

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

The Welch Foundation

August 31, 2018 and 2017

Contents

	<u>Page</u>
Report of Independent Certified Public Accountants	3
Consolidated Statements of Financial Position	5
Consolidated Statements of Activities	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The Robert A. Welch Foundation

We have audited the accompanying consolidated financial statements of The Robert A. Welch Foundation and its limited partnership, the RWF Fund, LP, which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the RWF Fund, LP, a limited partnership of which the Foundation is the sole limited partner which statements reflect total assets of 39% and 30% of total consolidated assets as of August 31, 2018 and 2017, respectively, total net assets of 41% and 31% of total consolidated net assets as of August 31, 2018 and 2017, respectively, and total revenues of 15% and 11% of total consolidated revenues, respectively, of 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 the RWF Fund, LP, is based solely on the report of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Robert A. Welch Foundation and its limited partnership, the RWF Fund, LP, as of August 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Houston, Texas
May 30, 2019

The Welch Foundation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of August 31, 2018 and 2017

	2018	2017
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 2,062,641	\$ 5,219,312
INVESTMENTS	722,085,624	680,296,988
RECEIVABLES:		
Investment transactions	387,203	477,157
Interest and dividends	260,962	320,284
Other	255,414	297,912
Total receivables	903,579	1,095,353
OTHER ASSETS	585,399	994,220
TOTAL	\$ 725,637,243	\$ 687,605,873
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Unpaid grants	\$ 21,218,753	\$ 20,046,750
Current and deferred federal excise tax payable	2,730,346	2,196,044
Accounts payable and other	372,191	1,312,637
Total liabilities	24,321,290	23,555,431
NET ASSETS (DEFICIT):		
Permanently restricted - principal fund	722,410,574	684,866,477
Unrestricted deficit - income fund	(21,581,474)	(21,310,608)
Temporarily restricted - Section 10 fund	486,853	494,573
Total net assets	701,315,953	664,050,442
TOTAL	\$ 725,637,243	\$ 687,605,873

The accompanying notes are an integral part of these statements.

The Welch Foundation

CONSOLIDATED STATEMENT OF ACTIVITIES For the year ended August 31, 2018

	2018			Total
	Permanently Restricted - Principal Fund	Unrestricted Deficit - Income Fund	Temporarily Restricted - Section 10 Fund	
REVENUES:				
Interest	\$ -	\$ 1,286,632	\$ 8,874	\$ 1,295,506
Dividends	-	2,059,088	-	2,059,088
Oil and gas royalties and other	-	1,800,546	-	1,800,546
Total revenues	-	5,146,266	8,874	5,155,140
EXPENSES:				
Investment advisory and custodial fees	-	3,388,626	-	3,388,626
General and administrative	-	4,287,982	-	4,287,982
Federal excise tax provision on net investment income		218,396		218,396
Property, production and state taxes	-	178,574	-	178,574
Total expenses	-	8,073,578	-	8,073,578
GRANTS APPROVED - Net	-	(31,576,749)	-	(31,576,749)
GRANT PAYMENTS DISCOUNT	-	611,747	-	611,747
NET REALIZED GAINS ON SALES OF INVESTMENTS AND OTHER ASSETS	51,417,249	-	-	51,417,249
UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS	20,734,606	-	(16,594)	20,718,012
CHANGE IN PENSION	-	334,995	-	334,995
FEDERAL EXCISE TAX ON REALIZED CAPITAL GAINS	(796,165)	-	-	(796,165)
DEFERRED FEDERAL EXCISE TAX PROVISION ON UNREALIZED CAPITAL GAINS	(525,140)	-	-	(525,140)
PRINCIPAL TO INCOME TRANSFER	(31,950,594)	31,950,594	-	-
ALLOCATION OF PRINCIPAL TO INCOME	(1,335,859)	1,335,859	-	-
CHANGE IN NET ASSETS	37,544,097	(270,866)	(7,720)	37,265,511
NET ASSETS (DEFICIT), beginning of year	684,866,477	(21,310,608)	494,573	664,050,442
NET ASSETS (DEFICIT), end of year	\$722,410,574	\$(21,581,474)	\$ 486,853	\$701,315,953

The accompanying notes are an integral part of these statements.

