

**ELBRIDGE STUART FOUNDATION
DBA STUART FOUNDATION**

FINANCIAL STATEMENTS

**For the Years Ended
December 31, 2017 and 2016**

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Independent Auditors' Report

Board of Directors
Elbridge Stuart Foundation
dba Stuart Foundation

We have audited the accompanying financial statements of Elbridge Stuart Foundation dba Stuart Foundation, which comprise the statements of financial position as of December 31, 2017 and 2016, and the related 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 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.

Auditors' 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 of 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 auditors' 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 entity'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 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 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 financial position of Elbridge Stuart Foundation dba Stuart Foundation as of December 31, 2017 and 2016, 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.



San Francisco, California

September 20, 2018

www.bcocpa.com

**ELBRIDGE STUART FOUNDATION
DBA STUART FOUNDATION**

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 258,923	\$ 321,339
Investments receivable	10,322,441	1,258,886
Grant receivable	40,000	-
Due from related entity	-	1,056,615
Investments, at fair value	530,084,134	494,185,259
Prepaid excise taxes	204,498	330,440
Prepaid expenses and other assets	431,316	366,402
Property and equipment, net	732,308	1,032,237
Total assets	\$ 542,073,620	\$ 498,551,178
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 644,316	\$ 550,670
Grants payable	3,991,000	2,240,846
Deferred taxes	2,697,981	1,978,405
Total liabilities	7,333,297	4,769,921
Net Assets		
Unrestricted	534,620,323	493,781,257
Temporarily restricted	120,000	-
Total net assets	534,740,323	493,781,257
Total liabilities and net assets	\$ 542,073,620	\$ 498,551,178

See accompanying notes to the financial statements.

**ELBRIDGE STUART FOUNDATION
DBA STUART FOUNDATION
STATEMENTS OF ACTIVITIES**

For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Changes in net assets:						
Revenue:						
Grant revenue	\$ 7,254	\$ 120,000	\$ 127,254	\$ 7,636,129	\$ -	\$ 7,636,129
Dividends, interest, and operating income from investments	11,494,714	-	11,494,714	8,842,092	-	8,842,092
Net gain (loss) on investments:						
Realized	28,434,051	-	28,434,051	14,512,019	-	14,512,019
Unrealized	36,701,700	-	36,701,700	(361,457)	-	(361,457)
Total revenue	76,637,719	120,000	76,757,719	30,628,783	-	30,628,783
Expenses:						
Grants	22,539,814	-	22,539,814	18,905,030	-	18,905,030
Program services	5,289,011	-	5,289,011	5,228,005	-	5,228,005
Investment management fees and expenses	5,347,051	-	5,347,051	3,874,562	-	3,874,562
Management and general	1,210,696	-	1,210,696	1,185,007	-	1,185,007
Federal excise tax on net investment income	1,412,081	-	1,412,081	392,947	-	392,947
Total expenses	35,798,653	-	35,798,653	29,585,551	-	29,585,551
Changes in net assets	40,839,066	120,000	40,959,066	1,043,232	-	1,043,232
Net assets, beginning of year	493,781,257	-	493,781,257	492,738,025	-	492,738,025
Net assets, end of year	\$ 534,620,323	\$ 120,000	\$ 534,740,323	\$ 493,781,257	\$ -	\$ 493,781,257

See accompanying notes to the financial statements.

**ELBRIDGE STUART FOUNDATION
DBA STUART FOUNDATION**

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Changes in net assets	\$ 40,959,066	\$ 1,043,232
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	445,935	392,964
Net realized gain on investments	(28,434,052)	(14,512,019)
Net unrealized (gain) loss on investments	(36,701,700)	361,457
Deferred taxes	719,576	7,229
Changes in operating assets and liabilities:		
Investments receivable	(9,063,555)	(665,681)
Grants receivable	(40,000)	-
Due from related entity	1,056,615	5,855,467
Prepaid excise tax	125,942	(330,440)
Prepaid expenses and other assets	(64,914)	(140,808)
Accounts payable and accrued expenses	93,646	183,456
Grants payable	1,750,154	375,846
Excise tax payable	-	(23,299)
Net cash used by operating activities	(29,153,287)	(7,452,596)
Cash flows from investing activities:		
Proceeds from investments	80,083,517	92,642,978
Purchases of investments	(50,846,640)	(85,055,249)
Purchases of property and equipment	(146,006)	(152,653)
Net cash provided by investing activities	29,090,871	7,435,076
Net decrease in cash	(62,416)	(17,520)
Cash and cash equivalents, beginning of year	321,339	338,859
Cash and cash equivalents, end of year	\$ 258,923	\$ 321,339

Noncash investing activities:

During the years ended December 31, 2017 the Foundation disposed of fully depreciated computer and office equipment costing \$61,352, and leasehold improvements costing \$162,327.

