

PERMIAN BASIN AREA  
*Foundation*

**Consolidated Financial Statements**

*Years Ended December 31, 2020 and 2019*

*With Independent Auditor's Report*



**JOHNSON & SHELDON, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS

Permian Basin Area Foundation  
Consolidated Financial Statements  
Years Ending December 31, 2020 and 2019

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# JOHNSON & SHELDON, PLLC

## CERTIFIED PUBLIC ACCOUNTANTS

Board of Governors  
Permian Basin Area Foundation  
Midland, Texas

### INDEPENDENT AUDITOR'S REPORT

#### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Permian Basin Area Foundation** (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the 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 Foundation'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 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation as of December 31, 2020 and 2019, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Johnson & Sheldon, PLLC*

**Johnson & Sheldon, PLLC**  
**Amarillo, Texas**  
April 14, 2021

## Consolidated Financial Statements



# Permian Basin Area Foundation

## Consolidated Statements of Financial Position

	<i>December 31</i>	
	<i>2020</i>	<i>2019</i>
<b><i>Assets:</i></b>		
Cash and cash equivalents	\$ 11,411,733	\$ 4,568,197
Investments (Note 3)	208,948,002	195,360,692
Prepaid expenses	15,206	30,692
Bequests and pledges receivable	1,601,091	0
Beneficial interest in remainder trust (Note 11)	1,679,623	1,775,772
Beneficial interest in lead trust (Note 12)	1,007,043	1,050,422
Beneficial interest in royalty trust (Note 13)	3,604,527	5,054,085
Beneficial interest in perpetual trust	53,519	51,095
Oil and gas royalties- held for sale	7,589,100	8,807,340
Limited partnership interest	188,716	188,716
Cash surrender value of life insurance	359,577	299,474
Property and equipment, net of accumulated depreciation of \$457,010 and \$307,922	4,338,197	4,457,111
<b><i>Total Assets</i></b>	<b>\$ 240,796,334</b>	<b>\$ 221,643,596</b>
<b><i>Liabilities:</i></b>		
Accounts payable	\$ 0	\$ 65,416
Grants and scholarships payable	406,000	1,086,225
Funds held for agencies (Note 7)	25,522,729	21,482,465
Agency transactions payable	42,500	70,000
Refundable advance	300,000	300,000
Total Liabilities	26,271,229	23,004,106
<b><i>Net Assets:</i></b>		
Without Donor Restrictions (Note 8)	203,579,302	187,708,116
With Donor Restrictions (Note 8)	10,945,803	10,931,374
Total Net Assets	214,525,105	198,639,490
<b><i>Total Liabilities and Net Assets</i></b>	<b>\$ 240,796,334</b>	<b>\$ 221,643,596</b>

See accompanying notes to consolidated financial statements and independent auditor's report.



Permian Basin Area Foundation  
Consolidated Statement of Activities  
Year Ending December 31, 2020

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
<b><i>Revenues, gains, and other support</i></b>			
Contributions	\$ 7,408,702	\$ 1,601,092	\$ 9,009,794
Investment return, net	18,820,614	0	18,820,614
Royalty income	796,990	0	796,990
Change in value of oil and gas royalties	(1,218,240)	0	(1,218,240)
Change in value of split interest agreements	0	(1,461,673)	(1,461,673)
Change in value of perpetual trust	0	2,423	2,423
Gain (loss) on sales of assets	(4,092)	0	(4,092)
Grant rescissions and other income	405,370	0	405,370
Net assets released from restrictions	127,413	(127,413)	0
Total revenues, gains and other support	\$ 26,336,757	\$ 14,429	\$ 26,351,186
<b><i>Expenses</i></b>			
Grants and scholarships awarded	\$ 8,442,284	\$ 0	\$ 8,442,284
Program expenses	361,507	0	361,507
General and administrative	1,473,378	0	1,473,378
Fundraising	188,402	0	188,402
Total expenses and distributions	10,465,571	0	10,465,571
<b><i>Increase in net assets</i></b>	15,871,186	14,429	15,885,615
Net assets at beginning of year	187,708,116	10,931,374	198,639,490
Net assets at end of year	\$ 203,579,302	\$ 10,945,803	\$ 214,525,105

See accompanying notes to consolidated financial statements and independent auditor's report.