The Welch Foundation

CONSOLIDATED STATEMENT OF ACTIVITIES For the year ended August 31, 2017

	2017			Total
	Permanently Restricted - Principal Fund	Unrestricted Deficit - Income Fund	Temporarily Restricted - Section 10 Fund	
REVENUES:				
Interest	\$ -	\$ 1,105,060	\$ 7,600	\$ 1,112,660
Dividends	-	3,449,081	-	3,449,081
Oil and gas royalties and other	-	1,343,632	-	1,343,632
Total revenues	-	5,897,773	7,600	5,905,373
EXPENSES:				
Investment advisory and custodial fees	-	3,541,561	-	3,541,561
General and administrative	-	3,882,653	-	3,882,653
Federal excise tax provision on net investment income	-	85,287	-	85,287
Property and production taxes	-	122,191	-	122,191
Total expenses	-	7,631,692	-	7,631,692
GRANTS APPROVED - Net	-	(28,333,693)	-	(28,333,693)
NET REALIZED GAINS ON SALES OF INVESTMENTS AND OTHER ASSETS	29,524,934	-	1,842	29,526,776
UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS	51,284,930	-	(14,869)	51,270,061
CHANGE IN PENSION	-	20,434	-	20,434
FEDERAL EXCISE TAX ON REALIZED CAPITAL GAINS	(187,250)	-	-	(187,250)
DEFERRED FEDERAL EXCISE TAX PROVISION ON UNREALIZED CAPITAL GAINS	(1,118,157)	-	-	(1,118,157)
PRINCIPAL TO INCOME TRANSFER	(28,794,981)	28,794,981	-	-
ALLOCATION OF PRINCIPAL TO INCOME	(1,527,044)	1,527,044	-	-
CHANGE IN NET ASSETS	49,182,432	274,847	(5,427)	49,451,852
NET ASSETS (DEFICIT), beginning of year	635,684,045	(21,585,455)	500,000	614,598,590
NET ASSETS (DEFICIT), end of year	\$ 684,866,477	\$ (21,310,608)	\$ 494,573	\$ 664,050,442

The accompanying notes are an integral part of these statements.

The Welch Foundation

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 37,265,511	\$ 49,451,852
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization	(9,155)	1,395
Net realized gain on sales of investments	(51,417,249)	(29,524,934)
Unrealized (appreciation) of securities	(20,734,606)	(51,284,930)
Changes in operating assets and liabilities:		
Decrease in receivables	191,774	147,082
Decrease (increase) in other assets	408,821	(228,761)
Increase (decrease) in unpaid grants	1,172,003	(430,750)
Increase in current and deferred federal excise taxes payable	534,302	1,118,157
(Decrease) increase in accounts payable and other	(940,446)	342,029
Decrease in investment transactions payable	-	(133,002)
Net cash used in operating activities	(33,529,045)	(30,541,862)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(148,521,002)	(160,523,584)
Proceeds from sales of investments	156,082,641	176,057,914
Return of capital	22,810,735	17,078,298
Net cash provided by investing activities	30,372,374	32,612,628
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,156,671)	2,070,766
CASH AND CASH EQUIVALENTS, beginning of year	5,219,312	3,148,546
CASH AND CASH EQUIVALENTS, end of year	\$ 2,062,641	\$ 5,219,312
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for federal excise taxes	\$ 610,000	\$ 510,000

The accompanying notes are an integral part of these statements.

The Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended August 31, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. 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.

2. 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.

3. Consolidation

The consolidated financial statements as of August 31, 2018 and 2017 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.

4. Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

5. Net Asset Classification

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

Unrestricted Net Deficit – Unrestricted net deficit is not subject to donor-imposed stipulations. The Foundation classifies its Income Fund as unrestricted.

Temporarily Restricted Net Assets – Temporarily restricted net assets are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specific event. The Foundation classifies its Section 10 Fund as temporarily restricted.

The Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As of and for the years ended August 31, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 the Income Fund or Principal Fund, as applicable, of the Foundation.

Permanently Restricted Net Assets - Permanently restricted net assets are 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 of the Principal Fund, according to the last will and testament of Robert A. Welch.

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 2018 and 2017, \$31,950,594 and \$28,794,981, respectively, was transferred from the Principal Fund to the Income Fund.

6. 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.

7. Other Assets

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

8. 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 \$688,834 and \$537,092 and terminations of \$694,750 and \$378,250 for the years ended August 31, 2018 and 2017, respectively (see Note D).

The Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As of and for the years ended August 31, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

9. Current Accounting Pronouncements

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. The FASB issued the Update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This amendment is effective for fiscal years beginning after December 15, 2019. At this time the Foundation is evaluating the implications of ASU 2016-2 and its effects on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not for Profit Entities*. This standard improves the current net asset classification requirements and the information presented in financial statements and notes about a not for profit entity's liquidity, financial performance, and cash flows. The amendments in this Update are effective for years beginning after December 15, 2017. At this time the Foundation is evaluating the implications of ASU 2016-14 and its effects on the financial statements.

In January 2017, the FASB issued ASU 2017-02, *Not for Profit Entities-Consolidation (Subtopic 958-810) Clarifying When a Not for Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For Profit Limited Partnership or Similar Entity*. The FASB issued this Update to amend the consolidation guidance in Subtopic 958-810, Not for Profit Entities-Consolidation, to clarify when a not for profit entity that is a general partner or a limited partner should consolidate a for profit limited partnership or similar legal entity once the amendments in Accounting Standards Update No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation analysis*, become effective. The amendments in this Update are effective for fiscal years beginning after December 15, 2016. Based on our analysis, this pronouncement does not impact the presentation of these statements.

NOTE B – INVESTMENTS

Investments, as of August 31, 2018 and 2017, 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 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 Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As of and for the years ended August 31, 2018 and 2017

NOTE B – INVESTMENTS – Continued

The Foundation had unfunded investment purchase commitments related to private equity funds of \$137,358,764 as of August 31, 2018 and \$122,190,321 as of August 31, 2017.

Other investments are presented at estimated fair market value and are comprised of mineral and fee properties with a historical cost of \$3,111,782 at August 31, 2018 and 2017, and an equity investment in a limited partnership with a historical cost of \$176,667 at August 31, 2018 and 2017. The Foundation recorded an increase of \$700,993 and a decrease of \$1,500,153 to these mineral and fee properties and the limited partnership investments in 2018 and 2017, respectively. Mineral and fee property investments are valued based on tax appraisals.

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.

Fair value, cost and cumulative unrealized gains (losses) on investments as of August 31, 2018 and 2017, were as follows:

	2018		Cumulative unrealized gains (losses)
	Fair value	Cost	
Domestic equity	\$ 169,970,282	\$ 123,523,273	\$ 46,447,009
International equity	125,623,060	77,210,158	48,412,902
Emerging market	41,288,338	36,299,779	4,988,559
Hedge fund	113,693,378	98,341,091	15,352,287
Private equity	185,942,515	148,926,522	37,015,993
Fixed income:			
Domestic	70,940,525	72,285,480	(1,344,955)
International	11,502,253	7,207,974	4,294,279
Other investments (primarily mineral and fee properties)	3,125,273	3,288,449	(163,176)
Total	<u>\$ 722,085,624</u>	<u>\$ 567,082,726</u>	<u>\$ 155,002,898</u>

The Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As of and for the years ended August 31, 2018 and 2017

