

The Brown Foundation, Inc.

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2023 and 2022

The Brown Foundation, Inc.

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Independent Auditors' Report

To the Board of Trustees of
The Brown Foundation, Inc.:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Brown Foundation, Inc., which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of The Brown Foundation, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of The Brown Foundation, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Brown Foundation, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will

always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Brown Foundation, Inc.'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 Brown Foundation, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blazek & Vetterling

October 26, 2023

The Brown Foundation, Inc.

Consolidated Statements of Financial Position as of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents (<i>Note 3</i>)	\$ 61,724,538	\$ 62,322,844
Investment income receivable	940,850	968,120
Prepaid expenses and other assets	5,062,993	38,462
Investments, at fair value (<i>Notes 4 and 5</i>)	1,812,525,159	1,621,276,354
Unsettled oil and gas net profit interest		1,408,652
Property and equipment, net (<i>Note 6</i>)	<u>6,195,448</u>	<u>6,383,116</u>
TOTAL ASSETS	<u>\$ 1,886,448,988</u>	<u>\$ 1,692,397,548</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,071,599	\$ 1,058,825
Unsettled oil and gas net profit interest	234,511	
Federal excise tax payable (<i>Note 7</i>)	145,000	230,000
Deferred federal excise tax (<i>Note 7</i>)	<u>7,965,451</u>	<u>6,427,195</u>
Total liabilities	<u>9,416,561</u>	<u>7,716,020</u>
Net assets:		
Without donor restrictions	849,030,338	741,446,963
With donor restrictions to be used within the State of Texas	<u>1,028,002,089</u>	<u>943,234,565</u>
Total net assets	<u>1,877,032,427</u>	<u>1,684,681,528</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,886,448,988</u>	<u>\$ 1,692,397,548</u>

See accompanying notes to consolidated financial statements.

The Brown Foundation, Inc.

Consolidated Statement of Activities for year ended June 30, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Investment return <i>(Note 4)</i>	\$ 115,687,001	\$ 162,113,308	\$ 277,800,309
Net assets released from restrictions <i>(Note 8)</i>	<u>77,345,784</u>	<u>(77,345,784)</u>	
Total revenue	<u>193,032,785</u>	<u>84,767,524</u>	<u>277,800,309</u>
EXPENSES:			
Program services:			
Grants awarded	79,829,132		79,829,132
Direct charitable activities	229,093		229,093
Program management	<u>1,277,685</u>		<u>1,277,685</u>
Total program services	81,335,910		81,335,910
Management and general	1,449,672		1,449,672
Federal excise tax <i>(Note 7)</i>	<u>2,663,828</u>		<u>2,663,828</u>
Total expenses	<u>85,449,410</u>		<u>85,449,410</u>
CHANGES IN NET ASSETS	107,583,375	84,767,524	192,350,899
Net assets, beginning of year	<u>741,446,963</u>	<u>943,234,565</u>	<u>1,684,681,528</u>
Net assets, end of year	<u>\$ 849,030,338</u>	<u>\$ 1,028,002,089</u>	<u>\$ 1,877,032,427</u>

See accompanying notes to consolidated financial statements.

The Brown Foundation, Inc.

Consolidated Statement of Activities for year ended June 30, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Investment return <i>(Note 4)</i>	\$ (118,786,422)	\$ (141,710,195)	\$ (260,496,617)
Net assets released from restrictions <i>(Note 8)</i>	<u>54,116,677</u>	<u>(54,116,677)</u>	<u> </u>
Total revenue	<u>(64,669,745)</u>	<u>(195,826,872)</u>	<u>(260,496,617)</u>
EXPENSES:			
Program services:			
Grants awarded	89,609,734		89,609,734
Direct charitable activities	172,211		172,211
Program management	<u>1,212,188</u>		<u>1,212,188</u>
Total program services	90,994,133		90,994,133
Management and general	1,228,189		1,228,189
Federal excise tax <i>(Note 7)</i>	<u>(1,385,566)</u>		<u>(1,385,566)</u>
Total expenses	<u>90,836,756</u>		<u>90,836,756</u>
CHANGES IN NET ASSETS	(155,506,501)	(195,826,872)	(351,333,373)
Net assets, beginning of year	<u>896,953,464</u>	<u>1,139,061,437</u>	<u>2,036,014,901</u>
Net assets, end of year	<u>\$ 741,446,963</u>	<u>\$ 943,234,565</u>	<u>\$ 1,684,681,528</u>

See accompanying notes to consolidated financial statements.

