THE ROBERT A. WELCH FOUNDATION

FINANCIAL STATEMENTS and Report of Independent Certified Public Accountants

August 31, 2025 and 2024

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Robert A. Welch Foundation

Opinion

We have audited the financial statements of The Robert A. Welch Foundation (the "Foundation"), which comprise the statements of financial position as of August 31, 2025 and 2024, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of August 31, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of RWF Fund, LP, a wholly owned subsidiary, whose statements reflect total assets constituting 51% of consolidated total assets at August 31, 2024, total net assets of 53% of consolidated net assets as of August 31, 2024, and total revenues constituting 35% of consolidated total revenues for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for RWF Fund, LP, is based solely on the report of the other auditors.

Basis for opinion

We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America (US 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 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

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doubt about the Foundation's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be 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 US 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 US 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.

Grant Thornton LLP

Dallas, Texas
June 18, 2026

The Robert A. Welch Foundation

STATEMENTS OF FINANCIAL POSITION

As of August 31, 2025 and 2024

	2025	2024
ASSETS		
CASH AND CASH EQUIVALENTS	$ 21,111,831	$ 484,672
INVESTMENTS	900,904,732	887,201,857
RECEIVABLES		
Investment transactions	667,151	214,865
Interest and dividends	1,799	87,425
Other	115,678	256,639
Total receivables	784,628	558,929
OTHER ASSETS		
Asset held for sale	981,000	-
Right of use assets	1,304,771	1,808,237
Other assets	2,571,086	1,970,067
Total other assets	4,856,857	3,778,304
Total assets	$ 927,658,048	$ 892,023,762
LIABILITIES AND NET ASSETS		
LIABILITIES		
Unpaid grants	$ 30,634,907	$ 37,996,829
Current and deferred federal tax payable	3,196,407	3,499,817
Operating lease liability	1,527,380	2,048,374
Accounts payable and other	382,971	620,679
Total liabilities	35,741,665	44,165,699
NET ASSETS (DEFICIT)		
With donor restrictions	922,918,123	886,729,349
Without donor restrictions	(31,001,740)	(38,871,286)
Total net assets	891,916,383	847,858,063
Total liabilities and net assets	$ 927,658,048	$ 892,023,762

The accompanying notes are an integral part of these financial statements.

The Robert A. Welch Foundation

STATEMENT OF ACTIVITIES

For the year ended August 31, 2025

	2025		
	With Donor Restrictions	**Without Donor Restrictions**	**Total**
Revenues, income, and gains (losses)			
Interest and dividends	$ 19,829	$ 9,979,080	$ 9,998,909
Oil and gas royalties and other	-	2,918,253	2,918,253
Net realized gains on sales of investments	39,795,028	-	39,795,028
Unrealized appreciation of investments	32,890,627	-	32,890,627
Unrealized depreciation of other assets	(977)	-	(977)
Investment management expenses	-	(3,128,304)	(3,128,304)
Federal income and excise tax provision	-	(1,183,335)	(1,183,335)
Total revenues, income, and gains	72,704,507	8,585,694	81,290,201
Expenses			
Grants approved, net	-	32,018,657	32,018,657
Grants administration	-	3,173,060	3,173,060
General and administrative	-	2,185,376	2,185,376
Total expenses	-	37,377,093	37,377,093
Deferred federal excise tax benefit on unrealized capital gains	145,212	-	145,212
Restricted to unrestricted transfer	(35,676,257)	35,676,257	-
Net allocation of restricted to unrestricted	(984,688)	984,688	-
CHANGE IN NET ASSETS	36,188,774	7,869,546	44,058,320
Net assets (deficit), beginning of year	886,729,349	(38,871,286)	847,858,063
Net assets (deficit), end of year	$ 922,918,123	$ (31,001,740)	$ 891,916,383

The accompanying notes are an integral part of this financial statement.