During the years ended December 31, 2016 the Foundation disposed of fully depreciated computer and office equipment costing \$179,033.

See accompanying notes to the financial statements.

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

NOTE A -- Description of organization

The Elbridge Stuart Foundation (the Foundation) is a private foundation established in 1937 as a Trust. In 2004, the Foundation converted to a non-stock corporation organized in Delaware. The Foundation conducts business as the Stuart Foundation. The Stuart Foundation is dedicated to improving life outcomes for young people through education. We work to ensure that effective education systems in California and Washington provide opportunities for all students to learn, achieve, and thrive. Primarily working through education systems, we promote strategies that nurture students to be self-reliant, succeed in education and careers, and engage meaningfully in their communities.

NOTE B -- Summary of significant accounting policies

Basis of presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments, with original maturities of three months or less, and include the Foundation's primary operating accounts. Cash equivalents held as part of the investment portfolio are not included.

Investments

Investments are reported at fair value. Changes in fair values as well as realized gains and losses are reflected in the Statements of Activities. The fair values of short-term investments, domestic and international equities are based on their quoted market prices.

Investments in the various alternative investments are based upon fair values of the underlying assets as reported by the entities in their financial statements or as determined by the fund manager. In some cases, the underlying assets are marketable securities with quoted market prices. In other situations, the underlying assets are not marketable and valuations are determined by the fund managers. Due to the inherent uncertainty of valuation of nonmarketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed and the differences could be material.

Investment sales and purchases are recorded on a trade-date basis, which may result in either an investment receivable or investment payable on unsettled investment trades at the statement of financial position date. Dividend and interest income are recorded when earned on an accrual basis.

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE B -- Summary of significant accounting policies (continued)

Property and equipment

Office furniture, equipment and leasehold improvements, if purchased, are stated at cost or, if donated, at fair market value at the time of receipt. Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the respective assets, ranging from three to ten years. Leasehold improvements are amortized over the term of the lease. The Foundation generally capitalizes assets with an original cost over \$2,500.

Net assets

The Foundation classifies its net assets and activities into one of three categories:

Unrestricted: Those net assets and activities which represent the portion of expendable funds available to support operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

Temporarily restricted: Those net assets and contributions which are donor-restricted for: (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets. The Foundation has net assets temporarily restricted for specific activities and future periods at December 31, 2017 of \$120,000.

Permanently restricted: Those net assets and contributions which are permanently donor-restricted for holdings of: (a) assets donated with stipulations that they be preserved and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income. The Foundation has no permanently restricted net assets at December 31, 2017 and 2016.

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. This occurs by increasing unrestricted net assets and decreasing temporarily restricted net assets in the Statements of Activities, and the release from restrictions is reported separately from other transactions.

Revenue recognition

Promises to pay over more than one accounting cycle are recorded at the present value of the contribution if the present value discount is material.

Grants

Grants awarded with an unconditional promise to give are accrued as a liability and expensed when approved. Grant cancellations or unspent funds are recorded in the year cancelled or returned.

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE B -- Summary of significant accounting policies (continued)

Investment management fees and expenses

Investment management fees and expenses include fees and expenses of the Foundation's custodian, investment managers and the various alternative investments as reported by the fund managers.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. These estimates and assumptions affect the reported amounts of 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.

NOTE C -- Investments

Short-term investments include money market funds and prepaid investment subscriptions. Domestic equities include publicly traded mutual funds in U.S. equity small cap and real assets/energy sectors. International equities include international publicly traded stock in a Delaware statutory trust.