The Brown Foundation, Inc.

Consolidated Statements of Functional Expenses for the years ended June 30, 2023 and 2022

	<u>PROGRAM EXPENSES</u>	<u>PROGRAM MANAGEMENT</u>	<u>MANAGEMENT AND GENERAL</u>	<u>2023 TOTAL</u>
Grants awarded:				
Within the State of Texas	\$ 74,216,482			\$ 74,216,482
Outside the State of Texas	5,612,650			5,612,650
Direct charitable activities within the State of Texas	229,093			229,093
Salaries and benefits		\$ 865,053	\$ 1,049,549	1,914,602
Occupancy		217,024	144,461	361,485
Legal and professional fees		69,377	157,924	227,301
Insurance		48,866	50,594	99,460
Other office		77,365	47,144	124,509
Total expenses	<u>\$ 80,058,225</u>	<u>\$ 1,277,685</u>	<u>\$ 1,449,672</u>	82,785,582
Federal excise tax				<u>2,663,828</u>
Total				<u>\$ 85,449,410</u>

	<u>PROGRAM EXPENSES</u>	<u>PROGRAM MANAGEMENT</u>	<u>MANAGEMENT AND GENERAL</u>	<u>2022 TOTAL</u>
Grants awarded:				
Within the State of Texas	\$ 53,331,702			\$ 53,331,702
Outside the State of Texas	36,278,032			36,278,032
Direct charitable activities within the State of Texas	172,211			172,211
Salaries and benefits		\$ 813,790	\$ 893,739	1,707,529
Occupancy		232,869	159,684	392,553
Legal and professional fees		85,779	99,913	185,692
Insurance		43,871	45,223	89,094
Other office		35,879	29,630	65,509
Total expenses	<u>\$ 89,781,945</u>	<u>\$ 1,212,188</u>	<u>\$ 1,228,189</u>	92,222,322
Federal excise tax				<u>(1,385,566)</u>
Total				<u>\$ 90,836,756</u>

See accompanying notes to consolidated financial statements.

The Brown Foundation, Inc.

Consolidated Statements of Cash Flows for the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 192,350,899	\$ (351,333,373)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	240,694	256,233
Net realized gain on investments	(82,039,942)	(97,860,356)
Net unrealized (gain) loss on investments	(165,168,539)	385,736,266
Change in federal excise tax liabilities	1,453,256	(3,219,686)
Changes in operating assets and liabilities:		
Investment income receivable and unsettled investment trades payable	27,270	(6,743,550)
Prepaid expenses and other assets	(5,024,531)	(5,215)
Unsettled oil and gas net profit interest	1,643,163	(1,170,216)
Accounts payable and accrued expenses	<u>12,774</u>	<u>(123,089)</u>
Net cash used by operating activities	<u>(56,504,956)</u>	<u>(74,462,986)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(53,026)	(100,088)
Proceeds from disposition of oil and gas investments	6,000,000	
Purchase of investments	(222,297,159)	(271,456,938)
Proceeds from disposition of investments	271,492,472	318,460,938
Net change in cash held as investments	<u>764,363</u>	<u>5,685,675</u>
Net cash provided by investing activities	<u>55,906,650</u>	<u>52,589,587</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(598,306)	(21,873,399)
Cash and cash equivalents, beginning of year	<u>62,322,844</u>	<u>84,196,243</u>
Cash and cash equivalents, end of year	<u>\$ 61,724,538</u>	<u>\$ 62,322,844</u>
<i>Supplemental disclosure of cash flow information:</i>		
Grants paid with appreciated stock	\$30,724,120	\$13,200,914
Federal excise taxes paid	\$1,210,572	\$1,834,120

See accompanying notes to consolidated financial statements.