The Robert A. Welch Foundation

STATEMENT OF ACTIVITIES

For the year ended August 31, 2024

	2024		
	With Donor Restrictions	**Without Donor Restrictions**	**Total**
Revenues, income, and gains (losses)			
Interest and dividends	$ 27,601	$ 8,982,629	$ 9,010,230
Oil and gas royalties and other	-	4,969,093	4,969,093
Net realized gains on sales of investments	22,870,042	-	22,870,042
Unrealized appreciation of investments	58,395,437	-	58,395,437
Unrealized appreciation of other assets	949	-	949
Investment management expenses	-	(2,991,050)	(2,991,050)
Federal income and excise tax provision	-	(431,335)	(431,335)
Total revenues, income, and gains	81,294,029	10,529,337	91,823,366
Expenses			
Grants approved, net	-	54,596,035	54,596,035
Grants administration	-	3,138,142	3,138,142
General and administrative	-	2,457,234	2,457,234
Total expenses	-	60,191,411	60,191,411
Deferred federal excise tax provision on unrealized capital gains	(846,013)	-	(846,013)
Restricted to unrestricted transfer	(34,105,255)	34,105,255	-
Net allocation of restricted to unrestricted	(373,288)	373,288	-
CHANGE IN NET ASSETS	45,969,473	(15,183,531)	30,785,942
Net assets (deficit), beginning of year	840,759,876	(23,687,755)	817,072,121
Net assets (deficit), end of year	$ 886,729,349	$ (38,871,286)	$ 847,858,063

The accompanying notes are an integral part of this financial statement.

The Robert A. Welch Foundation

STATEMENTS OF CASH FLOWS

For the years ended August 31, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Change in net assets	$ 44,058,320	$ 30,785,942
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization of right of use assets-operating leases	503,466	487,333
Net realized gain on sales of investments	(39,795,028)	(22,870,042)
Unrealized appreciation of securities	(31,909,627)	(58,395,437)
Changes in operating assets and liabilities		
(Increase) decrease in receivables	(225,699)	216,903
(Increase) in asset held for sale	(981,000)	-
(Increase) in other assets	(601,019)	(135,426)
(Decrease) increase in unpaid grants	(7,361,922)	14,857,839
(Decrease) in operating lease liability obligations	(520,994)	(394,748)
(Decrease) increase in current and deferred federal tax payable	(303,410)	1,004,210
(Decrease) increase in accounts payable and other	(237,708)	34,002
Net cash used in operating activities	(37,374,621)	(34,409,424)
Cash flows from investing activities:		
Purchases of investments	(58,898,466)	(62,808,238)
Proceeds from sales of investments	91,238,761	78,915,847
Return of capital	25,661,485	17,226,428
Net cash provided by investing activities	58,001,780	33,334,037
Net Increase (Decrease) in cash and cash equivalents	20,627,159	(1,075,387)
Cash and cash equivalents, beginning of year	484,672	1,560,059
Cash and cash equivalents, end of year	$ 21,111,831	$ 484,672
Supplemental disclosures of cash flow information:		
Cash paid during the year for federal excise taxes	$ 1,650,000	$ 250,000

The accompanying notes are an integral part of these financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Foundation

The Robert A. Welch Foundation (the "Foundation") is a private foundation created under the terms of the founder's will. The Foundation is a Texas nonprofit corporation and it is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Foundation is to receive and maintain real and personal property and to use, exclusively within the state of Texas, such income therefrom to assist research in the field of chemistry, with the discoveries and inventions made available to mankind.

Basis of Accounting

The accounts of the Foundation, which are maintained on the accrual basis of accounting, reflect investments at estimated fair value. Based on the Uniform Principal and Income Act of Texas, the Foundation allocates a percentage of the gross mineral revenue to the Principal Fund and will allocate a percentage of certain expenses to the Principal Fund.

Change of Basis of Presentation

On September 20, 2024, the Board of Directors approved the dissolution of the Foundation's wholly owned subsidiary, the RWF Fund, LP. As of March 31, 2025, all investment assets were transferred to the Foundation. As a result of this transaction, the Foundation no longer presents consolidated financial statements as of August 31, 2025.

The accompanying financial statements for the year ended August 31, 2025 are presented on a non-consolidated basis. The comparative financial statements for the year ended August 31, 2024 were previously presented on a consolidated basis, which included the RWF Fund, LP.

While the form of presentation has changed, management believes that the financial statements remain substantially comparable for all periods presented because the underlying assets, liabilities, and operations of the formerly consolidated subsidiary continue within the parent company.