Permian Basin Area Foundation  
Consolidated Statement of Activities  
Year Ending December 31, 2019

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
<b><i>Revenues, gains, and other support</i></b>			
Contributions	\$ 7,437,418	\$ 0	\$ 7,437,418
Investment return, net	29,465,406	1,954,754	31,420,160
Royalty income	1,915,701	0	1,915,701
Change in value of oil and gas royalties	(649,080)	0	(649,080)
Change in value of split interest agreements	0	1,934,151	1,934,151
Change in value of perpetual trust	0	6,177	6,177
Change in value of bequest receivable	0	(400,000)	(400,000)
Change in value of partnership interest	12,046	0	12,046
Special event revenue	111,727	0	111,727
Gain on sales of assets	3,821,248	0	3,821,248
Grant rescissions and other income	308,241	0	308,241
Net assets released from restrictions	11,866,864	(11,866,864)	0
Total revenues, gains and other support	\$ 54,289,571	\$ (8,371,782)	\$ 45,917,789
<b><i>Expenses</i></b>			
Grants and scholarships awarded	\$ 10,449,023	\$ 0	\$ 10,449,023
Program expenses	485,965	0	485,965
General and administrative	1,640,017	0	1,640,017
Fundraising	289,107	0	289,107
Total expenses and distributions	12,864,112	0	12,864,112
<b><i>Increase in net assets</i></b>	41,425,459	(8,371,782)	33,053,677
Net assets at beginning of year	146,282,657	19,303,156	165,585,813
Net assets at end of year	\$ 187,708,116	\$ 10,931,374	\$ 198,639,490

See accompanying notes to consolidated financial statements and independent auditor's report.



# Permian Basin Area Foundation

## Consolidated Statements of Cash Flows

	<i>December 31</i>	
	<i>2020</i>	<i>2019</i>
<b><i>Cash flows from operating activities</i></b>		
Increase in net assets	\$ 15,885,615	\$ 33,053,677
Adjustments to reconcile increase in net assets to net cash provided by (used for) operating activities:		
Depreciation	153,644	152,362
(Gain) loss on disposal of assets	4,092	(3,821,249)
Gifts of public securities	(1,119,522)	(3,810,258)
Gift of fixed assets	0	(3,300)
Gift of real estate	(249,378)	0
Realized gains from sales of investments, net	(2,648,363)	(9,152,909)
Unrealized gain on investments, net	(15,274,265)	(22,388,508)
Change in value of split interest agreements	1,586,662	(1,812,916)
Change in value of oil and gas royalties	1,218,240	649,080
Change in value of partnership interest	0	(12,046)
Increase in cash surrender value of life insurance	(60,103)	(65,925)
Increase (decrease) in accounts and grants payable	(745,641)	1,141,641
Change in agency transactions payable and refundable advance	(27,500)	370,000
Increase in funds held for agencies	4,040,264	3,481,941
Decrease in prepaid expenses and accrued interest receivable	15,486	3,434
(Increase) decrease in bequests receivable	(1,601,091)	1,500,000
Net cash provided by (used for) operating activities	<u>1,178,140</u>	<u>(714,976)</u>
<b><i>Cash flows from investing activities</i></b>		
Purchases of furniture and equipment	(38,822)	(19,134)
Purchases of investments	(83,695,824)	(96,229,608)
Proceeds from sale of oil and gas royalties	0	11,026,944
Proceeds from sale of real estate	249,378	0
Proceeds from sales of investments	89,150,664	86,595,449
Net cash provided by investing activities	<u>5,665,396</u>	<u>1,373,651</u>
Net increase in cash and cash equivalents	<u>6,843,536</u>	<u>658,675</u>
Cash and cash equivalents – Beginning of year	4,568,197	3,909,522
Cash and cash equivalents – End of year	<u>\$ 11,411,733</u>	<u>\$ 4,568,197</u>

*See accompanying notes to consolidated financial statements and independent auditor's report.*





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# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 1. Description of Organization

Permian Basin Area Foundation (the Foundation) is a Texas non-profit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) and as a non-private foundation under Section 509(a)(1) of the Internal Revenue Code (the Code). The Foundation is a community foundation that primarily serves West Texas. In partnership with many donors, the Foundation facilitates the creation of permanent charitable funds and provides grants to address community needs and enrich the quality of life in the Permian Basin and scholarships for higher education.

The accompanying consolidated financial statements include the accounts of West Texas Heritage Holdings, Inc., a Type 1 supporting organization which was established in 2010. As of December 31, 2020 and 2019, the balances of West Texas Heritage Holdings, Inc. primarily included a limited partnership interest and cash. All significant intercompany accounts and transactions have been eliminated.

#### 2. Summary of Significant Accounting Policies

##### *Basis of Presentation*

The Foundation's consolidated financial statements have been prepared on the accrual basis of accounting, which recognizes revenue and support when earned and expenses when incurred. The statements have been prepared in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities – Overall*. The Foundation reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

##### *Net Asset Classifications*

The Foundation complies with the FASB ASC Topic 958, *Not-for-Profit Entities – Overall* (FASB ASC 958), which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FASB ASC 958 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Texas adopted UPMIFA effective September 1, 2007. The Board of Governors, on the advice of legal counsel, has determined that the majority of the Foundation's net assets do not meet the definition of "endowment" under UPMIFA. The majority of the Foundation's net assets do meet the definition of "endowment" under FASB ASC 958, *Not-for-Profit Entities – Overall*, and are subject to the enhanced disclosures for all endowment funds. The Foundation is governed by the Articles of Incorporation of the Foundation, and contributions are subject to the terms of the Articles of Incorporation.

