1,044,056,536</b>	<b>1,111,772,705</b>
<b>Net assets at end of year</b>	<b>\$ 70,872,009</b>	<b>\$ 1,241,921,784</b>	<b>\$ 1,312,793,793</b>

See accompanying notes to financial statements.

**SOUTHWESTERN MEDICAL FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2022**

	<b>Program Services</b>				<b>Supporting Activities</b>			<b>Total Expenses</b>
	<b>Medical Education</b>	<b>Medical Research</b>	<b>Medical Care &amp; Other</b>	<b>Program Subtotal</b>	<b>Management &amp; General</b>	<b>Stewardship &amp; Engagement</b>	<b>Supporting Subtotal</b>	
Expenses:								
Grants and scholarships to UTSW	\$ 7,630,101	\$ 57,528,134	\$ 9,256,200	\$ 74,414,435	\$ -	\$ -	\$ -	\$ 74,414,435
Grants and scholarships to other organizations	42,044	245,000	303,729	590,773	-	-	-	590,773
Grants for UTSW capital campaign	-	-	100,000	100,000	-	-	-	100,000
Total grants	<u>7,672,145</u>	<u>57,773,134</u>	<u>9,659,929</u>	<u>75,105,208</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,105,208</u>
Supporting services:								
Personnel costs	158,999	452,054	149,341	760,394	1,161,296	760,286	1,921,582	2,681,976
Professional fees	22,897	65,099	21,506	109,502	671,036	109,501	780,537	890,039
Office & overhead	43,101	122,541	40,483	206,125	282,919	279,124	562,043	768,168
Depreciation	-	-	-	-	87,940	-	87,940	87,940
Entertainment, travel, memberships & gifts	-	-	-	-	27,155	67,047	94,202	94,202
Development activities	8,454	24,035	7,940	40,429	53,880	363,880	417,760	458,189
Insurance and specific donor fund expenses	7,109	28,825	146,551	182,485	122,483	-	122,483	304,968
Total support services	<u>240,560</u>	<u>692,554</u>	<u>365,821</u>	<u>1,298,935</u>	<u>2,406,709</u>	<u>1,579,838</u>	<u>3,986,547</u>	<u>5,285,482</u>
Total expenses	<u>\$ 7,912,705</u>	<u>\$ 58,465,688</u>	<u>\$ 10,025,750</u>	<u>\$ 76,404,143</u>	<u>\$ 2,406,709</u>	<u>\$ 1,579,838</u>	<u>\$ 3,986,547</u>	<u>\$ 80,390,690</u>

See accompanying notes to financial statements.



**SOUTHWESTERN MEDICAL FOUNDATION**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year Ended December 31, 2021**

	<b>Program Services</b>				<b>Supporting Activities</b>			<b>Total Expenses</b>
	<b>Medical Education</b>	<b>Medical Research</b>	<b>Medical Care &amp; Other</b>	<b>Program Subtotal</b>	<b>Management &amp; General</b>	<b>Stewardship &amp; Engagement</b>	<b>Supporting Subtotal</b>	
Expenses:								
Grants and scholarships to UTSW	\$ 6,168,239	\$ 23,229,344	\$ 18,851,379	\$ 48,248,962	\$ -	\$ -	\$ -	\$ 48,248,962
Grants and scholarships to other organizations	39,030	-	246,577	285,607	-	-	-	285,607
Grants for UTSW capital campaign	-	-	400,000	400,000	-	-	-	400,000
Total grants	<u>6,207,269</u>	<u>23,229,344</u>	<u>19,497,956</u>	<u>48,934,569</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,934,569</u>
Supporting services:								
Personnel costs	142,004	412,635	138,400	693,039	988,009	693,000	1,681,009	2,374,048
Professional fees	15,062	43,767	14,680	73,509	547,210	73,510	620,720	694,229
Office & overhead	40,309	117,130	39,286	196,725	267,240	262,521	529,761	726,486
Depreciation	-	-	-	-	90,211	-	90,211	90,211
Entertainment, travel, memberships & gifts	-	-	-	-	16,571	77,872	94,443	94,443
Development activities	12,906	37,503	12,579	62,988	83,979	397,265	481,244	544,232
Insurance and specific donor fund expenses	20,143	28,357	154,686	203,186	116,512	-	116,512	319,698
Total support services	<u>230,424</u>	<u>639,392</u>	<u>359,631</u>	<u>1,229,447</u>	<u>2,109,732</u>	<u>1,504,168</u>	<u>3,613,900</u>	<u>4,843,347</u>
Total expenses	<u>\$ 6,437,693</u>	<u>\$ 23,868,736</u>	<u>\$ 19,857,587</u>	<u>\$ 50,164,016</u>	<u>\$ 2,109,732</u>	<u>\$ 1,504,168</u>	<u>\$ 3,613,900</u>	<u>\$ 53,777,916</u>

See accompanying notes to financial statements.