Use of Estimates

Preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Asset Classification

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions - These net assets are not subject to donor-imposed stipulations.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net assets with donor restrictions - Net assets with donor restrictions are net assets required to be maintained in perpetuity, with only the income to be used for the Foundation's activities, due to donor-imposed restrictions. The Foundation's assets are primarily maintained in permanently restricted net assets according to the last will and testament of Robert A. Welch.

Included in the net assets with donor restrictions is the Section 10 Fund. Under the Section 10 Fund, $500,000 of the Foundation's original principal was set aside to be used for the purpose of extending financial aid to current and former employees of the Foundation or their families, in need. At each year end, any Section 10 net assets over $500,000 in value are transferred to net assets without donor restrictions or maintained in net assets without donor restrictions as applicable.

Except as required by the Internal Revenue Code Section 4942 ("IRC Section 4942") (which may require a distribution of principal), all distributions from the Foundation, other than distributions from the Section 10 Fund, shall be limited to the net income of the Foundation (determined on a cash basis), and shall include no part of the principal which shall be kept intact and never expended, but used as the endowment fund of the Foundation.

In accordance with the last will of Robert A. Welch (the "Will"), for purposes of determining the amount of required distributions, the assets of the Foundation are accounted for as income and principal by application of the provisions of the Will and the Texas Trust Code and, consistent with the Texas Trust Code, consideration received on the sale or transfer of principal (i.e., realized capital gains and losses), is allocable to principal and therefore, does not constitute income. Consequently, realized and unrealized gains and losses are considered permanently restricted by the Foundation.

To maintain its private foundation status, the IRC Section 4942 requires that 5% of the average assets, as defined by IRC Section 4942, are required to be distributed for its charitable purpose. As provided in the Bylaws of the Foundation, if income is insufficient to meet this requirement, principal may be used. Consequently, when required, a distribution is made from the Principal Fund to the Income Fund. During 2025 and 2024, $35,676,257 and $34,105,255, respectively, was transferred from the Principal Fund to the Income Fund.

Cash and Cash Equivalents

The Foundation considers all highly liquid financial instruments with an original maturity of 90 days or less, except those assigned to investment advisors, to be cash equivalents.

Other Assets

Other assets are principally comprised of property, plant and equipment, prepaid expenses, and the Section 10 Fund.

Grants Expense and Grants Payable

Unconditional grants are recognized as expenses in the period they are approved. Conditional grants—those with a barrier and a right of return—are recognized as expenses in the year the conditions are substantially met or waived by the Foundation. Grants payable within one year are recorded at fair value on the authorization date, while grants payable over multiple years are recorded at the present value of expected future cash outflows, discounted using U.S. Treasury rates applicable to the term of each grant

NOTE B - INVESTMENTS

Investments are comprised of equities, alternative investments, fixed income and other investments. Equities and fixed income are reported at fair value, which is based on quoted market prices when available using the market approach. Realized and unrealized gains and losses on investments are computed by comparing cost, determined on an average cost per share basis, to sales proceeds and quoted market values, respectively.

Alternative investments, which include hedge funds and private equity, are valued in accordance with fair value standards applicable to their asset class. For investments with limited marketability, including investments in some partnerships, the Foundation follows the accounting guidance related to the use of net asset value ("NAV") as the practical expedient. U.S. GAAP provides guidance for estimating the fair value of investments in investment funds that calculate NAV. NAVs are determined by the fund manager or general partner based on their best estimates using fair value estimation techniques, substantiated, in part, by their audited financial statements.

There are inherent limitations in any estimation technique. Because of the inherent uncertainty of valuation, the estimated fair value may differ significantly from the value that would have been used had a ready market for the investments existed, and the difference could be significant.

The Foundation had unfunded investment purchase commitments related to private equity funds of $99,981,747 as of August 31, 2025 and $121,541,628 as of August 31, 2024.