Certain contributions are received subject to other gift instruments or provisions of specific agreements between donors and the Foundation.



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 2. Summary of Significant Accounting Policies, continued

Under the terms of the Articles of Incorporation, the Board of Governors may modify any restriction or condition on the distribution of funds of any separate gift, devise, bequest or fund at its sole discretion. As a result of the ability to modify any restriction or condition on the distribution of funds, all contributions not classified as net assets with donor restrictions are classified as net assets without donor restrictions for financial statement purposes.

Net assets with donor restrictions represent those net assets resulting from gifts or grants received by the Foundation that are restricted as to purpose of use or period of time, such as for special projects. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

#### *Endowment Investment and Spending Policies*

The Foundation has adopted investment and spending policies for endowment assets that attempt to protect the corpus of funds by minimizing risks from either market or credit factors and to increase the value of the corpus through the managed pursuit of investment opportunities. The objective rate of return of the investment pool is a rate that exceeds the sum of inflation, as measured by the Consumer Price Index, investment fees, administration fees, and the Foundation's distribution rate, over rolling five-year periods. Investment return is defined as the total return, including all income derived from an investment, realized and unrealized gains and losses, less all applicable expenses.

To achieve its objectives, the Foundation employs a strategy of defined asset allocation to diversify its position in permissible investments, disciplined re-balancing to maintain asset allocation, and diligent selection and performance monitoring of investment managers. The Foundation's investment allocation model is based on efficient portfolio theory using an anticipated return of the total portfolio of 10.00%, with a standard deviation of 11.05%. The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The amount available for distributions from endowment funds is determined annually by the Foundation's Board of Governors based on a percentage of the market value of the fund. In setting the distribution policy, the Board considers the total average rate of return for the previous twelve quarters, allowance for administrative and investment fees, and long-term objective of fund growth. The Board of Governors approved a distribution policy for 2020 and 2019 of 4% for the majority of endowment funds.

#### *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash and money market accounts available for current use with an initial maturity of three months or less. Cash and cash equivalents included in brokerage accounts that represent resources that are not segregated for operating use are classified as investments.

#### *Concentration of Credit Risk*

The Foundation maintains bank accounts at various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC). From time to time, the Foundation may have balances in bank accounts which exceed the federally insured limit. The Foundation does not anticipate any loss associated with balances in excess of the federally insured limit.



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 2. Summary of Significant Accounting Policies, continued

##### *Use of Estimates*

The preparation of consolidated 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 amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates. A significant estimate subject to change in the near future is fair value of investments, see **Note 4**.

##### *Contributions*

Contributions are recognized when a donor gives or makes a promise to give to the Foundation that is, in substance, unconditional and non-reciprocal. Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in unrestricted contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

##### *Royalty Income*

Royalty income is recognized and recorded as received by the Foundation.

##### *Property and Equipment*

Fixed assets consisting of furniture, fixtures and office equipment are recorded at cost on date of purchase or estimated fair market value at the date of the gift. Expenditures over \$500 and with a useful life of greater than one year are capitalized and depreciated over their useful lives (ranging from 5 to 10 years). Expenditures less than \$500 or with a useful life less than one year are charged to expense as they are incurred.

Property consists of the costs to construct the Foundation's corporate office building which was completed during 2018. The cost of the building and any future improvements to the building are capitalized and depreciated over the estimated useful life of 40 years.

Land improvements consist of a parking facility and landscaping. Land improvements are recorded at cost on date of purchase. Expenditures over \$500 and with a useful life of greater than one year are capitalized and depreciated over their useful lives (ranging from 15 to 20 years). Expenditures less than \$500 or with a useful life of less than one year are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation expense for the years ended December 31, 2020 and 2019 was \$153,644 and \$152,362, respectively.



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 2. Summary of Significant Accounting Policies, continued

##### *Investments*

In accordance with FASB ASC 958 *Not-for-Profit Entities – Overall*, the Foundation records all investments in equity securities with readily determinable fair values and all investments in fixed income securities at fair value, as defined by ASC Topic 820 *Fair Value Measurements and Disclosures – Overall*.

Investment income, including interest and dividends, is recognized as earned.

Realized gains or losses on investments represent the difference between the book value of investments and the sales proceeds. Unrealized gains or losses represent the difference between the beginning of year value or purchase date during the year and end of year value. The carrying amount of investments approximates fair value.

Net investment return is reported in the Statement of Activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and any direct internal investment expenses.

##### *Fair Value Measurements*

The Foundation complies with FASB ASC Topic 820 *Fair Value Measurements and Disclosures – Overall* (FASB ASC 820). FASB ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements.

The fair value of investments in Investee Funds is based on ownership interest in partners' capital to which a proportionate share of net assets is attributed (Ownership Interest), or the Fund's Net Asset Value (NAV) which is provided by the fund manager as a practical expedient in determining fair value.

