

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants

The Robert A. Welch Foundation

August 31, 2024 and 2023

Contents

Page

Report of Independent Certified Public Accountants	3
Consolidated Financial Statements	
Consolidated statements of financial position	5
Consolidated statements of activities	6
Consolidated statements of cash flows	8
Notes to consolidated financial statements	9

GRANT THORNTON LLP

500 N. Akard Street, Suite 1200
Dallas, TX 75201

D +1 214 561 2300

F +1 214 561 2370

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Robert A. Welch Foundation

Opinion

We have audited the consolidated financial statements of The Robert A. Welch Foundation and its limited partnership, the RWF Fund, LP, (collectively the "Foundation"), which comprise the consolidated statements of financial position as of August 31, 2024 and 2023, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of August 31, 2024 and 2023, 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.

We did not audit the financial statements of RWF Fund, LP, a limited partnership of which the Foundation is the sole limited partner, which statements reflect total assets constituting 51% and 56% of consolidated total assets at August 31, 2024 and 2023, respectively, total net assets of 53% and 58% of consolidated total net assets as of August 31, 2024 and 2023, respectively, and total revenues constituting 35% of consolidated total revenues for the years 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 consolidated 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 the 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 11, 2025

The Robert A. Welch Foundation
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of August 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 484,672	\$ 1,560,059
INVESTMENTS	887,201,857	839,270,415
RECEIVABLES		
Investment transactions	214,865	201,393
Interest and dividends	87,425	201,330
Other	<u>256,639</u>	<u>373,109</u>
Total receivables	<u>558,929</u>	<u>775,832</u>
OTHER ASSETS		
Right of use assets	1,808,237	2,295,570
Other assets	<u>1,970,067</u>	<u>1,834,641</u>
Total other assets	<u>3,778,304</u>	<u>4,130,211</u>
Total assets	<u><u>\$ 892,023,762</u></u>	<u><u>\$ 845,736,517</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Unpaid grants	\$ 37,996,829	\$ 23,138,990
Current and deferred federal tax payable	3,499,817	2,495,607
Operating lease liability	2,048,374	2,443,122
Accounts payable and other	<u>620,679</u>	<u>586,677</u>
Total liabilities	<u>44,165,699</u>	<u>28,664,396</u>
NET ASSETS (DEFICIT)		
With donor restrictions	886,729,349	840,759,876
Without donor restrictions	<u>(38,871,286)</u>	<u>(23,687,755)</u>
Total net assets	<u>847,858,063</u>	<u>817,072,121</u>
Total liabilities and net assets	<u><u>\$ 892,023,762</u></u>	<u><u>\$ 845,736,517</u></u>

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

The Robert A. Welch Foundation
CONSOLIDATED 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	-	55,667,853	55,667,853
Grants cancelled and refunds	-	(1,071,818)	(1,071,818)
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 consolidated financial statement.

The Robert A. Welch Foundation
CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended August 31, 2023

	2023		
	With Donor Restrictions	Without Donor Restrictions	Total
Revenues, income, and gains (losses)			
Interest and dividends	\$ 10,664	\$ 7,820,255	\$ 7,830,919
Oil and gas royalties and other	-	6,710,799	6,710,799
Net realized gains on sales of investments	33,076,410	-	33,076,410
Unrealized depreciation of investments	(20,182,125)	-	(20,182,125)
Unrealized depreciation of other assets	(16,314)	-	(16,314)
Investment management expenses	-	(3,256,471)	(3,256,471)
Federal excise tax provision	-	(367,090)	(367,090)
Total revenues, income, and gains	<u>12,888,635</u>	<u>10,907,493</u>	<u>23,796,128</u>
Expenses			
Grants approved	-	60,998,155	60,998,155
Grants cancelled and refunds	-	(85,212,769)	(85,212,769)
Grants administration	-	2,857,039	2,857,039
General and administrative	-	1,936,858	1,936,858
Total expenses	<u>-</u>	<u>(19,420,717)</u>	<u>(19,420,717)</u>
Deferred federal excise tax benefit on unrealized capital gains	2,664	-	2,664
Restricted to unrestricted transfer	(36,199,047)	36,199,047	-
Net allocation of restricted to unrestricted	<u>2,485</u>	<u>(2,485)</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>(23,305,263)</u>	<u>66,524,772</u>	<u>43,219,509</u>
Net assets (deficit), beginning of year	<u>864,065,139</u>	<u>(90,212,527)</u>	<u>773,852,612</u>
Net assets (deficit), end of year	<u>\$ 840,759,876</u>	<u>\$ (23,687,755)</u>	<u>\$ 817,072,121</u>