Other investments are comprised of mineral royalty and fee interests in oil and natural gas located in various states. These properties have a cost of $3,111,703 at August 31, 2025 and $3,111,782 at August 31, 2024, and an equity investment in a limited partnership with a historical cost of $176,667 at August 31, 2025 and 2024. The Foundation recorded an decrease of $2,889,709 and an increase of $6,043,478 to these mineral and fee properties and the limited partnership investments in 2025 and 2024, respectively. Mineral property investments are valued based on a decline curve analysis approach for August 31, 2025 and 2024. Fee properties are recorded based on third party valuations for August 31, 2025 and 2024. The Board approved the sale of fee properties during the 2024 fiscal year. As of August 31, 2025, one property entered into a contract for sale and was accordingly reclassified as an asset held for sale. The disposition process for the remaining properties is ongoing and management does not expect these sales to be completed within the next 12 months.

The Foundation's investment policy seeks to preserve the capacity to fund grants both now and in the future. To this end, the basic objective is to seek maximum total return consistent with an acceptable level of risk, balancing the preservation of capital with the generation of returns sufficient to meet or exceed the sum of the Foundation's payout requirements, the rate of inflation, and all costs associated with managing the Foundation's assets.

To satisfy these investment objectives, the Foundation's assets are invested in a diversified portfolio with an emphasis on equity investments.

NOTE B - INVESTMENTS - CONTINUED

Fair value, cost, and cumulative unrealized gains on investments as of August 31, 2025 and 2024, were as follows:

	2025		
	Fair value	Cost	Cumulative unrealized gains(losses)
Domestic equity	$ 183,326,382	$ 82,063,798	$ 101,262,584
International equity	142,419,228	72,392,578	70,026,650
Emerging market	35,521,000	23,600,293	11,920,707
Hedge fund	67,233,173	54,811,916	12,421,257
Private equity	391,062,509	285,670,783	105,391,726
Domestic Fixed income	68,583,050	74,080,419	(5,497,369)
Other investments[1]	12,759,390	3,288,370	9,471,020
Total	$ 900,904,732	$ 595,908,157	$ 304,996,575

	2024		
	Fair value	Cost	Cumulative unrealized gains(losses)
Domestic equity	$ 186,243,870	$ 99,999,727	$ 86,244,143
International equity	113,738,363	55,997,598	57,740,765
Emerging market	30,279,930	24,043,708	6,236,222
Hedge fund	71,276,377	58,455,947	12,820,430
Private equity	384,112,872	279,882,103	104,230,769
Domestic Fixed income	85,901,346	92,447,456	(6,546,110)
Other investments[1]	15,649,099	3,288,449	12,360,650
Total	$ 887,201,857	$ 614,114,988	$ 273,086,869

[1] Other investments consist primarily of mineral and fee properties.

NOTE C - FAIR VALUE OF INVESTMENTS

The Foundation has estimated fair value of financial instruments in accordance with the fair value guidance. The Foundation's significant financial instruments consist of cash and cash equivalents, investments, receivables, other assets, unpaid grants, and other liabilities. The carrying amounts for cash and cash equivalents, receivables, other assets, and other liabilities approximate fair value because of the short-term nature of these items. The fair value of investments is described in Note B.

ASC 820 *Fair Value Measurements and Disclosures* establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Foundation's assumptions (unobservable inputs). Determining the level at which an asset or liability falls within the hierarchy requires significant judgment considering the lowest level input that is significant to the fair value measurement as a whole. The hierarchy consists of three broad levels, as follows, with Level 1 being the most observable:

Level 1 - Quoted market prices in active markets for identical assets or liabilities;

Level 2 - Quoted market prices in active or inactive markets for similar assets or liabilities and inputs other than quoted prices that are observable; and

Level 3 - Unobservable inputs developed using the Foundation's and/or third-party estimates and assumptions, which reflect those that market participants would use.

It is the policy of the Foundation to transfer investments between the levels of the fair value hierarchy if a change occurs within the underlying investment.

Upon the transfer of the RWF Fund, LP investment assets to the Foundation, management reevaluated the inputs used to determine fair value for investments in private equity and hedge funds. Classification of these investments were previously reported as Level 3 within the fair value hierarchy as determined by the RWF Fund, LP. Management revalued the classification of these investments and determined that the investments qualify for measurement using the NAV practical expedient under ASU 2015-07. This change in accounting principle has been applied retrospectively to all periods presented in accordance with applicable accounting guidance. The change resulted in investments amounting to $398,002,786, which were previously classified under Level 3 of the fair value hierarchy to now be removed from the hierarchy table and shown at NAV. The change in accounting principle did not affect any amounts of Foundation's net assets or changes in net assets.