##### *Funds Held for Agencies*

Funds held for agencies represent assets transferred to the Foundation for investment management or other specified purposes by various non-profit organizations and other entities that have designated themselves as the beneficiaries in reciprocal transactions.

The Foundation maintains variance power and legal ownership over a majority of these funds, and as such, reports the funds as assets of the Foundation. However, in accordance with FASB ASC Topic 958 *Not-for-Profit Entities – Overall*, a liability has been established for the fair value of these funds, which is generally equivalent to the present value of future payments expected to be made to the not-for-profit organizations and others that are the ultimate recipients.

##### *Donated Services*

Many individuals volunteer their time and perform a variety of tasks to support the Foundation. The value of volunteer services donated to the Foundation is not readily measurable and, accordingly, is not included as support and revenues and expenses in the accompanying consolidated financial statements.



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 2. Summary of Significant Accounting Policies, continued

##### *Functional Expense Allocations*

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. **Note 9** provides the natural classification detail of expense by function. Expenses relating to more than one function are allocated to program service, general and administrative and fundraising costs based on employee time records or other appropriate allocation factors. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation.

##### *Grants, Scholarships and Program Services*

Grants, scholarships and program services represent amounts awarded to various not-for-profit organizations to assist with funding of general operations, capital improvements or programs. Scholarships are awarded to eligible area applicants to assist with postsecondary education. Grants and Scholarships program services also include the direct cost of conducting the grants and scholarships programs. Grants and scholarships payable consist of unconditional amounts awarded, but not paid, to not-for-profit organizations.

Community education includes general outreach to advance the mission of the Foundation and philanthropy in West Texas. Such activities include providing advice to nonprofits on best management practices and capacity building, making reports to nonprofit boards about endowments, and conducting educational events for nonprofits.

##### *Income Taxes*

The Foundation is exempt from federal income tax under section 501(a) as a Foundation described in section 501(c)(3) of the Internal Revenue Code (the Code), and has been determined not to be a private foundation under section 509(a) of the Code. As a result, income taxes are not included in the Foundation's consolidated financial statements.

The Foundation complies with FASB ASC Topic 740, *Accounting for Uncertainty in Income Taxes* (Topic 740), which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Foundation's tax positions and concluded that the Foundation has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with the provisions of this guidance. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal tax authorities for years ending before December 31, 2017.

##### *Subsequent Events*

Management of the Foundation has evaluated subsequent events through April 14, 2021, the date the financial statements were available to be issued.



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

## 2. Summary of Significant Accounting Policies, continued

### *Recent Accounting Pronouncements*

In June 2019, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2019-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the organization is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Where the organization is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019 and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The Foundation adopted ASU 2018-08 beginning January 1, 2020.

## 3. Investments

Securities and other investments are managed by various investment managers approved by the Foundation. The majority of investments are held under master custodial arrangements with various financial institutions. Investments are stated at fair value and consist of the following at December 31:

	<i>2020</i>	<i>2019</i>
Cash equivalents	\$ 10,474,513	\$ 17,232,976
Bonds – tax exempt	3,902,914	4,124,089
Bonds – government agencies	3,680,252	7,934,087
Bonds – corporate	6,333,173	5,682,547
Bonds – collateralized mortgage obligations	1,460,329	1,102,778
Equities – foreign	29,619,015	30,136,959
Equities – domestic	73,098,520	52,794,971
Private credit strategy	6,268,711	6,440,065
Equity funds	61,847,626	60,022,272
Bond funds	12,262,949	9,889,948
Total Investments, at fair value	<u>\$ 208,948,002</u>	<u>\$ 195,360,692</u>





# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 4. Fair Value Measurements

The Foundation complies with FASB ASC Topic 820-10, *Fair Value Measurements* (FASB ASC 820-10), which provides a framework for measuring fair value under generally accepted accounting principles. FASB ASC 820-10 applies to all financial instruments that are being measured and reported on a fair value basis. As defined in FASB ASC 820-10, 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. In determining fair value, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Foundation also complies with the provisions of FASB ASC 820-10 related to non-financial assets and liabilities if recognized or disclosed in the financial statements at least annually.

Based on the observability of the inputs used in the valuation techniques the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.
- Level 3: Unobservable inputs that are not corroborated by market data. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to FASB ASC 820-10. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. During the years ended December 31, 2020 and 2019, there were no changes to the Foundation's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.





# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 4. Fair Value Measurements, continued

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- The carrying amount of *cash equivalents* approximates fair value because of the short-term nature and liquidity of the financial instrument.
- *Bonds* are based on the present value of the stream of cash flows it is expected to generate and the active market of similar bonds being traded in the marketplace.
- *Equities* are valued at the closing price on the last business day of the year.
- Fair value of *bequests receivable* is determined based on the market value of the underlying assets. Fair value at December 31, 2020 was determined based on the market value of financial assets expected to be received, less estimated executor fees.
- Fair value of *beneficial interests in remainder, lead and royalty trusts* is calculated by determining the present value of the future cash flows.
- Fair value of *beneficial interests in perpetual trusts* is calculated based on the fair value of the underlying assets in the trust as determined by the third party trustee. The third party trustee controls the investments in the trust and makes all management and investment decisions.
- Fair value of the *oil and gas royalties* at December 31, 2020 and 2019 was estimated using the trailing 60 months of net revenue, an industry accepted valuation method.