**SOUTHWESTERN MEDICAL FOUNDATION**

**STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31, 2022</b>	<b>2021</b>
Cash flows from operating activities:		
Change in net assets	\$ (195,469,726)	\$ 201,021,088
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	87,940	90,211
Change in value of split-interest agreements	782,445	(1,187,432)
Discount on pledges receivable	(179,414)	(165,727)
Net realized and unrealized loss (gain) on investments	152,708,802	(212,945,814)
Donor restricted contributions	(5,326,970)	(26,851,560)
Restricted investment gain	(12,225,231)	(10,227,403)
Non-cash lease expense	274,949	-
Changes in assets and liabilities:		
Accrued interest and dividends receivable	140,550	(240,304)
Pledges receivable	(1,418,805)	1,020,840
Other receivables	568,566	542,354
Other assets	(29,550)	40,687
Grants and scholarships payable	(165,497)	(1,212,253)
Accrued liabilities	(164,025)	(163,342)
Assets held in charitable remainder trusts and charitable gift annuities	1,002,763	339,960
Liability under split-interest agreements	(177,977)	212,898
Net cash used in operating activities	(59,591,180)	(49,725,797)
Cash flows from investing activities:		
Proceeds from sale of investments	113,404,438	350,387,429
Purchases of investments	(70,997,422)	(337,798,209)
Purchases of property and equipment	(47,242)	(108,303)
Payments on charitable gift annuities and charitable remainder trusts	(511,756)	(511,756)
Net cash provided by investing activities	41,848,018	11,969,161
Cash flows from financing activities:		
Restricted cash collected	5,326,970	26,851,560
Restricted investment income	12,225,231	10,227,403
Net cash provided by financing activities	17,552,201	37,078,963
Net decrease in cash and cash equivalents	(190,961)	(677,673)
Cash and cash equivalents at beginning of year	7,955,238	8,632,911
Cash and cash equivalents at end of year	\$ 7,764,277	\$ 7,955,238
<b>Supplemental Disclosure of Cash Flow Information</b>		
Right of use asset assumed through lease liability	\$ 994,000	\$ -
Lease assumed through lease liability	\$ 1,042,000	\$ -

See accompanying notes to financial statements.

# SOUTHWESTERN MEDICAL FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

### A. Nature of Activities

Southwestern Medical Foundation (the “Foundation”) was organized in 1939 as a Texas non-profit corporation, committed to the development and improvement of medical education, medical research, and patient care in the North Texas community and throughout the world. In 1943, the Foundation established Southwestern Medical College, now known as UT Southwestern Medical Center (the “Center”). The Foundation continues to raise and manage private philanthropic dollars primarily for continued support of the Center through grants and scholarships. In 2015, the Foundation’s corporate office was relocated to the site where the Medical College began on the Old Parkland Campus in Dallas, Texas.

The Foundation is guided by a remarkable founding vision that was driven by a keen desire to achieve the highest standards of excellence. The standards for building its future are focused on building the best possible foundation. These standards include service to community, worthy vision of excellence, mindful stewardship, and fact-based decisions and best outcomes.

### B. Summary of Significant Accounting Policies

A summary of the Foundation’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

#### Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Under GAAP, the Foundation is required to report information regarding its financial position and activities according to the following net asset classifications:

**Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation’s management and the board of trustees.

**Net assets with donor restrictions:** Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by action of the Foundation or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Measure of Operations**

The statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to the Foundation's support for the development and improvement of medical education, medical research, and medical care, and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities to be of a more unusual or nonrecurring nature.

**Functional Expenses**

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include personnel costs, professional fees, office and overhead, depreciation, entertainment, travel, membership and gifts, stewardship and engagement, insurance and specific donor fund expenses, which are allocated on the basis of estimates of time and effort.

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Contributions**

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. All contributions are considered to be available for general use in performing the primary objectives of the organization, unless specifically restricted by the donor.

**Donated Assets and Services**

Donated assets are recorded at their estimated fair value (as determined by management) at the date of donation. Donated services are recognized as contributions if the services, (a) create or enhance non-financial assets, or (b) require specialized skills, and are performed by people with those skills, and would otherwise be purchased by the Foundation.

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Cash and Cash Equivalents**

The Foundation's cash consists of cash on deposit with banks. Cash equivalents represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in the investment portfolio which are invested for long-term purposes. Deposits in financial institutions may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Foundation has not experienced, nor does it anticipate, any losses related to amounts in excess of FDIC limits.

**Pledges Receivable**

Pledges receivable are recorded as revenue in the year made. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts is computed using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. Amortization of the discount is included in contribution revenue. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management provides for probable uncollectible pledges through a charge to contributions and a credit to an allowance for uncollectible pledges based on its assessment of the status of individual pledges. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible pledges and a credit to pledges receivable.