The Brown Foundation, Inc.

Notes to Consolidated Financial Statements for the years ended June 30, 2023 and 2022

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Brown Foundation, Inc. (the Foundation) is a private foundation created on July 2, 1951 by Herman and Margaret Root Brown and George R. and Alice Pratt Brown. The mission of the Foundation is to build, sustain, and enhance organizations that make Houston a stronger, more vibrant community. Since its inception through June 30, 2023, the Foundation has paid approximately \$2,049,000,000 in grants.

Basis of consolidation – The consolidated financial statements include the accounts of the Foundation; 1951 Holdings Management, LLC, a wholly owned for-profit subsidiary that holds interests in a real estate partnership; and 1951 Interests, LP, a wholly owned for-profit subsidiary that owns and leases real estate. 1951 Holdings Management, LLC and 1951 Interests, LP are considered disregarded entities for federal income tax purposes. Significant inter-entity accounts and transactions have been eliminated in consolidation.

Federal income tax status – The Foundation is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (the Code) and classified as a private foundation under §509(a). The Foundation is subject to an excise tax on its net investment income.

Cash and cash equivalents include demand deposits and highly liquid investments with original maturities of three months or less that are available for grant and operating requirements. Cash and cash equivalents held for long-term investment are grouped with investments and excluded from cash and cash equivalents for purposes of cash flow.

Investments are reported at fair value. Purchases and sales of investments are reported on a trade-date basis. Realized and unrealized gains or losses on investments are determined by comparison of specific costs of acquisitions to proceeds at the time of disposition or stated fair value on the last day of the fiscal year, respectively. Dividends, interest and mineral interest override royalty income are recognized when earned. Investment return is allocated between *net assets without donor restrictions* and *net assets with donor restrictions* based on a unitization of the pooled investments.

Property and equipment are reported at cost if purchased and at fair value at the date of gift if donated. The Foundation capitalizes property and equipment with a fair value of \$1,000 or greater and an estimated life of more than one year. Depreciation is provided on a straight-line basis over estimated useful lives of 3 to 20 years. Repairs and maintenance are expensed as incurred.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions that require use for public charitable purposes within the State of Texas. Net assets are released from restrictions as that purpose is fulfilled.

Grants awarded – Unconditional grants are recognized as expense at fair value when the Foundation approves the commitment to a grant recipient. Grants subject to conditions are recognized as expense during the year in which the conditions are met. At June 30, 2023, the Foundation has \$5,750,000 in conditional grant commitments.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Management and general activities are not directly identifiable with specific program activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. All other expenses that are not directly attributable to grants and the related programming or management and general are allocated on the basis of time and effort expended.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation’s financial assets totaled \$1.875 billion at June 30, 2023 and \$1.685 billion at June 30, 2022. The majority of the Foundation’s financial assets are investments which are managed to provide long-term appreciation and current income to support the Foundation’s general expenditures for philanthropic activities. As part of its liquidity plan, the Foundation strives to maintain an allocation of approximately 6% of total investments to cash equivalents and treasury bills up to 180 days. These funds, along with interest and dividends generated, are used to fund grant payments and operations. The Foundation also may liquidate investment assets to fund grant payments, and accordingly, has made approximately \$35 million of investments available to fund these payments. To minimize the potential risk from a declining market, the Foundation defers a significant portion of grant making to the last quarter of the fiscal year and strives to maintain the undistributed income to no more than 50% of the annual required distribution.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2023</u>	<u>2022</u>
Money market mutual funds	\$ 58,299,471	\$ 58,169,169
Demand deposits	<u>3,425,067</u>	<u>4,153,675</u>
Total cash and cash equivalents	<u>\$ 61,724,538</u>	<u>\$ 62,322,844</u>

Demand deposits exceed the federally insured limit per depositor per institution.