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 4. Fair Value Measurements, continued

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

#### Fair Value Measurements at December 31, 2020 Using

		<i>Quoted Prices in Active Markets for Identical Assets</i>	<i>Significant Other Observable Inputs</i>	<i>Significant Unobservable Inputs</i>
<i>Assets</i>	<i>Totals</i>	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>
Investments:				
Cash equivalents	\$ 10,474,513	\$ 10,474,513	\$ 0	\$ 0
Bonds – tax exempt	3,902,914	3,902,914	0	0
Bonds – government agency	3,680,252	3,680,252	0	0
Bonds – corporate	6,333,173	6,333,173	0	0
Bonds – collateralized mortgage obligations	1,460,329	0	1,460,329	0
Equities – foreign	29,619,015	29,619,015	0	0
Equities – domestic	73,098,520	73,098,520	0	0
Private Credit Strategy**	6,268,711	0	0	0
Equity funds	61,847,626	61,847,626	0	0
Bond funds	12,262,949	12,262,949	0	0
Total Investments	208,948,002	201,218,962	1,460,329	0
Bequest receivable	1,601,091	0	1,601,091	0
Beneficial interest in remainder trust	1,679,623	0	0	1,679,623
Beneficial interest in lead trust	1,007,043	0	0	1,007,043
Beneficial interest in royalty trust	3,604,527	0	0	3,604,527
Beneficial interest in perpetual trust	53,519	0	0	53,519
Oil and gas royalties	7,589,100	0	0	7,589,100
Limited partnership interest	188,716	0	0	188,716

\*\* In accordance with Fair Value Measurement (Topic 820), certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.



Permian Basin Area Foundation  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2020 and 2019

4. Fair Value Measurements, continued

*Fair Value Measurements at December 31, 2019 Using*

		<i>Quoted Prices in Active Markets for Identical Assets</i>	<i>Significant Other Observable Inputs</i>	<i>Significant Unobservable Inputs</i>
<i>Assets</i>	<i>Totals</i>	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>
Investments:				
Cash equivalents	\$ 17,232,976	\$ 17,232,976	\$ 0	\$ 0
Bonds – tax exempt	4,124,089	4,124,089	0	0
Bonds – government agency	7,934,087	7,934,087	0	0
Bonds – corporate	5,682,547	5,682,547	0	0
Bonds – collateralized mortgage obligations	1,102,778	0	1,102,778	0
Equities – foreign	30,136,959	30,136,959	0	0
Equities – domestic	52,794,971	52,794,971	0	0
Private Credit Strategy**	6,440,065	0	0	0
Equity funds	60,022,272	60,022,272	0	0
Bond funds	9,889,948	9,889,948	0	0
Total Investments	195,360,692	187,817,849	1,102,778	0
Beneficial interest in remainder trust	1,775,772	0	0	1,775,772
Beneficial interest in lead trust	1,050,422	0	0	1,050,422
Beneficial interest in royalty trust	5,054,085	0	0	5,054,085
Beneficial interest in perpetual trust	51,095	0	0	51,095
Oil and gas royalties	8,807,340	0	0	8,807,340
Limited partnership interest	188,716	0	0	188,716



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 4. Fair Value Measurements, continued

The following table sets forth additional disclosures for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent) as of December 31, 2020:

Type / Investment Objective	Fair Value	Unfunded Commitments	Redemption	Redemption Notice Period
			Frequency (if Currently Eligible)	
<b>2020</b> - Private Credit Strategy <sup>(a)</sup>	\$ 6,268,711	\$ -	90 days	90 days
Total	<u>\$ 6,268,711</u>	<u>\$ -</u>		
<b>2019</b> - Private Credit Strategy <sup>(a)</sup>	\$ 6,440,065	\$ -	90 days	90 days
Total	<u>\$ 6,440,065</u>	<u>\$ -</u>		

- a) The private credit strategy fund is mainly comprised of senior secured or unsecured loans, subordinated loans or mezzanine loans and, to a lesser extent, equity-related securities which includes common and preferred stock, securities convertible into common stock, and warrants of secured and unsecured debt investments in various business sectors. The investment objective is to generate current income, and to a lesser extent, capital appreciation by targeting investment opportunities with favorable risk-adjusted returns. The investment strategy focuses primarily on originating and making loans to, and making debt and equity investments in, U.S. middle market companies.