NOTE B – INVESTMENTS – Continued

	2017		Cumulative unrealized gains (losses)
	Fair value	Cost	
Domestic equity	\$ 179,384,128	\$ 135,854,941	\$ 43,529,187
International equity	144,187,635	90,933,730	53,253,905
Emerging market	42,053,390	36,537,243	5,516,147
Hedge fund	67,266,487	57,679,853	9,586,634
Private equity	151,927,793	128,557,804	23,369,989
Inflation hedging	18,469,991	25,512,208	(7,042,217)
Fixed income:			
Domestic	57,418,642	57,276,323	142,319
International	17,164,642	10,388,145	6,776,497
Other investments (primarily mineral and fee properties)	2,424,280	3,288,449	(864,169)
Total	<u>\$ 680,296,988</u>	<u>\$ 546,028,696</u>	<u>\$ 134,268,292</u>

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.

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 Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As of and for the years ended August 31, 2018 and 2017

NOTE C – FAIR VALUE OF INVESTMENTS – Continued

The following tables presents information about the Foundation’s long-term investments that are measured at fair value as of August 31, 2018 and 2017 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2018			
	Level 1	Level 2	Level 3	Total
Domestic equity	\$ 69,096,029	\$ 61,570,809	\$ -	\$ 130,666,838
International equity	7,923,898	24,396,155	-	32,320,053
Emerging market	-	20,058,956	-	20,058,956
Hedge fund	-	14,563,936	-	14,563,936
Private equity	-	-	185,751,975	185,751,975
Fixed income	43,610,997	-	-	43,610,997
Other investments (primarily mineral and fee properties)	-	-	3,125,273	3,125,273
Total	\$ 120,630,924	\$ 120,589,856	\$ 188,877,248	\$ 430,098,028
NAV investments				\$ 291,987,596
Total fair value				\$ 722,085,624

	2017			
	Level 1	Level 2	Level 3	Total
Domestic equity	\$ 75,716,278	\$ 59,247,518	\$ -	\$ 134,963,796
International equity	7,872,123	28,815,808	-	36,687,931
Emerging market	-	20,678,005	-	20,678,005
Hedge fund	-	16,114,575	-	16,114,575
Private equity	-	-	150,969,540	150,969,540
Fixed income	44,910,630	-	-	44,910,630
Other investments (primarily mineral and fee properties)	-	-	2,424,280	2,424,280
Total	\$ 128,499,031	\$ 124,855,906	\$ 153,393,820	\$ 406,748,757
NAV investments				\$ 273,548,231
Total fair value				\$ 680,296,988

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, 2018 and 2017, no investments were transferred between levels.

The Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As of and for the years ended August 31, 2018 and 2017

NOTE C – FAIR VALUE OF INVESTMENTS – Continued

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, 2018 and August 31, 2017:

	2018				
	Beginning balance	Additions, contributions, subscriptions	Distributions, redemptions, transfers out	Unrealized gains (losses)	Ending balance
Private equity	\$ 150,969,540	\$ 40,872,037	\$ (20,503,317)	\$ 14,413,715	\$ 185,751,975
Other investments (primarily mineral and fee properties)	2,424,280	-	-	700,993	3,125,273
Total	\$ 153,393,820	\$ 40,872,037	\$ (20,503,317)	\$ 15,114,708	\$ 188,877,248

	2017				
	Beginning balance	Additions, contributions, subscriptions	Distributions, redemptions, transfers out	Unrealized gains (losses)	Ending balance
Private equity	\$ 131,257,190	\$ 32,403,902	\$ (15,104,226)	\$ 2,412,674	\$ 150,969,540
Other investments (primarily mineral and fee properties)	3,924,433	-	-	(1,500,153)	2,424,280
Total	\$ 135,181,623	\$ 32,403,902	\$ (15,104,226)	\$ 912,521	\$ 153,393,820