NOTE 4 – INVESTMENTS

Investments consist of the following:

	<u>2023</u>	<u>2022</u>
Equity securities	\$ 1,723,016,806	\$ 1,528,967,183
U. S. Treasury securities	77,183,702	74,428,680
Oil and gas properties	9,473,835	14,265,312
Cash	647,384	1,411,747
Real estate	<u>2,203,432</u>	<u>2,203,432</u>
Total investments	<u>\$ 1,812,525,159</u>	<u>\$ 1,621,276,354</u>

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

The Foundation held five common stocks at June 30, 2023 and 2022, whose fair value comprised approximately 17% and 16%, respectively, of the total value of the Foundation's equity investments.

Investment return includes earnings on cash, cash equivalents and investments and consists of the following:

	<u>2023</u>	<u>2022</u>
Net realized gain on investments	\$ 82,039,942	\$ 97,860,356
Net unrealized gain (loss) on investments	165,168,539	(385,736,266)
Dividend income	27,573,857	26,013,912
Interest income	4,296,350	133,119
Rental income and miscellaneous income	182,814	191,424
Oil and gas royalties, net of direct expenses	1,513,644	3,849,857
Investment management fees	(2,359,796)	(2,486,080)
Other direct internal investment expenses	<u>(615,041)</u>	<u>(322,939)</u>
Total investment return	<u>\$ 277,800,309</u>	<u>\$ (260,496,617)</u>

Investment management fees from equity mutual funds of approximately \$1,171,000 and \$1,235,000 for the years ended June 30, 2023 and 2022, respectively, are deducted from unrealized gains and are not reported as investment management fees.

NOTE 5 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date. The types of investments included in Level 1 are securities traded and valued based upon a public exchange.

- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date. Level 2 investments are priced by independent, industry recognized vendors contracted for independent appraisals.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2023 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity securities:				
Domestic:				
Large-cap common stocks	\$ 854,195,634			\$ 854,195,634
All-cap index mutual funds	280,697,845			280,697,845
Multi-cap growth mutual funds	132,673,922			132,673,922
Large and mid-cap value mutual funds	131,301,470			131,301,470
International:				
All-cap index mutual funds	104,408,015			104,408,015
Large-cap common stocks	100,122,438			100,122,438
Large-cap value mutual funds	62,794,369			62,794,369
Large-cap growth mutual funds	56,823,113			56,823,113
U. S. Treasury securities		\$ 77,183,702		77,183,702
Oil and gas properties			\$ 9,473,835	9,473,835
Real estate		<u>2,203,432</u>		<u>2,203,432</u>
Total assets measured at fair value	<u>\$ 1,723,016,806</u>	<u>\$ 79,387,134</u>	<u>\$ 9,473,835</u>	<u>\$ 1,811,877,775</u>

Assets measured at fair value at June 30, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity securities:				
Domestic:				
Large-cap common stocks	\$ 781,865,920			\$ 781,865,920
All-cap index mutual funds	240,050,883			240,050,883
Multi-cap growth mutual funds	111,596,696			111,596,696
Large and mid-cap value mutual funds	117,802,725			117,802,725
International:				
All-cap index mutual funds	95,869,210			95,869,210
Large-cap common stocks	76,915,880			76,915,880
Large-cap value mutual funds	54,705,304			54,705,304
Large-cap growth mutual funds	50,160,565			50,160,565
U. S. Treasury securities		\$ 74,428,680		74,428,680
Oil and gas properties			\$ 14,265,312	14,265,312
Real estate		<u>2,203,432</u>		<u>2,203,432</u>
Total assets measured at fair value	<u>\$ 1,528,967,183</u>	<u>\$ 76,632,112</u>	<u>\$ 14,265,312</u>	<u>\$ 1,619,864,607</u>

Valuation methods used for assets measured at fair value are as follows:

- *Common stocks* are valued at the closing price reported on the active market on which the individual securities are traded. Foreign security values are typically determined using either the latest quoted sales price or the latest closing price calculated according to local market convention.
- *Mutual funds* are valued at the reported net asset value.
- *U. S. Treasury securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes to calculate fair values.
- *Oil and gas properties* and *real estate* are valued at estimated fair value as determined by management based upon periodic independent appraisals, cash flow and reserve analysis, as applicable.