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

The Robert A. Welch Foundation
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended August 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ 30,785,942	\$ 43,219,509
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization of right of use assets-operating leases	487,333	514,352
Net realized gain on sales of investments	(22,870,042)	(33,076,410)
Unrealized (appreciation) depreciation of securities	(58,395,437)	20,182,125
Changes in operating assets and liabilities		
Decrease in operating lease liability obligations	(394,748)	(366,800)
Decrease in receivables	216,903	1,091,457
Increase in other assets	(135,426)	(857,792)
Increase (decrease) in unpaid grants	14,857,839	(66,993,274)
Increase (decrease) in current and deferred federal tax payable	1,004,210	(134,878)
Increase in accounts payable and other	34,002	292,518
	<u>(34,409,424)</u>	<u>(36,129,193)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of investments	(62,808,238)	(76,994,770)
Proceeds from sales of investments	78,915,847	84,686,522
Return of capital	17,226,428	26,351,114
	<u>33,334,037</u>	<u>34,042,866</u>
Net cash provided by investing activities		
Net Decrease in cash and cash equivalents	(1,075,387)	(2,086,327)
Cash and cash equivalents, beginning of year	<u>1,560,059</u>	<u>3,646,386</u>
Cash and cash equivalents, end of year	<u>\$ 484,672</u>	<u>\$ 1,560,059</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for federal excise taxes	<u>\$ 250,000</u>	<u>\$ 600,000</u>

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

The Robert A. Welch Foundation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2024 and 2023

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.

Consolidation

The consolidated financial statements include the accounts of the RWF Fund, LP (the “Partnership”) in which the Foundation is the sole limited partner. The Partnership is a limited partnership which commenced on November 2, 2010 pursuant to the Revised Uniform Limited Partnership Act of the State of Delaware. All material intercompany transactions have been eliminated in consolidation.

Use of Estimates

Preparation of consolidated 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 consolidated 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.

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.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2024 and 2023

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 2024 and 2023, \$34,105,255 and \$36,199,047, 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.

Unpaid Grants

Grants are recorded as an expense and a liability upon approval of the grants by the Foundation's Board of Directors. Such grants are presented net of grants returned of \$688,568 and \$602,691 and terminations of \$383,250 and \$84,610,078 for the years ended August 31, 2024 and 2023, respectively (see Note D).

Current Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which replaced the current incurred loss impairment methodology for measurement of credit losses on financial instruments, including the Foundation's accounts receivable, with a methodology (the "current expected credit losses (CECL) model") that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under the CECL model, the allowance for losses on financial assets, measured at amortized cost, reflects management's estimate of credit losses over the remaining expected life of such assets. The Foundation adopted ASU 2016-13 during the year ended August 31, 2024, and the adoption did not have a material impact on the consolidated financial statements.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2024 and 2023

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 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. Partnership investments are valued at fair value by the general partner in accordance with U.S. GAAP.

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 \$121,541,628 as of August 31, 2024 and \$136,566,133 as of August 31, 2023.