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

	2018 Fair value	Redemption frequency	Redemption notice period	Unfunded commitment
Domestic equity (a)	\$ 39,303,443	Daily	1 day notice	none
International equity (b)	93,303,007	Monthly	10 to 30 days notice	none
Emerging markets (c)	21,229,382	Monthly	6 days notice	none
Hedge fund (d)	99,129,443	Monthly to annually	5 to 90 days notice	none
Private equity (e)	190,541	None	no redemption ability	none
International fixed income (f)	11,502,253	Daily	10 days notice	none
Treasury inflation-protection security (g)	27,329,527	Daily	1 day notice	none
Total	\$ 291,987,596			

The Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As of and for the years ended August 31, 2018 and 2017

NOTE C – FAIR VALUE OF INVESTMENTS – Continued

- (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 a fund that invests in global distressed assets.
- (f) This is an investment in a fund seeking to achieve interest income and long term capital appreciation in U.S. fixed income investments and non U.S. sovereign debt securities.
- (g) This is an investment in inflation protected U.S. government bonds.

NOTE D – UNPAID GRANTS

The Foundation's unpaid grants at August 31, 2018, represent commitments for grant disbursements approved but not paid of \$5,549,000 in 2019; \$12,789,250 in 2020; \$3,457,250 in 2021; and \$35,000 in 2022.

The components of unpaid grants as of August 31, 2018 and 2017 were as follows:

	2018	2017
Unpaid grants - beginning of the year	\$ 20,046,750	\$ 20,477,500
Grants approved - net	31,574,999	28,333,693
Grants disbursed	(29,791,249)	(28,764,443)
Unpaid grants - end of year before discount	21,830,500	20,046,750
Less discount to reflect grants payable at present value	(611,747)	-
Unpaid grants - end of year	\$ 21,218,753	\$ 20,046,750

The unpaid grants primarily account for the net deficit in the Income Fund of \$21,581,474 and \$21,310,608 as of August 31, 2018 and 2017, 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.

NOTE E – FEDERAL EXCISE TAX

The Foundation is classified as a private foundation as defined in IRC Section 4942. As a private foundation, the Foundation is subject to federal excise tax of 2% on net investment income. For the year end August 31, 2018, the Foundation was subject to the 2% federal excise tax rate. For the year ended August 31, 2017, the Foundation qualified under IRC Section 4940(e) for a reduced excise tax rate of 1%.

The Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As of and for the years ended August 31, 2018 and 2017

NOTE E – FEDERAL EXCISE TAX – Continued

The Foundation is required to make certain qualifying distributions in order to maintain its private foundation status. Such required distributions have been or will be accomplished through the payment of grants and the operation of the Foundation’s grant program. The components of the Foundation’s federal excise tax provision for the years ended August 31, 2018 and 2017 were as follows:

	2018	2017
Federal excise tax provision on net investment income other than realized capital gains	\$ 218,396	\$ 85,287
Federal excise tax on realized capital gains	796,165	187,250
Current federal excise tax provision	1,014,561	272,537
Deferred federal excise tax provision on unrealized capital gains	525,140	1,118,157
Total federal excise tax	\$ 1,539,701	\$ 1,390,694

The Foundation provides deferred taxes for temporary differences in the recognition of gains and losses for tax and financial reporting purposes. The components of federal excise tax payable as of August 31, 2018 and 2017 were as follows:

	2018	2017
Current and deferred federal tax excise payable	\$ 2,730,346	\$ 2,196,044

NOTE F – RELATED PARTY TRANSACTIONS

There were no related-party transactions during the year ended August 31, 2018 or 2017.

NOTE G – EMPLOYEE BENEFIT PLANS

The Foundation sponsored The Robert A. Welch Foundation Defined Benefit Retirement Plan (the “Plan”), a noncontributory defined benefit plan. All employees of the Foundation were eligible to participate at their date of employment.

As of December 31, 2015 and March 31, 2016, the Foundation curtailed (“froze”) and then terminated the Plan. As a result, no further accumulation of pension benefits for service by those employees occurred after curtailment. An application for favorable determination upon plan termination was filed and accepted by the Internal Revenue Service.

The Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As of and for the years ended August 31, 2018 and 2017

NOTE G – EMPLOYEE BENEFIT PLANS – Continued

The change in benefit obligation, plan obligation, change in plan assets, reconciliation of funded status and net periodic pension cost of the Plan for the years ended August 31, 2018 and 2017 are as follows:

	2018	2017
Change in benefit obligation:		
Projected benefit obligation - beginning of year	\$ 6,426,060	\$ 6,427,180
Interest cost	37,542	200,907
Actuarial loss	(38)	(185,201)
Benefits paid	(15,424)	(16,826)
Settlement	(6,448,140)	-
Projected benefit obligation - end of year	\$ -	\$ 6,426,060
Change in plan assets:		
Fair value of plan assets - beginning of year	\$ 6,091,065	\$ 6,071,751
Actual return on plan assets	16,134	36,140
Employer contribution	379,469	
Settlement	(6,486,668)	(16,826)
Fair value of plan assets - end of year	\$ -	\$ 6,091,065
Funded status - reported in other assets	\$ -	\$ (334,995)
	2018	2017
Net periodic pension cost:		
Interest cost	\$ 37,542	\$ 200,907
Expected return on plan assets	(7,144)	(41,837)
Amortization of net loss	14,770	1,065,377
Settlement	728,864	-
Net periodic pension cost	\$ 774,032	\$ 1,224,447

The Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

As of and for the years ended August 31, 2018 and 2017

NOTE G – EMPLOYEE BENEFIT PLANS – Continued

1. Asset Allocation

Due to the termination of the Plan, all of the Plan’s assets have been distributed.

The total value of the assets \$6,091,065 and estimated return from investment income and unrealized gains was approximately .6% in fiscal year 2017.

2. Contributions

The Foundation contributed \$379,469 to the Plan in 2018. No contributions were made in the year ended August 31, 2017.

3. Rate of Return and Discount Rate

Based on a review of actuarial assumptions, as well as historical rates of return on plan assets’ existing long-term interest rates, the long-term expected rate of return on plan assets was .69% for the period ending November 1, 2017 and August 31, 2017. The discount rate used for the calculation of the net periodic benefit cost at the beginning of the year was 3.13% and the discount rate used for period ending November 1, 2017 was 3.44% for the Plan.

The plan made benefit payments of \$15,424 through November 1, 2017, the final payment date, and \$16,826 for the Plan year ended December 31, 2016.

4. Estimated Future Benefit Payments

There are no remaining benefits payable.

The following table presents information about the Plan’s long-term investments that are measured at fair value as of August 31, 2017 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	2017			
	Level 1	Level 2	Level 3	Total
Mutual fund:				
Money market fund	\$ 6,091,065	\$ -	\$ -	\$ 6,091,065
Total	\$ 6,091,065	\$ -	\$ -	\$ 6,091,065

The Welch Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED As of and for the years ended August 31, 2018 and 2017

NOTE G – EMPLOYEE BENEFIT PLANS – Continued

Employees are also eligible to participate in the Thrift Plan of The Robert A. Welch Foundation under which all employees may contribute between 3% and 10% of defined compensation. 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 employee's plans. The Foundation made contributions of \$166,054 and \$162,875 to the Thrift Plan in 2018 and 2017, respectively.

NOTE H – COMMITMENTS AND CONTINGENCIES

The Foundation leases office space under a 10-year operating lease. Under the lease, annual minimum base rentals are approximately \$337,000 as of August 31, 2018 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, 2018 and 2017 were approximately \$513,000 and \$554,000 respectively.

NOTE I – SUBSEQUENT EVENTS

The Foundation evaluated all events or transactions that occurred after August 31, 2018, up through June 8, 2019, the date the financial statements are available to be issued. During this period, the Foundation did not have any material recognizable subsequent events.