Alternative investments include limited partnerships, limited liability companies and offshore investment funds. Although each investment is different, the majority of the liquid alternative investments have liquidity options that range from a few days up to a year. The majority of the alternative investments start out for a 10-year period with one-year extension options for another two or three years (Note K). Redemption terms and restrictions vary between each investment. The restrictions include lockup periods and notification requirements. Liquidation is generally limited to a sale to the fund manager or to distributions from the fund. As of December 31, 2017 and 2016, the Foundation has received approximately \$11 million in distributions that may be recalled to satisfy capital commitments. The following tables summarize the investment strategy types as of December 31:

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE C -- Investments (continued)

<u>Investment type</u>	2017		
	<u>Number of funds</u>	<u>Fair value</u>	<u>Remaining capital commitments</u>
Short-term investments	2	\$ 54,114,595	
International equities	<u>1</u>	<u>48,017,954</u>	
	3	102,132,549	
Alternative investment strategy:			
U.S. equity large cap	2	101,677,745	\$ -
U.S. equity small cap	1	9,902,137	-
Domestic long/short equity	5	71,242,508	-
International equity	2	47,303,113	-
Global	3	27,392,174	-
Diversified/multi-strategy	6	88,857,421	-
Venture capital	8	1,575,781	442,498
Buyout	9	9,189,260	18,102,575
Distressed securities	12	24,317,774	40,078,070
Fund of funds	3	1,324,605	30,000
Real estate	2	824,170	320,000
Real assets/energy	5	5,033,796	5,892,149
Other	<u>10</u>	<u>39,311,101</u>	<u>9,688,738</u>
Alternative investments (liquid and illiquid)	68	<u>427,951,585</u>	<u>74,554,030</u>
Investments, at fair value		<u>\$ 530,084,134</u>	<u>\$ 74,554,030</u>

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE C -- Investments (continued)

<u>Investment type</u>	2016		
	<u>Number of funds</u>	<u>Fair value</u>	<u>Remaining capital commitments</u>
Short-term investments	3	\$ 61,756,834	
International equities	<u>1</u>	<u>39,844,896</u>	
	4	101,601,730	
Alternative investment strategy:			
U.S. equity large cap	2	95,733,215	\$ -
U.S. equity small cap	1	7,546,643	-
Domestic long/short equity	4	46,691,737	-
International equity	2	38,798,118	-
Global	3	21,207,905	-
Diversified/multi-strategy	7	100,911,039	-
Venture capital	8	2,076,100	442,498
Buyout	8	9,369,775	16,688,119
Distressed securities	12	12,768,078	26,823,412
Fund of funds	3	1,604,315	30,000
Real estate	2	2,345,374	383,628
Real assets/energy	5	8,131,172	5,961,433
Other	<u>11</u>	<u>45,400,058</u>	<u>13,117,632</u>
Alternative investments (liquid and illiquid)	68	<u>392,583,529</u>	<u>63,446,722</u>
Investments, at fair value		<u>\$ 494,185,259</u>	<u>\$ 63,446,722</u>

NOTE D -- Grant receivable

Grant receivable consists of an unconditional promise to give from a single foundation. The balance at December 31, 2017 is \$40,000 and is expected to be received in 2018.

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE E -- Property and equipment

Property and equipment consist of the following at December 31:

	2017	2016
Computer and office equipment	\$ 1,707,400	\$ 1,627,775
Leasehold improvements	3,345,016	3,502,314
	5,052,416	5,130,089
Less accumulated depreciation and amortization	(4,320,108)	(4,097,852)
Property and equipment, net	\$ 732,308	\$ 1,032,237

Depreciation and amortization expense for the years ended December 31, 2017, and 2016 was \$445,935 and \$392,964, respectively.

NOTE F -- Grants payable

Grants payable consists of approved single-year and multi-year grant commitments expected to be paid as follows:

Years Ending December 31,		
2018	\$	2,841,000
2019		1,000,000
2020		150,000
	\$	3,991,000

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE G -- Commitments

Operating leases

The Foundation has operating leases for its office spaces in San Francisco, California and in Beverly Hills, California which expire in 2026 and 2022, respectively.

The Foundation also leased office equipment which expired in November 2017 and was renewed for one more quarter. The Foundation signed a new office equipment lease in the beginning of March 2018 which expires in June 2021.

Future minimum lease payments under the lease commitments for operating facilities and equipment are as follows:

<u>Years Ending December 31,</u>	
2018	\$ 728,712
2019	859,397
2020	881,440
2021	903,249
2022	735,716
Thereafter	<u>3,493,111</u>
	<u>\$ 7,601,625</u>

Rent expense for the years ended December 31, 2017 and 2016 was \$749,730 and \$719,054, respectively.

NOTE H -- Line of credit

The Foundation renewed its secured \$20,000,000 revolving line of credit during 2017. There were no outstanding borrowings as of December 31, 2017 and 2016.