**Investments**

GAAP requires investments with readily determinable fair values to be stated at fair value with unrealized gains and losses from fluctuations in market value included in the statement of activities. The fair values of investments in equity securities and debt securities (including mutual fund and real estate investment trust shares) with readily determinable fair values are based on the quoted market price of the shares owned at December 31, 2022 and 2021.

The Foundation's alternative investments generally include limited partnership interests and offshore funds which have various investment objectives designed to diversify the Foundation's overall investment portfolio. These investments are measured at fair value which is based on the reported value provided by or on behalf of the investment partnerships and offshore funds. Based on accounting, testing, and controls, the Foundation considers this a reliable representation of fair value. Fluctuations in fair value are recorded in the year in which they occur by adjusting the carrying value of such investments and recognizing net unrealized and realized gains and losses in the accompanying statement of activities. The estimates and assumptions of fair values of these investments may differ significantly from the values that would have been used had a ready market existed and may also differ significantly from the values at which such investments may be sold, and the differences could be material.

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Investments – continued**

GAAP establishes a framework for measuring fair value, which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

Level 1     Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2     Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3     Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

At December 31, 2022 and 2021, the Foundation did not directly hold any derivative financial instruments; however, certain mutual fund, partnership, and offshore fund investments held by the Foundation may invest in certain derivative financial instruments, including non-leveraged financial futures and related options. The Foundation's exposure with respect to these derivative financial instruments is limited to the amount of investment in the mutual funds, partnerships, and offshore funds.

**Split-Interest Agreements**

The Foundation is the beneficiary of or holds a beneficial interest in various split-interest agreements which consist primarily of perpetual trusts held by a third party, charitable remainder trusts, and charitable gift annuities.

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Split-Interest Agreements – continued**

Under perpetual trusts held by a third party, donors establish and fund a trust administered by an organization other than the Foundation. Under the terms of the trusts, the Foundation has the irrevocable right to receive the income earned on the trust's assets in perpetuity, but never receives the assets held in the trust. Distributions received by the Foundation may be restricted by the donor. The Foundation generally records its beneficial interest in perpetual trusts held by a third party at the fair value of the trust's assets times the Foundation's interest in those assets.

Under charitable remainder trusts, donors establish and fund a trust with specific distributions to be made to beneficiaries over the trust's terms. Under the terms of the trust, the Foundation is to receive all or a portion of the assets remaining in the trust when the last income beneficiary dies. The Foundation records its beneficial interest in charitable remainder trusts of which it is the trustee at the fair market value of the trust's assets and records a liability for the expected future payments to the income beneficiaries at the discounted present value of the estimated future cash flows. The Foundation records its beneficial interest in charitable remainder trusts of which it is not the trustee at the fair market value of the trust's assets times the Foundation's interest in those assets net of the discounted present value of the expected future payments to the income beneficiaries.

Under charitable gift annuities, donors transfer assets to beneficiaries in exchange for a promise to pay an annuity to the donor. Under the terms of the gift annuity, the Foundation serves as the trustee of the annuity and is to receive all assets remaining in the annuity when the last annuitant dies. The Foundation records the assets in these gift annuities at fair value and a related liability for the expected future payments to the annuitants at the discounted present value of the estimated future cash flows.

**Trusts, Legacies, and Bequests**

The Foundation is the beneficiary under various wills and trust agreements, the total realizable amount of which cannot presently be determined. Such amounts are excluded from the accompanying financial statements until clear title is established and the ultimate realizable amount is reasonably determinable.

**Net Assets**

Net assets without restrictions include those economic resources of the Foundation which are expendable for any purpose in performing the primary objectives of the Foundation. They are not subject to donor-imposed restrictions.

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Net Assets – continued**

Net assets without restrictions include:

- Board designated funds which the Foundation’s Board has earmarked for certain specific uses. For the years ended December 31, 2022 and 2021, these board designated funds were \$1,209,493 and \$1,379,913, respectively.
- Unrestricted funds which have no donor recommendation, designation, or preference. The Foundation has the ultimate decision regarding the use of these funds.

Net assets with donor restrictions consist of cash, pledges receivable, and various investments. These assets are restricted as to use or time and, where applicable, are transferred from net assets with donor restrictions to net assets without donor restrictions when expended.

Some net assets have been permanently restricted by the donor and require that the principal be invested in perpetuity. Income and appreciation in the value of these funds is restricted for specified purposes and is reported in the statement of activities as investment income with donor restrictions.

As part of the Foundation’s prior agreements with certain donors, certain contributions with donor restrictions are matched by the Foundation with net assets without donor restrictions or certain net assets with donor restrictions. Also, based on additional information received by the Foundation on donor intentions, certain amounts have been reclassified within net assets without donor restrictions and net assets with donor restrictions. These are included in other reclassifications in the statement of activities.

**Endowment Funds**

Classification of donor-restricted and board-designated endowment funds is subject to the Uniform Prudent Management of Institutional Fund Act (“UPMIFA”).