Other investments are comprised of mineral royalty and fee interests in oil and natural gas located in various states. These properties have a historical cost of \$3,111,782 at August 31, 2024 and 2023, and an equity investment in a limited partnership with a historical cost of \$176,667 at August 31, 2024 and 2023. The Foundation recorded an increase of \$6,043,478 and a decrease of \$13,522,016 to these mineral and fee properties and the limited partnership investments in 2024 and 2023, respectively. Mineral property investments are valued based on a decline curve analysis approach for August 31, 2024 and 2023. Fee properties are recorded based on third party valuations for August 31, 2024 and tax appraisals for August 31, 2023. The Board approved the sale of fee properties during the 2024 fiscal year. The selling process for these properties is ongoing and not expected to occur 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.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2024 and 2023

NOTE B - INVESTMENTS - CONTINUED

Fair value, cost, and cumulative unrealized gains on investments as of August 31, 2024 and 2023, were as follows:

	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
Fixed income:			
Domestic	85,901,346	92,447,456	(6,546,110)
Other investments (primarily mineral and fee properties)	15,649,099	3,288,449	12,360,650
Total	<u>\$ 887,201,857</u>	<u>\$ 614,114,988</u>	<u>\$ 273,086,869</u>
	2023		
	Fair value	Cost	Cumulative unrealized gains (losses)
Domestic equity	\$ 180,996,387	\$ 125,146,952	\$ 55,849,435
International equity	100,998,178	57,849,827	43,148,351
Emerging market	30,449,027	33,763,231	(3,314,204)
Hedge fund	72,277,054	58,939,535	13,337,519
Private equity	374,042,909	266,259,994	107,782,915
Fixed income:			
Domestic	70,901,239	79,330,995	(8,429,756)
Other investments (primarily mineral and fee properties)	9,605,621	3,288,449	6,317,172
Total	<u>\$ 839,270,415</u>	<u>\$ 624,578,983</u>	<u>\$ 214,691,432</u>

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2024 and 2023

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.

The following tables present information about the Foundation's long-term investments that are measured at fair value as of August 31, 2024 and 2023 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2024		
	Level 1	Level 2	Level 3
Domestic equity	\$ 113,486,236	\$ -	\$ -
Emerging market	-	10,844,947	-
Hedge fund	-	-	13,889,913
Private equity	-	-	384,112,873
Fixed income	70,117,149	-	-
Other investments (primarily mineral and fee properties)	-	-	15,649,099
Total	<u>\$ 183,603,385</u>	<u>\$ 10,844,947</u>	<u>\$ 413,651,885</u>
NAV investments			279,101,640
Total fair value			<u>\$ 887,201,857</u>

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2024 and 2023

NOTE C - FAIR VALUE OF INVESTMENTS - CONTINUED

	2023			
	Level 1	Level 2	Level 3	Total
Domestic equity	\$ 110,846,335	\$ -	\$ -	\$ 110,846,335
Emerging market	-	10,194,811	-	10,194,811
Hedge fund	-	-	16,128,516	16,128,516
Private equity	-	-	374,042,909	374,042,909
Fixed income	56,051,336	-	-	56,051,336
Other investments (primarily mineral and fee properties)	-	-	9,605,621	9,605,621
Total	<u>\$ 166,897,671</u>	<u>\$ 10,194,811</u>	<u>\$ 399,777,046</u>	576,869,528
NAV investments				262,400,887
Total fair value				<u>\$ 839,270,415</u>

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.

During the years ended August 31, 2024 and 2023, no investments were transferred between levels.

The following tables present additional information about assets that have been measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of August 31, 2024 and 2023:

	2024				
	Beginning balance	Additions, contributions, transfers in	Distributions, redemptions, transfers out	Unrealized gain (losses)	Ending balance
Private equity	\$ 374,042,909	\$ 30,833,435	\$ (17,211,326)	\$ (3,552,145)	\$ 384,112,873
Hedge fund	16,128,516	-	(2,763,281)	524,678	13,889,913
Other investments (primarily mineral and properties)	9,605,621	-	-	6,043,478	15,649,099
Total	<u>\$ 399,777,046</u>	<u>\$ 30,833,435</u>	<u>\$ (19,974,607)</u>	<u>\$ 3,016,011</u>	<u>\$ 413,651,885</u>

