Texas Interscholastic League Foundation

Financial Statements
and Independent Auditors' Report
for the years ended May 31, 2022 and 2021

Texas Interscholastic League Foundation

Table of Contents

Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Trustees of
Texas Interscholastic League Foundation:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Texas Interscholastic League Foundation, which comprise the statements of financial position as of May 31, 2022 and 2021, and the related statements of activities and of 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 Texas Interscholastic League Foundation as of May 31, 2022 and 2021, 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 Texas Interscholastic League 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 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 Texas Interscholastic League 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

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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 Texas Interscholastic League 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 Texas Interscholastic League 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

March 8, 2023

Texas Interscholastic League Foundation

Statements of Financial Position as of May 31, 2022 and 2021

	2022	2021
ASSETS		
Cash	$ 36,022	$ 3,733
Contributions receivable		24,000
Investments *(Note 3)*	17,587,916	19,757,505
TOTAL ASSETS	$ 17,623,938	$ 19,785,238
LIABILITIES AND NET ASSETS		
Liabilities:		
Refundable advance	$ 39,700	$ 14,700
Net assets *(Note 4)*:		
Without donor restrictions	1,527,693	1,812,191
With donor restrictions:		
Endowment to support scholarships	15,655,008	17,572,964
Scholarships	401,537	385,383
Total net assets	17,584,238	19,770,538
TOTAL LIABILITIES AND NET ASSETS	$ 17,623,938	$ 19,785,238

See accompanying notes to financial statements.

Texas Interscholastic League Foundation

Statement of Activities for the year ended May 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Net investment return	$ (180,827)	$ (1,748,160)	$ (1,928,987)
Contributions	36,532	864,958	901,490
Other income	27,790		27,790
Total revenue	(116,505)	(883,202)	(999,707)
Net assets released from restrictions:			
Satisfaction of purpose restriction	1,018,600	(1,018,600)	
Total	902,095	(1,901,802)	(999,707)
EXPENSES:			
Program:			
Scholarships	1,018,600		1,018,600
Salaries and related expenses	44,788		44,788
Other	22,409		22,409
Total program	1,085,797		1,085,797
Management and general:			
Salaries and related expenses	44,788		44,788
Other	22,409		22,409
Total management and general	67,197		67,197
Fundraising:			
Salaries and related expenses	22,394		22,394
Other	11,205		11,205
Total fundraising	33,599		33,599
Total expenses	1,186,593		1,186,593
CHANGES IN NET ASSETS	(284,498)	(1,901,802)	(2,186,300)
Net assets, beginning of year	1,812,191	17,958,347	19,770,538
Net assets, end of year	$ 1,527,693	$ 16,056,545	$ 17,584,238

See accompanying notes to financial statements.

Texas Interscholastic League Foundation

Statement of Activities for the year ended May 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Net investment return	$ 454,996	$ 4,569,520	$ 5,024,516
Contributions	150,443	615,751	766,194
Total revenue	605,439	5,185,271	5,790,710
Net assets released from restrictions:			
Satisfaction of purpose restriction	952,283	(952,283)	
Total	1,557,722	4,232,988	5,790,710
EXPENSES:			
Program:			
Scholarships	952,283		952,283
Salaries and related expenses	44,839		44,839
Other	9,163		9,163
Total program	1,006,285		1,006,285
Management and general:			
Salaries and related expenses	44,839		44,839
Other	9,163		9,163
Total management and general	54,002		54,002
Fundraising:			
Salaries and related expenses	22,419		22,419
Other	4,582		4,582
Total fundraising	27,001		27,001
Total expenses	1,087,288		1,087,288
CHANGES IN NET ASSETS	470,434	4,232,988	4,703,422
Net assets, beginning of year	1,341,757	13,725,359	15,067,116
Net assets, end of year	$ 1,812,191	$ 17,958,347	$ 19,770,538

See accompanying notes to financial statements.

Texas Interscholastic League Foundation

Statements of Cash Flows for the years ended May 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (2,186,300)	$ 4,703,422
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Net realized and unrealized (gain) loss on investments	2,136,902	(4,854,231)
Changes in operating assets and liabilities:		
Contributions receivable	24,000	(24,000)
Refundable advance	25,000	14,700
Net cash used by operating activities	(398)	(160,109)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(3,657,369)	(729,890)
Proceeds from sales of investments	3,823,328	892,674
Net change in money market mutual funds held as investments	(133,272)	(37,681)
Net cash provided by investing activities	32,687	125,103
NET CHANGE IN CASH	32,289	(35,006)
Cash, beginning of year	3,733	38,739
Cash, end of year	$ 36,022	$ 3,733

See accompanying notes to financial statements.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Texas Interscholastic League Foundation (the Foundation) was organized in 1963 as a Texas non-profit corporation to lessen the financial burden and carry out the purposes of the University Interscholastic League (UIL) by implementing and administering, on behalf of UIL, a program for awarding college and university scholarships for students who participate in UIL academic competitions during high school. The UIL was created by The University of Texas in Austin (UT) in 1910.

Federal income tax status – The Foundation is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (the Code) and is classified as a Type III functionally integrated supporting organization for UT under §509(a)(3).

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 future years are discounted to estimate the present value of future cash flows.

Investments are reported at fair value. Realized gains and losses on securities sold are determined using the specific identification method and original cost. Purchases and sales of marketable securities are reported on a trade-date basis. Unrealized gains and losses on investments arise from increases or decreases in fair value. Interest and dividends are recognized when earned.

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.

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. Funding received before conditions are met is reported as refundable advances. At May 31, 2022, donors have pledged $1,054,200 in conditional contributions to the Foundation that are conditioned upon scholarships being awarded.