The following tables present information about the Foundation's long-term investments that are measured at fair value as of August 31, 2025 and 2024 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2025				
	Level 1	Level 2	Level 3	NAV Investment Managers[1]	Total
Domestic equity	$ 99,074,683	$ -	$ -	$ 84,251,699	$ 183,326,382
International equity	-	-	-	142,419,228	142,419,228
Emerging market	-	12,071,447	-	23,449,553	35,521,000
Hedge fund	-	-	-	67,233,173	67,233,173
Private equity	-	-	-	391,062,509	391,062,509
Fixed income	55,589,042	-	-	12,994,008	68,583,050
Other investments[2]	-	-	12,759,390	-	12,759,390
Total fair value	$ 154,663,725	$ 12,071,447	$ 12,759,390	$ 721,410,170	$ 900,904,732

	2024				
	Level 1	Level 2	Level 3	NAV Investment Managers[1]	Total
Domestic equity	$ 113,486,236	$ -	$ -	$ 72,757,634	$ 186,243,870
International equity	-	-	-	113,738,363	113,738,363
Emerging market	-	10,844,947	-	19,434,983	30,279,930
Hedge fund	-	-	-	71,276,377	71,276,377
Private equity	-	-	-	384,112,872	384,112,872
Fixed income	70,117,149	-	-	15,784,197	85,901,346
Other investments[2]	-	-	15,649,099	-	15,649,099
Total fair value	$ 183,603,385	$ 10,844,947	$ 15,649,099	$ 677,104,426	$ 887,201,857

[1] Investments measured at NAV are presented in this table to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

[2] Other investments consist primarily of mineral and fee properties.

NOTE C - FAIR VALUE OF INVESTMENTS - CONTINUED

The Foundation follows the accounting guidance related to the use of NAV as a practical expedient. As a result of applying the practical expedient, the Foundation's fair value in certain investments was determined based on the NAV. The following table discloses investments valued at NAV:

2025

	2025 Fair Value	Redemption frequency	Redemption notice period	Unfunded commitment	Redemption Restrictions
Domestic equity (a)	$ 84,251,699	Daily	1 day notice	None	
International equity (b)	142,419,228	Daily to annually	1 to 45 days notice	None	
Emerging markets (c)	23,449,553	Daily to monthly	1 to 60 days notice	None	
Hedge fund (d)	67,233,173	Monthly to annually	5 to 90 days notice	None	2 funds have restrictions consisting of a gate limiting to 10%-25% of the fund NAV that can be redeemed in any one quarter. One fund has a rolling, yearly lockup.
Private Equity (e)	391,062,509	None	No redemption ability	$ 99,981,747	
Treasury inflation-protection security (f)	12,994,008	Daily	1 day notice	None	
Total	$ 721,410,170				

2024

	2024 Fair Value	Redemption frequency	Redemption notice period	Unfunded commitment	Redemption Restrictions
Domestic equity (a)	$ 72,757,634	Daily	1 day notice	None	
International equity (b)	113,738,363	Daily to annually	1 to 45 days notice	None	
Emerging markets (c)	19,434,983	Daily to monthly	1 to 60 days notice	None	
Hedge fund (d)	71,276,377	Monthly to annually	5 to 90 days notice	None	2 funds have restrictions consisting of a gate limiting to 10%-25% of the fund NAV that can be redeemed in any one quarter. One fund has a rolling, yearly lockup.
Private Equity (e)	384,112,872	None	No redemption ability	$ 121,541,628	
Treasury inflation-protection security (f)	15,784,197	Daily	1 day notice	None	
Total	$ 677,104,426				

(a) This is an investment in a fund that invests primarily in U.S. stocks in all market capitalization ranges.

(b) This is an investment in funds that invests in equity securities of companies located in any country other than the U.S.

(c) This is an investment in a fund seeking to achieve long-term capital growth by investing in emerging markets.