	2023				
	Beginning balance	Additions, contributions, transfers in	Distributions, redemptions, transfers out	Unrealized gain (losses)	Ending balance
Private equity	\$ 393,137,250	\$ 40,065,072	\$ (26,381,117)	\$ (32,778,296)	\$ 374,042,909
Hedge fund	15,546,368	-	-	582,148	16,128,516
Other investments (primarily mineral and properties)	23,127,637	-	-	(13,522,016)	9,605,621
Total	<u>\$ 431,811,255</u>	<u>\$ 40,065,072</u>	<u>\$ (26,381,117)</u>	<u>\$ (45,718,164)</u>	<u>\$ 399,777,046</u>

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2024 and 2023

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:

	<u>2024 Fair Value</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>	<u>Unfunded commitment</u>
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)	57,386,463	Monthly to annually	5 to 90 days notice	None
Treasury inflation-protection security (e)	<u>15,784,197</u>	Daily	1 day notice	None
Total	<u>\$ 279,101,640</u>			
	<u>2023 Fair Value</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>	<u>Unfunded commitment</u>
Domestic equity (a)	\$ 70,150,052	Daily	1 day notice	None
International equity (b)	100,998,178	Daily to annually	1 to 45 days notice	None
Emerging markets (c)	20,254,216	Daily to monthly	1 to 60 days notice	None
Hedge fund (d)	56,148,538	Monthly to annually	5 to 90 days notice	None
Treasury inflation-protection security (e)	<u>14,849,903</u>	Daily	1 day notice	None
Total	<u>\$ 262,400,887</u>			

- (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 inflation protected U.S. government bonds.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2024 and 2023

NOTE D - UNPAID GRANTS

The Foundation's unpaid grants at August 31, 2024 represent commitments for grant disbursements approved but not paid of \$7,250,990 in 2025; \$22,475,500 in 2026; \$8,725,000 in 2027; and \$2,052,500 in 2028.

The components of unpaid grants as of August 31, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Unpaid grants - beginning of the year	\$ 23,138,990	\$ 90,132,264
Grants approved	58,175,014	63,168,894
Grants cancelled and refunds	(1,071,818)	(85,212,769)
Grants disbursed	<u>(39,738,196)</u>	<u>(42,828,659)</u>
Unpaid grants - end of year before discount	40,503,990	25,259,730
Less discount to reflect grants payable at present value	<u>(2,507,161)</u>	<u>(2,120,740)</u>
Unpaid grants - end of year	<u><u>\$ 37,996,829</u></u>	<u><u>\$ 23,138,990</u></u>

The unpaid grants primarily account for the net deficit in the Income Fund of \$38,871,286 and \$23,687,755 as of August 31, 2024 and 2023, 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, 2024 and 2023, the grants cancelled and refunds were \$1,071,818 and \$85,212,769, respectively. Grants cancelled and refunds in 2023 was primarily due to the \$84,610,078 cancellation of the \$100,000,000 grant approved in 2020.

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, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Current federal excise tax	\$ 273,138	\$ 367,090
Deferred federal excise tax (benefit)	846,013	(2,664)
Unrelated business income tax	<u>158,197</u>	<u>-</u>
Total Income and Excise Tax	<u><u>\$ 1,277,348</u></u>	<u><u>\$ 364,426</u></u>
Deferred federal excise tax payable	\$3,341,620	\$2,495,607
Unrelated business income tax payable	<u>158,197</u>	<u>-</u>
Current and deferred federal tax payable	<u><u>\$ 3,499,817</u></u>	<u><u>\$ 2,495,607</u></u>

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2024 and 2023

NOTE E - INCOME AND EXCISE TAXES - CONTINUED

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. The Foundation's federal UBI provision is \$158,197 for tax year ended August 31, 2024. State UBI tax was expensed as incurred.

The Foundation recorded a deferred excise tax liability of \$3,341,620 and \$2,495,607 respectively, as of August 31, 2024 and 2023. This deferred excise tax liability is the result of the unrealized appreciation on the Foundation's investments.

Deferred Income Tax Asset

The Foundation has generated a deferred tax asset on its federal and state Net Operating Loss (NOL) Carryforwards. Prior to the current year, the Foundation booked a full valuation allowance against its NOL Carryforward deferred tax asset, the expectation being that the Foundation does not utilize those losses. In the current year, the Foundation generated significant unrelated business income and is required to release the valuation allowance. The remaining tax benefit associated with its NOL Carryforwards is immaterial from a financial statement perspective and so no deferred tax asset has been recorded in the consolidated financial statements.