#### 5. Retirement Plans

The Foundation provides a Simplified Employee Pension Plan (SEP), to which a portion of each qualified participant's salary is contributed by the Foundation. Contributed funds vest immediately to the participant, who self directs the investment of the funds. The amount contributed to the SEP by the Foundation during 2020 and 2019 was \$98,416 and \$83,629, respectively. These amounts are included in personnel costs in the functional expenses, see **Note 9**.

The Foundation also sponsors a defined contribution 403(b) plan that allows employees to defer a portion of their compensation by contributing to the plan. Investments in an employee's 403(b) account are also directed by the participant.

Effective after December 31, 2020, the Foundation terminated the SEP plan and 403(b) plan, and formed a 401k plan sponsored by the Foundation's Professional Employer Organization (PEO).

#### 6. Risks and Uncertainties

The Foundation invests a substantial portion of its assets in various investment securities. Investment securities, in general, are exposed to various risks, such as interest rate fluctuations and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the consolidated financial statements.



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 7. Agency Transfers Subject to FASB ASC 958 (formerly SFAS 136)

The Foundation follows the provisions of FASB ASC 958, which establishes standards for transactions in which the Foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor.

FASB ASC 958 specifically requires that, if a not-for-profit organization establishes a fund at a community foundation with its own funds and specifies itself or one of its affiliated organizations as the beneficiary of the fund, the community foundation must account for the transfer of such assets and the activity associated with those assets as a liability.

The Foundation maintains variance power, as described in the Articles of Incorporation of the Foundation, and legal ownership over a majority of these funds and, as such, continues to report the funds as assets of the Foundation. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community.

A liability for agency transfers subject to FASB ASC 958 has been established in the consolidated statements of financial position for the fair value of \$25,522,729 and \$21,482,465 at December 31, 2020 and 2019, respectively. Included in this liability are agency transfers at the fair value of \$7,270,989 and \$6,952,916, respectively, which are not legally owned by the Foundation.

All financial activity related to these assets is also segregated from the consolidated statements of activities and has been reclassified to the liability.

The following table summarizes activity in such funds during the years ended December 31:

	<i><b>2020</b></i>	<i><b>2019</b></i>
Funds held for agencies at January 1	\$ 21,482,465	\$ 18,000,524
Contributions received for agencies	2,554,970	2,551,026
Investment return, net	2,473,888	4,404,450
Amounts granted to agencies	(647,210)	(3,267,555)
Administrative fees	(221,129)	(206,080)
Funds reclassified to (from) agency	(120,255)	100
Funds held for agencies at December 31	<u>\$ 25,522,729</u>	<u>\$ 21,482,465</u>



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 8. Net Assets

During the years ended December 31, 2020, and 2019, the Foundation had the following endowment-related activities:

	<i>2020</i>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ 176,528,433	\$ 7,931,374	\$ 184,459,807
Investment return, net	18,730,888	0	18,730,888
Contributions	2,917,369	1,601,092	4,518,461
Amounts appropriated for expenditure	(5,082,142)	0	(5,082,142)
Other changes	(3,587,079)	(1,586,663)	(5,173,742)
Changes in endowment net assets	12,979,036	14,429	12,993,465
Endowment net assets, end of year	\$ 189,507,469	\$ 7,945,803	\$ 197,453,272

	<i>2019</i>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ 134,980,540	\$ 14,803,156	\$ 149,783,696
Investment return, net	29,120,903	1,954,753	31,075,656
Contributions	5,569,367	0	5,569,367
Amounts appropriated for expenditure	(8,758,672)	0	(8,758,672)
Other changes	15,616,295	(8,826,535)	6,789,760
Changes in endowment net assets	41,547,893	(6,871,782)	34,676,111
Endowment net assets, end of year	\$ 176,528,433	\$ 7,931,374	\$ 184,459,807



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 8. Net Assets, continued

As of December 31, 2020, and 2019, the composition of the Foundation's endowment funds was as follows:

	<i>2020</i>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Donor Restricted Endowment Funds:			
Restricted for the passage of time	\$ 0	\$ 7,892,283	\$ 7,892,283
Restricted in perpetuity for endowment	0	53,520	53,520
Total Donor Restricted Endowment Funds	0	7,945,803	7,945,803
Board Designated Endowment Funds:			
Undesignated	14,767,159	0	14,767,159
Scholarship	23,467,331	0	23,467,331
Donor Advised	38,354,374	0	38,354,374
Donor Designated	26,614,239	0	26,614,239
Field of Interest	86,304,366	0	86,304,366
Total Board Designated	189,507,469	0	189,507,469
Total Endowment Funds	\$ 189,507,469	\$ 7,945,803	\$ 197,453,272