The Foundation has various endowments which provide funding for grants and other operations of the Foundation. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation’s management has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. Accordingly, the Foundation classifies the original value of all endowment gifts as net assets with donor restrictions. Accumulated net earnings on endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure in accordance with any applicable donor designations and in a manner consistent with the standard of prudence prescribed by UPMIFA.



**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Endowment Funds – continued**

The Foundation's policy has a stated goal of appropriating for distribution each year 4.5% of each endowment fund's average fair value over the prior 12 quarters as of the most recent year end.

In accordance with UPMIFA, 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 Foundation and 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, and
- the investment policies of the Foundation.

The Foundation's primary investment objectives are growth with income and preservation of capital. Management defines risk as the probability of not meeting these objectives. Accordingly, the Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to grants and operations supported by endowments while seeking to maintain the purchasing power of the endowment assets. Under these policies, as approved by the Foundation's Board of Trustees, endowment assets are invested in a manner that is intended to minimize risk and produce results that exceed a composite index comprised of relevant individual indices that reflect the Foundation's asset allocations.

**Income Taxes**

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC"), as an organization other than a private foundation, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Foundation has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; and to determine its filing and tax obligations in jurisdictions for which state charitable solicitation registrations are required.

GAAP requires management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service.

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**Income Taxes – continued**

Management has analyzed the tax positions taken by the Foundation and has concluded that as of December 31, 2022, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Foundation is no longer subject to income tax examination for years prior to 2019.

**New Accounting Pronouncements**

The Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures made by Not-for-Profit Entities for Contributed Nonfinancial Assets*, was announced during 2020 and becomes effective for annual periods beginning after June 15, 2021. This ASU aims to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. Specifically, this ASU requires non-for-profit entities: (1) to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets; and (2) disclose a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets. The Foundation adopted this guidance on January 1, 2022.

In February 2016, the FASB issued guidance (Accounting Standards Codification (“ASC”) 842, *Leases*, to increase transparency and comparability among organizations by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Foundation elected the package of practical expedients permitted under the transition guidance, allowing the Foundation to carry forward conclusions related to: (a) whether expired or existing contracts contain leases; (b) lease classification; and (c) initial direct costs for existing leases. The Foundation has elected not to record operating lease right-of-use assets or lease liabilities associated with leases with durations of 12 months or less. The Foundation elected the practical expedient allowing aggregation of non-lease components with related lease components when evaluating the accounting treatment for all classes of underlying assets.

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**B. Summary of Significant Accounting Policies – continued**

**New Accounting Pronouncements – continued**

The Foundation adopted this standard effective January 1, 2022 using the modified retrospective approach. In transitioning to ASC 842, the Foundation elected to use the practical expedient package available at the time of implementation and did not elect to use hindsight. These elections have been applied consistently to all leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption). As a result of the adoption of the new lease accounting guidance, we recognized on January 1, 2022, a right-of-use asset of approximately \$994,000, a lease liability of approximately \$1,042,000. The standard did not materially impact our change in net assets and had no impact on cash flows. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported results of net assets.

**C. Financial Instruments**

The financial instruments recorded in the statements of financial position include accrued interest and dividends receivable, other receivables, grants and scholarships payable and accrued liabilities. Due to their short-term maturities, the carrying amounts of these items are believed to approximate their fair market values.

Management evaluates credit risk for all financial instruments based on the nature of the transaction. The Foundation has credit exposure within the investment portfolio, primarily through fixed income funds; however, management believes they have mitigated this risk by diversifying the investments in which the Foundation invests based on such criteria as industry, geographic region, length of maturity and manager expertise.

**D. Pledges Receivable, Net**

Pledges receivable are due as follows at December 31:

	<u>2022</u>	<u>2021</u>
Less than 1 year	\$ 4,170,625	\$ 2,883,010
1-5 years	4,165,966	3,625,948
More than 5 years	-	50,000
Total pledges receivable	<u>8,336,591</u>	<u>6,558,958</u>
Allowance for doubtful pledges	(500,000)	(500,000)
Unamortized discount to adjust pledges to net present value	<u>(318,412)</u>	<u>(138,998)</u>
Net pledges receivable	<u>\$ 7,518,179</u>	<u>\$ 5,919,960</u>

**SOUTHWESTERN MEDICAL FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**D. Pledges Receivable, Net – continued**

The discount rate used by the Foundation to calculate the present value of the pledges receivable at December 31, 2022 and 2021, ranged from 0.29% to 2.99%.