	2024	2023
Deferred Income tax asset	\$ -	\$ 2,126,143
Income Tax Valuation Allowance	-	(2,126,143)
Deferred Income tax asset - End of Year	<u>\$ -</u>	<u>\$ -</u>

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, 2024 and 2023, 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, 2024 or 2023.

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2024 and 2023

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 \$23,000 in 2024 and \$22,500 in 2023). 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 \$250,150 and \$225,621 to the Thrift Plan in 2024 and 2023, respectively.

NOTE H - LEASES

The Foundation leases office space under a 10-year operating lease. Under the lease, annual minimum base rentals are approximately \$567,000 as of August 31, 2024 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, 2024 and 2023 were approximately \$567,000 and \$573,000, respectively.

The Foundation entered into a five-year sublease agreement. The rent collected from the sublessee for the year ended August 31, 2024 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, 2024 were approximately \$160,000 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, 2024 and 2023, right of use assets shown in the accompanying consolidated statements of financial position were \$1,808,237 and \$2,295,570, respectively. The lease liability balances were \$2,048,374 and \$2,443,122 for years ended August 31, 2024 and 2023, respectively. The future minimum lease payments are as follows:

	Operating Lease
2025	\$ 590,718
2026	350,996
2027	177,797
2028	181,189
2029	184,581
Thereafter	<u>888,987</u>
Total minimum lease payment	2,374,268
Less: Imputed Interest	<u>(325,894)</u>
Total present value of lease liabilities	<u><u>\$ 2,048,374</u></u>

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2024 and 2023

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.

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

	2024				
	Grants approved, net	Grants Cancelled and refunds	Grant administration	General and administrative	Total
Grants approved	\$ 55,667,853	\$ -	\$ -	\$ -	\$ 55,667,853
Grants cancelled and refunds	-	(1,071,818)	-	-	(1,071,818)
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	<u>\$ 55,667,853</u>	<u>\$ (1,071,818)</u>	<u>\$ 3,138,142</u>	<u>\$ 2,457,234</u>	<u>\$ 60,191,411</u>

	2023				
	Grants approved, net	Grants Cancelled and refunds	Grant administration	General and administrative	Total
Grants approved	\$ 60,998,155	\$ -	\$ -	\$ -	\$ 60,998,155
Grants cancelled and refunds	-	(85,212,769)	-	-	(85,212,769)
Payroll and employee costs	-	-	1,576,194	902,050	2,478,244
Board and professional fees	-	-	103,866	97,339	201,205
Occupancy	-	-	-	653,188	653,188
Other operating costs	-	-	1,176,979	284,281	1,461,260
Total functional expenses	<u>\$ 60,998,155</u>	<u>\$ (85,212,769)</u>	<u>\$ 2,857,039</u>	<u>\$ 1,936,858</u>	<u>\$ (19,420,717)</u>

The Robert A. Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

August 31, 2024 and 2023

NOTE J - LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 484,672	\$ 1,560,059
Liquid investments (excludes private equity and other investments)	487,439,886	455,621,884
Receivables and other investments	<u>558,929</u>	<u>775,832</u>
Financial assets available for general expenditures within one year	488,483,487	457,957,775
Amounts unavailable to management without Board's approval	<u>(487,439,886)</u>	<u>(455,621,884)</u>
Total financial assets available to management within one year	<u>\$ 1,043,601</u>	<u>\$ 2,335,891</u>

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 \$53 million as of August 31, 2024. 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, 2024, the line of credit balance is \$0.

NOTE K - SUBSEQUENT EVENTS

The Foundation evaluated all events or transactions that occurred after August 31, 2024, up through June 11, 2025, the date the consolidated 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 consolidated financial statements, other than the following:

On September 20, 2024, the board decided to liquidate RWF Fund, LP and transfer its assets to the Foundation.