	<i>2019</i>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Donor Restricted Endowment Funds:			
Restricted for the passage of time	\$ 0	\$ 7,880,279	\$ 7,880,279
Restricted in perpetuity for endowment	0	51,095	51,095
Total Donor Restricted Endowment Funds	0	7,931,374	7,931,374
Board Designated Endowment Funds:			
Undesignated	13,218,668	0	13,218,668
Scholarship	22,102,963	0	22,102,963
Donor Advised	35,425,212	0	35,425,212
Donor Designated	22,805,042	0	22,805,042
Field of Interest	82,976,548	0	82,976,548
Total Board Designated	176,528,433	0	176,528,433
Total Endowment Funds	\$ 176,528,433	\$ 7,931,374	\$ 184,459,807



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 8. Net Assets, continued

In addition to endowment net assets, the Foundation also manages other non-endowed funds. The following tables summarize all Foundation net assets as of December 31, 2020 and 2019:

	<i>2020</i>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Endowment Funds	\$ 189,507,469	\$ 7,945,803	\$ 197,453,272
Non-Endowment Funds with Donor Restrictions:			
Scholarship – restricted for specified purpose	0	3,000,000	3,000,000
Non-Endowment Funds without Donor Restrictions:			
Donor Advised	4,280,709	0	4,280,709
Field of Interest	1,604,855	0	1,604,855
Donor Designated	52,000	0	52,000
Scholarship	1,148,382	0	1,148,382
Administration Fund	6,985,887	0	6,985,887
Total Net Assets	\$ 203,579,302	\$ 10,945,803	\$ 214,525,105

  

	<i>2019</i>		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Endowment Funds	\$ 176,528,433	\$ 7,931,374	\$ 184,459,807
Non-Endowment Funds with Donor Restrictions:			
Scholarship – restricted for specified purpose	0	3,000,000	3,000,000
Non-Endowment Funds without Donor Restrictions:			
Donor Advised	3,038,941	0	3,038,941
Field of Interest	1,194,946	0	1,194,946
Donor Designated	1,000	0	1,000
Scholarship	147,865	0	147,865
Administration Fund	6,796,931	0	6,796,931
Total Net Assets	\$ 187,708,116	\$ 10,931,374	\$ 198,639,490





Permian Basin Area Foundation  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2020 and 2019

**9. Functional Expenses**

The tables below represent expenses by both their nature and their function.

**Functional Expenses at December 31, 2020**

	<i>Program Activities</i>		<i>Supporting Activities</i>		
	<i>Grants and Scholarships</i>	<i>Community Education</i>	<i>General and Administrative</i>	<i>Fund-Raising</i>	<i>Total Expenses</i>
Grants and Scholarships	\$ 8,442,284	\$ 0	\$ 0	\$ 0	\$ 8,442,284
Personnel Costs	240,233	29,316	1,034,410	21,679	1,325,638
Occupancy and Office Expense	14,482	1,609	67,642	1,609	85,342
Information Technology	32,183	2,257	95,161	2,257	131,858
Contract Services	0	0	66,902	0	66,902
Marketing and Communications	3,751	119	1,221	5,380	10,471
Events and Sponsorships	306	0	0	16,562	16,868
Conferences and Travel	933	98	7,398	483	8,912
Insurance	3,513	390	17,606	135,208	156,717
Board and Committees	0	0	5,703	34	5,737
Dues, Memberships, and Subscriptions	1,268	0	4,809	2,117	8,194
Depreciation	27,656	3,073	119,842	3,073	153,644
Other	276	44	52,684	0	53,004
Total Functional Expenses	\$ 8,766,885	\$ 36,906	\$ 1,473,378	\$ 188,402	\$ 10,465,571



Permian Basin Area Foundation  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2020 and 2019

9. Functional Expenses, continued

*Functional Expenses at December 31, 2019*

	<i>Program Activities</i>		<i>Supporting Activities</i>		
	<i>Grants and Scholarships</i>	<i>Community Education</i>	<i>General and Administrative</i>	<i>Fund-Raising</i>	<i>Total Expenses</i>
Grants and Scholarships	\$ 10,449,023	\$ 0	\$ 0	\$ 0	\$ 10,449,023
Personnel Costs	269,218	58,950	798,774	58,590	1,185,532
Occupancy and Office Expense	19,814	4,260	60,868	4,531	89,473
Information Technology	20,719	2,048	56,863	2,048	81,678
Contract Services	0	0	492,186	0	492,186
Marketing and Communications	2,176	822	8,985	14,969	26,952
Events and Sponsorships	16,911	0	1,250	31,708	49,869
Conferences and Travel	11,509	898	15,109	2,434	29,950
Insurance	6,504	1,414	22,809	136,232	166,959
Board and Committees	113	0	6,982	0	7,095
Dues, Memberships, and Subscriptions	2,293	325	5,652	562	8,832
Cost of Benefit to Donors	0	0	0	30,415	30,415
Program Expense	19,000	0	0	0	19,000
Depreciation	35,043	7,618	102,083	7,618	152,362
Other	6,330	0	68,456	0	74,786
Total Functional Expenses	\$ 10,858,653	\$ 76,335	\$ 1,640,017	\$ 289,107	\$ 12,864,112



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### 10. Liquidity

Financial assets available for grants, scholarships and other expenses within one year of the Statement of Financial Position date comprise the following at December 31:

	<i>2020</i>	<i>2019</i>
Cash and cash equivalents	\$ 11,411,733	\$ 4,568,197
Long-term investments made available for current use	8,229,895	10,803,441
	<u>\$ 19,641,628</u>	<u>\$ 15,371,638</u>

As part of the Foundation's liquidity management, financial assets are structured to be available as general expenditures, liabilities and other obligations become due. The Foundation invests cash in excess of daily requirements in short-term investments and money market funds.