**E. Availability and Liquidity**

The following chart represents the Foundation’s financial assets available to meet cash needs for general expenditures within one year of December 31:

	<b>2022</b>	<b>2021</b>
Financial assets, at year end:		
Pooled investments	\$ 1,096,795,318	\$ 1,291,905,357
Cash and cash equivalents	7,764,277	7,955,238
Total financial assets, at year end	1,104,559,595	1,299,860,595
Less those unavailable for general expenditures within one year due to contractual or donor-imposed restrictions:		
Donor-imposed restricted endowment, where the donor has stipulated the funds be maintained in perpetuity	(831,032,049)	(928,376,384)
Quasi-endowment fund corpus, designated by the Board, primarily for long-term investing	(93,445,833)	(97,103,234)
Financial assets available to meet cash needs for general expenditures within one year	\$ 180,081,713	\$ 274,380,977

The Foundation is substantially supported by restricted contributions. Because a donor’s restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Foundation’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Foundation invests cash in excess of daily requirements in short-term investments. All pledges receivable are restricted due to time or purposes and have not been included in total liquid financial assets.

**F. Investments**

Most of the Foundation’s investments are pooled and held by a master custodian, Northern Trust, and are managed by various outside money managers. Investment expenses for custodial and advisory services were approximately \$848,000 and \$819,000 in 2022 and 2021, respectively, and are netted with investment income in the accompanying statements of activities. Other investment fees associated with passive and alternative investments are netted in unrealized gains/losses.

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**F. Investments – continued**

Pooled Investments

The market value of the pooled investments consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Global Equity:		
Domestic:		
Large/Mid Cap	\$ 169,718,228	\$ 17,363,850
Small Cap	27,720,416	40,704,082
Biotech/Healthcare	10,409,184	7,826,680
Bond and other funds	607,164	605,318
International:		
Large/Mid Cap developed	111,684,833	130,509,652
Small Cap developed	23,822,120	29,962,901
Emerging markets	60,495,898	75,440,586
Private Equity	229,835,946	281,493,647
Hedged Equity	364,313	344,825
Global Fixed Income:		
Interest rate sensitive	68,755,919	94,051,343
Credit sensitive	82,478,578	100,409,782
Real Assets:		
Real estate	53,971,627	75,568,025
Private energy	106,431,746	86,128,978
Diversifying Strategies:		
Absolute return hedge funds	107,506,193	87,336,528
Hedged Equity	23,094,739	44,922,167
Opportunistic strategies	11,924,008	8,290,419
Money market funds	7,974,406	10,946,574
Total pooled investments	<u>\$ 1,096,795,318</u>	<u>\$ 1,291,905,357</u>

At December 31, 2022, the Foundation has future capital commitments related to its pooled alternative investments of approximately \$132,057,000 that are payable over multiple years.

Split-Interest Agreements

Charitable remainder trusts and perpetual trusts for which the Foundation is not the trustee were approximately \$737,000 and \$926,000 at December 31, 2022 and 2021, respectively, and are included in the accompanying statements of financial position as assets held in charitable remainder trusts and beneficial interest in perpetual trusts.

The Foundation is the trustee for certain other charitable remainder trusts. The Foundation's beneficial interest in these trusts of approximately \$2,008,000 and \$2,361,000 is also included in assets held in charitable remainder trusts in the accompanying statements of financial position at December 31, 2022 and 2021, respectively.

The Foundation is the trustee for all charitable gift annuities of approximately \$6,070,000 and \$7,313,000 at December 31, 2022 and 2021, respectively.

**SOUTHWESTERN MEDICAL FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**G. Fair Value of Investments**

The following table details the Foundation's investments at fair value by level, within the fair value hierarchy, at December 31:

	<b>2022</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Pooled Investments</b>				
Global Equity:				
Domestic:				
Large/Mid Cap	\$113,691,947	\$ -	\$ 56,026,281*	\$169,718,228
Small Cap	27,720,416	-	-	27,720,416
Biotech/Healthcare	-	-	10,409,184	10,409,184
Bond and other funds	607,164	-	-	607,164
International:				
Large/Mid Cap dev.	46,836,100	-	64,848,733	111,684,833
Small Cap developed	23,822,120	-	-	23,822,120
Emerging markets	24,885,069	-	35,610,829	60,495,898
Private Equity	-	-	229,835,946	229,835,946
Hedged Equity	-	-	364,313	364,313
Global Fixed Income:				
Interest rate sensitive	68,755,919	-	-	68,755,919
Credit sensitive	-	-	82,478,578	82,478,578
Real Assets:				
Real estate	36,644,108	-	17,327,519	53,971,627
Private energy	-	-	106,431,746	106,431,746
Diversifying Strategies:				
Absolute return hedge	-	-	107,506,193	107,506,193
Hedged Equity	-	-	23,094,739	23,094,739
Opportunistic strategies	-	-	11,924,008	11,924,008
Money market funds	7,974,406	-	-	7,974,406
Total pooled investments	<u>350,937,249</u>	<u>-</u>	<u>745,858,069</u>	<u>1,096,795,318</u>
<b>Non-Pooled Investments</b>				
Charitable remainder trusts	-	-	2,050,335	2,050,335
Charitable gift annuities	-	-	6,070,358	6,070,358
Beneficial interest in perpetual trusts	-	-	694,286	694,286
Real estate	-	-	49,014	49,014
Mineral interests and various limited partnerships	-	-	334,598	334,598
Total non-pooled investments	<u>-</u>	<u>-</u>	<u>9,198,591</u>	<u>9,198,591</u>
Total investments	<u>\$350,937,249</u>	<u>\$ -</u>	<u>\$755,056,660</u>	<u>\$1,105,993,909</u>

\* Public equities held through limited partnerships.