Scholarships are recognized as expense at fair value when the Foundation approves an unconditional commitment to a recipient. Scholarships are conditioned upon the recipient meeting certain minimum requirements as outlined in the scholarship award. Conditional scholarships are recognized in the same manner when the conditions are met by the recipient. At May 31, 2022, the Foundation has approved conditional scholarships of $1,048,800. If contributions are met, $541,200 is expected to be paid in 2023, $320,000 in 2024, and $190,600 in 2025.

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. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. 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.

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 reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of May 31 comprise the following:

	2022	2021
Financial assets:		
Cash	$ 36,022	$ 3,733
Contributions receivable		24,000
Investments	17,587,916	19,757,505
Total financial assets	17,623,938	19,785,238
Less financial assets not available for general expenditure:		
Endowment investments less amounts appropriated	(15,155,008)	(17,138,614)
Board-designated endowment investments less appropriated	(1,348,592)	(1,805,389)
Total financial assets available for general expenditure	$ 1,120,338	$ 841,235

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing activities of providing scholarships, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of available funds. The Board of Trustees (the Board) has designated a portion of its resources without donor restrictions to support operating expenditures. While those investments are not expected to be made available for general expenditures, they remain available to be spent at the Board's discretion.

NOTE 3 – INVESTMENTS AND 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.

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

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pooled investment funds:				
TPF Large-Cap Equity Fund		$ 8,213,455		$ 8,213,455
TPF Fixed-Income Fund		3,680,580		3,680,580
TPF Small-Cap Equity Fund		1,943,112		1,943,112
TPF Real Estate Investment Pooled Fund		1,106,140		1,106,140
TPF Real Assets Pooled Fund		1,072,978		1,072,978
TPF International Equity Fund		1,047,870		1,047,870
TPF Money Market Mutual Fund		523,781		523,781
Total assets measured at fair value	$ 0	$ 17,587,916	$ 0	$ 17,587,916

Assets measured at fair value at May 31, 2021 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Pooled investment funds:				
TPF Large-Cap Equity Fund		$ 11,047,699		$ 11,047,699
TPF Fixed-Income Fund		4,772,323		4,772,323
TPF Small-Cap Equity Fund		2,370,917		2,370,917
TPF International Equity Fund		1,175,062		1,175,062
TPF Money Market Mutual Fund		391,504		391,504
Total assets measured at fair value	$ 0	$ 19,757,505	$ 0	$ 19,757,505

Investments include the Foundation's share of pooled investment portfolios managed by Texas Presbyterian Foundation (TPF), an ecumenical, nonprofit foundation. TPF pooled funds are organized as common, or collective funds that are administered according to investment policies with the objective of meeting the investment objectives of each fund within reasonable risk levels and obtaining a high total return on assets consistent with safety of principal. The TPF pooled funds are exempt from registration requirements of the federal securities laws pursuant to the exemption for collective investment funds and similar funds maintained by charitable organizations under the Philanthropy Protection Act of 1995. The underlying assets of the funds are invested in domestic and international equity and debt securities traded on public exchanges, as well as institutional quality, income producing U. S. real properties and held by a national investment custodian. The TPF pooled funds are valued monthly and are redeemable on the last business day of the month with 3-days' written notice at the calculated net asset value.

Pooled investment funds are valued at the Foundation's allocable share of the net asset value reported by fund management based on the fair value of the underlying assets. This valuation method may produce a fair value that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation method is 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.

NOTE 4 – ENDOWMENTS

The Foundation has established and maintains endowments to support the Foundation's scholarship programs in perpetuity. In addition, there is a board-designated endowment that is to be used for operating expenses of the Foundation. Changes in the endowment funds are as follows:

	BOARD-DESIGNATED ENDOWMENT	WITH DONOR RESTRICTIONS	TOTAL
Endowment net assets, May 31, 2020	$ 1,301,329	$ 13,389,060	$ 14,690,389
Contributions/board designations	149,932	38,184	188,116
Net investment return	454,776	4,569,520	5,024,296
Appropriation of assets for expenditure	(100,648)	(423,800)	(524,448)
Endowment net assets, May 31, 2021	1,805,389	17,572,964	19,378,353
Contributions/board designations	102,945	277,294	380,239
Net investment return	(181,208)	(1,748,160)	(1,929,368)
Appropriation of assets for expenditure	(201,534)	(447,090)	(648,624)
Endowment net assets, May 31, 2022	$ 1,525,592	$ 15,655,008	$ 17,180,600

The Board of Directors of the Foundation has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies the original value of gifts donated to the perpetual endowment as *net assets with donor restrictions* required to be maintained in perpetuity. The donor-restricted endowment funds are classified as *net assets with donor restrictions* until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Foundation considers the duration and preservation of the endowment funds and other factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for scholarships supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that preserve the inflation-adjusted purchasing power of the assets exclusive of contributions and withdrawals and net of investment management fees, and meet or exceed the appropriate benchmark over a 5-year rolling average.

Strategies for Achieving Investment Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation has a policy of granting scholarships in an annual amount up to 4% of the value of the donor-restricted endowment fund, including earnings thereon. However, such distributions cannot reduce the funds of perpetual duration below the level of original and subsequent gifts. In establishing this policy, the Foundation considered the long-term expected return on its endowments. Accordingly, over the long term, the Foundation expects the current spending policy to maintain the purchasing power of the endowment investments held in perpetuity and provide additional real growth primarily through new gifts.

Funds with Deficiencies

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 TUPMIFA requires the Foundation to maintain in perpetuity. Such deficiencies are reported in *net assets with donor restrictions*. There were no such deficiencies at May 31, 2022.

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 8, 2023, 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.