These valuation methods may produce a fair value that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of Level 3 investments are as follows:

	<u>OIL AND GAS PROPERTIES</u>
Balance at June 30, 2021	\$ 25,937,861
Unrealized loss	<u>(11,672,549)</u>
Balance at June 30, 2022	14,265,312
Proceeds from sales	(6,000,000)
Realized gain	1,587,442
Unrealized loss	<u>(378,919)</u>
Balance at June 30, 2023	<u>\$ 9,473,835</u>

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2023</u>	<u>2022</u>
Land	\$ 3,927,742	\$ 3,927,742
Buildings, improvements and equipment	<u>4,821,369</u>	<u>4,768,343</u>
Property and equipment, at cost	8,749,111	8,696,085
Accumulated depreciation	<u>(2,553,663)</u>	<u>(2,312,969)</u>
Property and equipment, net	<u>\$ 6,195,448</u>	<u>\$ 6,383,116</u>

NOTE 7 – FEDERAL EXCISE TAX

The Foundation qualifies as a tax-exempt organization and, accordingly, is not subject to federal income tax, except to the extent that it has unrelated business income. However, the Code imposes an excise tax on private foundations on net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). The Foundation computed its provision for federal excise tax at the rate of 1.39% in 2023 and 2022.

A deferred tax liability results from investment return that is recognized for financial statement purposes prior to its recognition for tax purposes. This return is primarily from unrealized appreciation of investments. Deferred taxes have been provided at 1.39%.

The Foundation's federal excise tax expense activity is as follows:

	<u>2023</u>	<u>2022</u>
Federal excise tax	\$ 1,125,572	\$ 1,774,558
Deferred excise tax (benefit) expense	<u>1,538,256</u>	<u>(3,160,124)</u>
Total federal excise tax (benefit) expense	<u>\$ 2,663,828</u>	<u>\$ (1,385,566)</u>
Federal excise tax payable	<u>\$ 145,000</u>	<u>\$ 230,000</u>
Deferred federal excise tax liability	<u>\$ 7,965,451</u>	<u>\$ 6,427,195</u>

Internal Revenue Code §4942 requires that the Foundation make qualifying charitable distributions approximately equal to 5% of the fair value of noncharitable assets reduced by acquisition indebtedness, if any, with respect to such assets. Such required distributions are accomplished through the payment of grants, direct charitable activities, and the operation of the Foundation's grant program. Such qualifying distributions must be made by the end of the succeeding taxable year in order to avoid the imposition of a 30% excise tax on any undistributed income. The Foundation is currently in compliance with these provisions and is not subject to this excise tax on undistributed income.

The Foundation believes that it has appropriate support for the excise tax positions taken and, as such, does not have any uncertain tax positions that could result in a material impact on the Foundation's financial position or statement of activities.

NOTE 8 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets with donor restrictions were released by incurring expenses for charitable purposes within the State of Texas as follows:

	<u>2023</u>	<u>2022</u>
Grants awarded	\$ 74,216,482	\$ 53,331,702
Direct charitable activities within the State of Texas	229,093	172,211
Foundation operating expenses	1,453,709	1,341,792
Federal excise tax (benefit) expense	<u>1,446,500</u>	<u>(729,028)</u>
Total net assets released from restrictions	<u>\$ 77,345,784</u>	<u>\$ 54,116,677</u>

NOTE 9 – RETIREMENT AGREEMENTS

The Foundation maintains a simplified employee pension plan (the Plan) for its employees. The Foundation's annual contribution to the Plan is 15% of the participant's compensation, as defined by the Plan. Contributions to the Plan were \$221,347 and \$237,843 for the years ended June 30, 2023 and 2022, respectively. In addition, the Foundation's employees also may contribute to a §403(b) retirement plan with no Foundation matching requirements. All §403(b) contributions are self-directed investments by employees.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 26, 2023, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.