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**G. Fair Value of Investments – continued**

	2021			Total
	Level 1	Level 2	Level 3	
<b>Pooled Investments</b>				
Global Equity:				
Domestic:				
Large/Mid Cap	\$142,386,091	\$ -	\$ 74,977,759*	\$217,363,850
Small Cap	40,704,082	-	-	40,704,082
Biotech/Healthcare	-	-	7,826,680	7,826,680
Bond and other funds	605,318	-	-	605,318
International:				
Large/Mid Cap dev.	61,383,459	-	69,126,193	130,509,652
Small Cap developed	29,962,901	-	-	29,962,901
Emerging markets	33,006,513	-	42,434,073	75,440,586
Private Equity	-	-	281,493,647	281,493,647
Hedged Equity	-	-	344,825	344,825
Global Fixed Income:				
Interest rate sensitive	94,051,343	-	-	94,051,343
Credit sensitive	-	-	100,409,782	100,409,782
Real Assets:				
Real estate	55,294,239	-	20,273,786	75,568,025
Private energy	-	-	86,128,978	86,128,978
Diversifying Strategies:				
Absolute return hedge	-	-	87,336,528	87,336,528
Hedged Equity	-	-	44,922,167	44,922,167
Opportunistic strategies	-	-	8,290,419	8,290,419
Money market funds	10,946,574	-	-	10,946,574
Total pooled investments	<u>468,340,520</u>	<u>-</u>	<u>823,564,837</u>	<u>1,291,905,357</u>
<b>Non-Pooled Investments</b>				
Charitable remainder trusts	-	-	2,411,072	2,411,072
Charitable gift annuities	-	-	7,312,776	7,312,776
Beneficial interest in perpetual trusts	-	-	876,339	876,339
Real estate	-	-	49,014	49,014
Mineral interests and various limited partnerships	-	-	334,598	334,598
Total non-pooled investments	<u>-</u>	<u>-</u>	<u>10,983,799</u>	<u>10,983,799</u>
Total investments	<u>\$468,340,520</u>	<u>\$ -</u>	<u>\$834,548,636</u>	<u>\$1,302,889,156</u>

\* Public equities held through limited partnerships.

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**G. Fair Value of Investments – continued**

The following table summarizes the changes in the fair value of the Foundation’s Level 3 investments for the years ended December 31:

	<u>2022</u>	<u>2021</u>
<b>Pooled Investments</b>		
Balance, beginning of year	\$ 823,564,837	\$ 664,797,467
Contributions	58,331,989	86,671,012
Distributions	(90,190,227)	(96,847,692)
Net realized and unrealized gain (loss) on investments	(45,848,530)	168,944,050
Balance, end of year	<u>745,858,069</u>	<u>823,564,837</u>
<b>Non-Pooled Investments</b>		
Balance, beginning of year	10,983,799	10,147,615
Distributions	(339,411)	(52,390)
Net realized and unrealized gain (loss) on investments	(1,445,797)	888,574
Balance, end of year	<u>9,198,591</u>	<u>10,983,799</u>
Total investments at fair value, Level 3	<u>\$ 755,056,660</u>	<u>\$ 834,548,636</u>

At December 31, 2022 and 2021, the Foundation has pooled alternative investments with a total fair value of approximately \$745,858,000 and \$823,565,000, respectively, of which 31% and 30%, respectively, of their fair value was based on their “net asset value” per share as reported by the fund managers. The pooled alternative investments contain various withdrawal and selling restrictions and redemption fees. At December 31, 2022, approximately \$103,639,000 of these investments have non-redeemable interests; approximately \$295,228,000 require fund manager or general partner consent (which may be withheld for any or no reason) before they can be redeemed; approximately \$22,142,000 can be redeemed on an annual basis; and approximately \$172,927,000 can be redeemed on a quarterly basis. The remainder of the pooled alternative investments have less restrictive redemption provisions.

The Foundation had approximately \$8,815,000 and \$10,600,000 in investments in split-interest agreements at December 31, 2022 and 2021, respectively. These investments are valued by the discounted net cash flows over the estimated life expectancy of the investment.