The amounts reflected above in cash and cash equivalents are available for the Foundation's general expenditures, liabilities and other obligations, as well as for grant and scholarship awards from non-endowed grantmaking funds. Included in Long-term investments made available for current use is \$0 and \$2,072,133 as of December 31, 2020 and 2019, respectively, also available for the Foundation's general expenditures, liabilities and other obligations, as well as for grant and scholarship awards from non-endowed grantmaking funds.

Endowed funds consist of donor restricted endowments and board designated endowments. Amounts held in donor restricted endowments for a specific purpose are not available for general expenditure.

As described in **Note 2**, during 2020 and 2019 the Foundation's Board of Governors approved a distribution policy of 4.0% for 2020 and 2019. A spendable amount of \$6,156,749 will be made available for grantmaking from these endowments during 2021. A spendable amount of \$6,438,147 was made available for grantmaking from these endowments during 2020. In addition, \$2,073,146 and \$2,293,161 remained as spendable as a result of previous years available-to-spend amounts which had not been distributed as of December 31, 2020 and 2019, respectively. Although the Foundation does not intend to spend from its board designated endowment funds, other than amounts appropriated per the Board's annual distribution policy approval, these amounts could be made available if necessary.

#### 11. Beneficial Interest in Remainder Trust

The Foundation received notice during 2007 that it is the sole residual beneficiary of certain charitable remainder trusts, one of which is of material value to the Foundation. Upon the death of this trust's beneficiary, the remaining principal and income in the trust will be distributed to the Foundation. The future interest in the trust as of December 31, 2020 and 2019, respectively, of \$1,679,623 and \$1,775,772 has been recorded at estimated net present value considering estimated future trust earnings and expected future beneficiary distributions, assuming an annual rate of return for the years ended December 31, 2020 and 2019, respectively, of 7.75% and 8.12%, and assuming the trust terminates in the year 2036.



# Permian Basin Area Foundation

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2020 and 2019

#### **12. Beneficial Interest in Lead Trust**

The Foundation received notice during 2012 that it is the sole beneficiary of a charitable lead trust. During each year of the trust, the Foundation will receive an annuity equal to seven percent of the initial fair market value of the trust assets. The trust will continue for a term of eighteen years. During 2016, the financial account for the charitable lead trust was established, and the future interest in the trust has been recorded at December 31, 2020 and 2019 at the net present value of the estimated future payments in the amount of \$1,007,043 and \$1,050,422 respectively, assuming a discount rate of 8%.

#### **13. Beneficial Interest in Royalty Trust**

The Foundation received notice during 2018 that it is the sole residual beneficiary of a royalty trust. Upon the death of both primary beneficiaries of the trust, the remaining principal and income in the trust will be distributed to the Foundation. The future interest in the trust as of December 31, 2020 and 2019, of \$3,604,527 and \$5,054,085, respectively, has been recorded at estimated net present value considering estimated future trust earnings and expected future beneficiary distributions, assuming an annual rate of return on investments for the years ended December 31, 2020 and 2019, respectively, of 0.95% and 2.24%, additional average annual royalty income of \$1,086,878 and \$1,285,205, and assuming the trust terminates in the year 2040.

#### **14. Major Contributors**

Contributions from one major donor totaled \$1,601,091, or 18% of total contributions received for the year ending December 31, 2020. Contributions from a second major donor totaled \$1,250,000, or 14% of the total contributions for the year ending December 31, 2020. Contributions from a third major donor totaled \$1,133,000, or 13% of the total contributions for the year ending December 31, 2020. Contributions from a fourth major donor totaled \$1,004,894, or 11% of the total contributions for the year ending December 31, 2020.

Contributions from one major donor totaled \$2,082,178, or 28% of total contributions received for the year ending December 31, 2019. Contributions from a second major donor totaled \$1,154,392, or 15% of total contributions received for the year ending December 31, 2019. Contributions from a third major donor totaled \$1,000,000, or 13% of total contributions received for the year ending December 31, 2019.

#### **15. Coronavirus Pandemic**

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic which continues into 2021. As a result, economic uncertainties arose during 2020 that have negatively impacted the Foundation's estimates of fair value of its Oil and Gas Royalties. Other financial impact, including a negative impact on the Foundation's estimates of fair value of its Investments, could occur though such potential impact is unknown at this time. At the current time, we are unable to quantify the potential effects of this pandemic on our future consolidated financial statements.