(d) This is an investment in hedge funds that aims to achieve a positive return on investment whether markets are rising or falling.

(e) This is an investment in private equity funds that invest in privately held companies. These investments are generally illiquid and are realized through distributions as the underlying investments are liquidated.

(f) This is an investment in inflation protected U.S. government bonds.

NOTE D - UNPAID GRANTS

The Foundation's unpaid grants at August 31, 2025 represent commitments for grant disbursements approved but not paid of $7,765,500 in 2026; $18,087,500 in 2027; and $6,477,500 in 2028.

The components of unpaid grants as of August 31, 2025 and 2024 were as follows:

	2025	2024
Unpaid grants - beginning of the year	$ 37,996,829	$ 23,138,990
Grants approved	34,293,040	58,175,014
Grants cancelled and refunds	(578,790)	(1,071,818)
Grants disbursed	(39,380,579)	(39,738,196)
Unpaid grants - end of year before discount	32,330,500	40,503,990
Less discount to reflect grants payable at present value	(1,695,593)	(2,507,161)
Unpaid grants - end of year	$ 30,634,907	$ 37,996,829

The unpaid grants primarily account for the net deficit in the Income Fund of $31,001,740 and $38,871,286 as of August 31, 2025 and 2024, respectively, as the grants are approved but not yet paid as of year-end.

Grant disbursements are made first from accumulated investment earnings and, if required to meet the minimum distribution requirements of IRC Section 4942, from the Principal Fund.

As of August 31, 2025 and 2024, the grants cancelled and refunds were $578,790 and $1,071,818, respectively.

NOTE E - INCOME AND EXCISE TAXES

The components of the Foundation's Unrelated Business Income ("UBI") and excise tax for the tax year ended August 31, 2025 and 2024 were as follows:

	2025	2024
Current federal excise tax	$ 460,078	$ 273,138
Deferred federal excise tax (benefit)	(145,212)	846,013
Unrelated business income tax	723,257	158,197
Total income and excise tax	$ 1,038,123	$ 1,277,348
Deferred federal excise tax payable	$ 3,196,407	$ 3,341,620
Unrelated business income tax payable	-	158,197
Current and deferred federal tax payable	$ 3,196,407	$ 3,499,817

The current provision for federal excise tax is based on a 1.39% rate on net investment income. Current federal and state income taxes are based on UBI derived by the Foundation's passthrough investments.

NOTE E - INCOME AND EXCISE TAXES - CONTINUED

The Foundation's federal UBI provision is $723,257 for tax year ended August 31, 2025. State UBI tax was expensed as incurred.

The Foundation recorded a deferred excise tax liability of $3,196,407 and $3,341,620, respectively, as of August 31, 2025 and 2024. This deferred excise tax liability is the result of the unrealized appreciation on the Foundation's investments.

Accounting for Uncertain Tax Positions

The Foundation follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Foundation is an organization exempt from federal income taxation under §501(c)(3) of the Internal Revenue Code and is a private foundation as described in §509(a); although, the Foundation 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; to determine its filing and tax obligations in jurisdictions for which it has nexus, and to identify and evaluate other matters that may be considered tax positions. As of August 31, 2025 and 2024, the Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

NOTE F - RELATED PARTY TRANSACTIONS

There were no related party transactions during the year ended August 31, 2025 or 2024.

NOTE G - EMPLOYEE BENEFIT PLANS

Employees are eligible to participate in the Thrift Plan of The Robert A. Welch Foundation under which all employees may contribute a whole percentage from 1% to 50% of defined compensation (up to $23,500 in 2025 and $23,000 in 2024). The Foundation makes matching contributions in an amount equal to 100% of the amount of before-tax contributions made on the employees' behalf that were not in excess of 3% of their compensation plus 50% of the amounts that were between 3% and 6% of employee compensation. The Foundation contributes 12% to the employees' plans. The Foundation made contributions of $241,800 and $250,150 to the Thrift Plan in 2025 and 2024, respectively.