**SOUTHWESTERN MEDICAL FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**H. Liability Under Split-Interest Agreements**

The liability under split-interest agreements at December 31, 2022 and 2021, represents the present value of the expected future payments that the Foundation will make under its charitable gift annuities and charitable remainder trusts of which it is the trustee. The discount rate (the IRC Section 7520 charitable federal mid-term rate) used by the Foundation to calculate the present value of the estimated future payments at December 31, 2022 and 2021, was 5.20% and 1.60%, respectively.

The actuarial assumptions used in calculating the present value include the life expectancy of the annuitants and beneficiaries. The weighted average life expectancy for charitable remainder trusts was 14.5 and 15 years at December 31, 2022 and 2021, respectively. The weighted average life expectancy for gift annuities was 12 and 13 years at December 31, 2022 and 2021, respectively.

**I. Net Assets With Donor Restrictions and Endowment Net Assets**

Net assets restricted by donor purpose are designated as follows:

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
The benefit of UT Southwestern Medical Center	\$ 508,006,246	\$ 680,288,143
The benefit of UT Southwestern University Hospitals	17,030,400	29,618,744
Donor-specified funds for other organizations	6,137,460	1,535,163
Donor-specified purposes – any organization	74,647,152	86,148,988
	<b>\$ 605,821,258</b>	<b>\$ 797,591,038</b>

Net assets restricted by time and purpose are designated as follows:

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
Research centers and research programs	\$ 184,424,492	\$ 177,410,203
Chairs and professorships	102,913,845	102,522,037
Special programs or projects	133,651,511	133,624,322
Scholarships, lectureships, and student benefit programs	25,133,026	24,353,400
Discretionary funds	3,919,176	3,616,343
Donor-specified funds for other organizations	2,810,016	2,804,441
	<b>\$ 452,852,066</b>	<b>\$ 444,330,746</b>
<b>Total Net Assets With Donor Restrictions</b>	<b>\$ 1,058,673,324</b>	<b>\$ 1,241,921,784</b>

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**I. Net Assets With Donor Restrictions and Endowment Net Assets – continued**

The Foundation’s endowment net assets are restricted to investment in perpetuity, the income from which is available to support the various programs identified by the donors.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature exist in 45 out of 497 donor-restricted endowment funds, which have a combined original gift value of \$24,325,000, a current fair value of \$22,355,000, and a deficiency of approximately \$1,970,000 as of December 31, 2022. Deficiencies of this nature exist in 20 out of 479 donor-restricted endowment funds, which have a combined original gift value of \$8,844,439, a current fair value of \$8,791,775, and a deficiency of approximately \$53,000 as of December 31, 2021. These deficiencies resulted from gift type, timing, and unfavorable market fluctuations. The Foundation has a policy that permits spending from underwater endowment funds, unless otherwise precluded by donor intent or relevant laws and regulations. As of December 31, 2022, no donor-restricted endowment funds were precluded by the donor from spending underwater funds.

The composition of the Foundation’s endowment net assets by type as of December 31, 2022, is as follows:

	<b>Net Assets Without Restrictions</b>	<b>Net Assets With Restrictions</b>	<b>Total Net Endowment Assets</b>
Donor-restricted endowment funds	\$ -	\$ 831,032,049	\$ 831,032,049
Board-designated endowment funds	1,209,493	144,578,561	145,788,054
<b>Total funds</b>	<b>\$ 1,209,493</b>	<b>\$ 975,610,610</b>	<b>\$976,820,103</b>

The composition of the Foundation’s endowment net assets by type as of December 31, 2021, is as follows:

	<b>Net Assets Without Restrictions</b>	<b>Net Assets With Restrictions</b>	<b>Total Net Endowment Assets</b>
Donor-restricted endowment funds	\$ -	\$ 928,376,384	\$ 928,376,384
Board-designated endowment funds	1,379,913	166,784,577	168,164,490
<b>Total funds</b>	<b>\$ 1,379,913</b>	<b>\$ 1,095,160,961</b>	<b>\$1,096,540,874</b>

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**I. Net Assets With Donor Restrictions and Endowment Net Assets – continued**

Changes in endowment net assets by type for the year ended December 31, 2022, are as follows:

	<b>Endowments Without Restrictions</b>	<b>Endowments With Restrictions</b>	<b>Total Net Endowment Assets</b>
Balance, beginning of year	\$ 1,379,913	\$ 1,095,160,961	\$ 1,096,540,874
Contributions	-	7,342,120	7,342,120
Investment income, net	15,755	12,659,391	12,675,146
Net realized and unrealized loss on investments	(129,451)	(103,921,203)	(104,050,654)
Amounts appropriated for expenditure Designated by Board from existing funds	(56,724)	(35,303,550)	(35,360,274)
Transfers	-	(1,616,647)	(1,616,647)
	<u>\$ 1,209,493</u>	<u>\$ 975,610,610</u>	<u>\$ 976,820,103</u>

Changes in endowment net assets by type for the year ended December 31, 2021, are as follows:

	<b>Endowments Without Restrictions</b>	<b>Endowments With Restrictions</b>	<b>Total Net Endowment Assets</b>
Balance, beginning of year	\$ 1,101,858	\$ 937,213,232	\$ 938,315,090
Contributions	-	18,609,793	18,609,793
Investment income, net	14,108	11,234,605	11,248,713
Net realized and unrealized gain on investments	226,106	158,731,561	158,957,667
Amounts appropriated for expenditure Designated by Board from existing funds	(51,609)	(29,899,149)	(29,950,758)
Transfers	89,450	1,154,645	1,244,095
	<u>\$ 1,379,913</u>	<u>\$ 1,095,160,961</u>	<u>\$ 1,096,540,874</u>

**SOUTHWESTERN MEDICAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**J. Leases**

A lease provides the lessee the right to control the use of an identified asset for a period of time in exchange for consideration. Operating lease right-of-use assets and finance lease right-of-use assets (collectively “ROU assets”) represent the Foundation’s right to use an underlying asset for the lease term. Operating lease liabilities and finance lease liabilities (collectively, “lease liabilities”) represent the Foundation’s obligation to make lease payments arising from the lease. The Foundation determines if an arrangement is a lease at inception. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Foundation excludes short-term leases having initial terms of 12 months or less from ROU assets and lease liabilities and recognizes rent expense on a straight-line basis over the lease term.

The Foundation has leases for its office spaces and certain equipment. Most operating leases contain renewal options that provide for rent increases based on prevailing market conditions. The Foundation has lease extension terms for our office spaces that have either been extended or are likely to be extended. The terms used to calculate the ROU assets and lease liabilities for these properties include the renewal options that the Foundation is reasonably certain to exercise.

The discount rate used to determine the commencement date present value of lease payments is the interest rate implicit in the lease, or when that is not readily determinable, the Foundation utilizes its secured borrowing rate. ROU assets include any lease payments required to be made prior to commencement and exclude lease incentives. Both ROU assets and lease liabilities exclude variable payments not based on an index or rate, which are treated as period costs. The Foundation’s lease agreements do not contain significant residual value guarantees, restrictions or covenants. As of December 31, 2022 the operating lease discount rate was 2.40% and the weighted average lease term is 2.42 years.

Total operating lease costs were approximately \$364,000 for the year ended December 31, 2022. Short-term lease costs, for leases with terms of less than 12 months, during 2022 were approximately \$3,500.

Maturities of operating lease liabilities as of December 31, 2022 are as follows:

2023	\$	323,562
2024		323,562
2025		161,781
Total lease payments		808,905
Less present value discount		(22,981)
Lease liabilities		\$ 785,924

Cash paid during December 31, 2022 for operating leases was \$306,922.

Rental expense for 2021 was approximately \$355,000 and is included in office & overhead on the statement of functional expenses.

## **SOUTHWESTERN MEDICAL FOUNDATION**

### **NOTES TO FINANCIAL STATEMENTS (continued)**

#### **K. Employee Benefit Plans**

The Foundation has a 403(b) deferred compensation plan (“403(b) Plan”) covering substantially all employees. Employees are immediately vested in the 403(b) Plan. The 403(b) Plan provides to eligible employees a 2:1 matching contribution on the first 5% of the employee’s contributions to the Plan. In 2022 and 2021, the maximum amount an employee could contribute annually was \$20,500 and \$19,500 plus catch-up contributions of \$6,500, if eligible.

The Foundation also has a 457(f) nonqualified deferred compensation plan in addition to the existing 457(b) supplemental executive retirement plan for some of its employees. In 2022 and 2021, the employees covered by the 457(b) Plan could contribute up to \$19,500 plus catch-up contributions up to \$6,500 to the 457(b) Plan, while employed by the Foundation. The Foundation contributed \$83,400 and \$68,400 in 2022 and 2021, respectively, to the 457 Plans.

The Foundation’s expense under all plans totaled approximately \$231,000 and \$212,000 in 2022 and 2021, respectively, and is included in management and general expenses in the accompanying statements of activities.

#### **L. Related Party Transactions**

SWMF Properties, Inc. (“SWMF Properties”) was organized in 2001 as a Texas non-profit corporation. SWMF Properties was formed to acquire, receive, hold, maintain, and manage real and personal property for the benefit of the Foundation. The financial statements of SWMF Properties are not consolidated with those of the Foundation since the Foundation does not have voting control over the operations of SWMF Properties.

Income generated from the assets held in SWMF Properties are distributed as grants to the Foundation for further distribution to beneficiaries in accordance with donor intent. The Foundation received grants from SWMF Properties during 2022 and 2021 in the amount of \$3,516,334 and \$534,365, respectively.

#### **M. Subsequent Events**

In preparing the accompanying financial statements, management of the Foundation has evaluated all subsequent events and transactions for potential recognition or disclosure through April 20, 2023, the date the financial statements were available for issuance.