NOTE H - LEASES

The Foundation leases office space under a 10-year operating lease. Under the lease, annual minimum base rentals are approximately $581,000 as of August 31, 2025 and are subject to annual 2.5% increases through the term of the lease which expires on February 28, 2026. The lease contains two five-year renewal options or one ten-year renewal option. Base rental and operating expenses for the years ended August 31, 2025 and 2024 were approximately $581,000 and $567,000, respectively.

NOTE H - LEASES - CONTINUED

The Foundation entered into a five-year sublease agreement. The rent collected from the sublessee for the year ended August 31, 2025 was $308,000. The sublease rent increases approximately 2% through the end of the sublease on February 25, 2026.

The Foundation entered into an eleven-year operating office lease commencing on March 30, 2023. Under the lease, the first year of base rent is abated. Base rental and operating expenses for the year ended August 31, 2025 were approximately $319,700 and are subject to approximately 2% increases through the term of the lease which expires March 31, 2034. The lease contains two five-year renewal options or one ten-year renewal option.

As of August 31, 2025 and 2024, right of use assets shown in the accompanying statements of financial position were $1,304,771 and $1,808,237, respectively. The lease liability balances were $1,527,380 and $2,048,374 for years ended August 31, 2025 and 2024, respectively. The future minimum lease payments are as follows:

	Operating Lease
2026	$ 350,996
2027	177,797
2028	181,189
2029	184,581
2030	187,973
Thereafter	701,015
Total minimum lease payment	1,783,551
Less: Imputed Interest	(256,171)
Total present value of lease liabilities	$ 1,527,380

NOTE I - FUNCTIONAL EXPENSES

Functional expenses present expenses by function and natural classification. Costs are allocated between grant-related expenses and expenses related to management and general costs. Those expenses include payroll and employee costs, board and professional fees, occupancy, and other operating costs. Payroll and employee costs are allocated based on estimates of time and effort. Board and professional fees are allocated based on the services provided. Occupancy costs are allocated based on square footage. Other operating costs are allocated based on time and effort, the nature of the specific expenditure, and square footage.

NOTE I - FUNCTIONAL EXPENSES - CONTINUED

The following is a functional classification of the Foundation's expenses:

	2025			
	Grants approved, net	Grant administration	General and administrative	Total
Grants approved	$ 32,018,657	$ -	$ -	$ 32,018,657
Payroll and employee costs	-	1,707,734	762,172	2,469,906
Board and professional fees	-	915,987	258,592	1,174,579
Occupancy	-	-	882,288	882,288
Other operating costs	-	549,339	282,324	831,663
Total functional expenses	$ 32,018,657	$ 3,173,060	$ 2,185,376	$ 37,377,093

	2024			
	Grants approved, net	Grant administration	General and administrative	Total
Grants approved	$ 54,596,035	$ -	$ -	$ 54,596,035
Payroll and employee costs	-	1,639,720	926,110	2,565,830
Board and professional fees	-	230,840	389,198	620,038
Occupancy	-	-	819,446	819,446
Other operating costs		1,267,582	322,480	1,590,062
Total functional expenses	$ 54,596,035	$ 3,138,142	$ 2,457,234	$ 60,191,411

NOTE J - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

	2025	2024
Cash and cash equivalents	$ 21,111,831	$ 484,672
Liquid investments (excludes private equity and other investments)	497,082,834	487,439,886
Receivables and other investments	784,628	558,929
Financial assets available for general expenditures within one year	518,979,293	488,483,487
Amounts unavailable to management without Board's approval	(497,082,834)	(487,439,886)
Total financial assets available to management within one year	$ 21,896,459	$ 1,043,601

As part of the Foundation's liquidity management, it maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Foundation has a line of credit with a margin borrowing capacity up to $48 million as of August 31, 2025. The use of this line of credit is generally restricted to the extent that the Foundation is in need of liquidity to fund grants and program related obligations. As of August 31, 2025, the line of credit balance is $0.

NOTE K - SUBSEQUENT EVENTS

The Foundation evaluated all events or transactions that occurred after August 31, 2025, up through June 18, 2026, the date the financial statements were available to be issued. The Foundation is not aware of any additional subsequent events which would require recognition or disclosure in these financial statements, other than the following:

On September 18, 2025, the board approved a conditional grant totaling $100,000,000 over a 10-year period.