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE I – Federal excise tax

The Foundation has been classified as a private foundation, which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is subject to federal excise taxes on investment income, imposed at the rate of 2% on the net investment income of the private foundation including realized gains. The excise tax may be reduced to 1% based on a formula provided under the Internal Revenue Code. During the years ended December 31, 2017 and 2016, the Foundation paid excise taxes at the rate of 2%.

The provision for federal excise tax related to unrealized appreciation on investments is reflected as a liability until the related investment is sold or there is a change in the valuation of such investment.

In the event of net unrealized depreciation, the deferred tax asset is not reported because of the uncertainty as to whether the unrealized losses will be offset by future gains.

Regulations require certain minimum distributions of income be made in accordance with a specified formula. The Foundation is in full compliance with the regulations.

The provision for excise tax is comprised of the following at December 31:

	<u>2017</u>	<u>2016</u>
Current	\$ 699,470	\$ 392,407
Deferred	<u>712,611</u>	<u>540</u>
	<u>\$ 1,412,081</u>	<u>\$ 392,947</u>

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 result in a material impact on the Foundation's Statements of Financial Position or Statements of Activities.

The Foundation's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE J-- Retirement plan

The Foundation has a 403(b) retirement plan for all eligible employees. The Foundation contributed 15% of each eligible employee's gross salary. Contributions totaled \$491,606 and \$455,770 for the years ended December 31, 2017 and 2016, respectively.

The Foundation has a Section 457(b) Deferred Compensation Plan (the "Plan") to permit certain key employees to defer receipt of current compensation in order to provide retirement benefits on behalf of such employees. The Plan is not intended to be a qualified plan under the provisions of the Internal Revenue Code. All compensation deferred under the Plan is held in the name of the Foundation for the benefit of the participants.

NOTE K -- Concentration of credit risk

Investments in general are exposed to various risks, such as interest rate, credit and overall market volatility. The alternative investments include additional risks such as limited liquidity, less regulation, non-marketable investments and dependence on key individuals.

NOTE L -- Valuation of investments

Investments are measured and reported at fair value and are classified and disclosed in one of the following categories:

Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments in Level I include listed equities held in the name of the Foundation, and exclude listed equities and other securities held indirectly through commingled funds.

Level II - Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III - Pricing inputs are unobservable for the investment and include situations where there is little, if any market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include privately held investments and partnership interests.

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE L -- Valuation of investments (continued)

The following table summarizes the valuation of the Foundation's investments by fair value hierarchy levels as of December 31:

2017				
	Cash, Short-term Investments, Domestic Equities & International Equities	Alternative Investments		Total
		Liquid Alternative Investments	Illiquid Alternative Investments	Investments
Level I	\$ 102,132,549	\$ -	\$ -	\$ 102,132,549
Level II	-	-	-	-
Level III	-	297,281,084	130,670,501	427,951,585
	\$ 102,132,549	\$ 297,281,084	\$ 130,670,501	\$ 530,084,134
2016				
	Cash, Short-term Investments, Domestic Equities & International Equities	Alternative Investments		Total
		Liquid Alternative Investments	Illiquid Alternative Investments	Investments
Level I	\$ 101,601,730	\$ -	\$ -	\$ 101,601,730
Level II	-	-	-	-
Level III	-	263,746,377	128,837,152	392,583,529
	\$ 101,601,730	\$ 263,746,377	\$ 128,837,152	\$ 494,185,259

Level I investments include money market funds and mutual funds held by the Foundation.

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2017 and 2016

NOTE L -- Valuation of investments (continued)

The following table summarizes the Foundation's reconciliation of the Level III activities as of December 31:

	2017	2016
<u>Investments at fair value</u>		
Balance at January 1	\$ 392,583,529	\$ 379,851,343
Net realized appreciation included in net income	28,434,024	16,120,225
Net unrealized gain (loss) included in net income	29,466,181	(5,278,437)
Purchases of portfolio investments	47,003,499	61,989,095
Proceeds from sales, redemptions, and distributions	(69,535,648)	(60,098,697)
Balance at December 31	\$ 427,951,585	\$ 392,583,529

NOTE M-- Related entity

The Dwight Stuart Youth Foundation, a charitable trust exempt from tax under Internal Revenue Code section 501(c)(3), and classified as a private foundation under Internal Revenue Code section 509(a) entered into an agreement on March 31, 2010 to transfer all of its assets to the Foundation. The Foundation has established the Dwight Stuart Youth Fund (the Fund) for the transferred assets (over \$80 million) which is dedicated to support organizations that provide direct services and experiences to underserved children and youth so they may gain skills, values and confidence to achieve their potential. The grant-making activities are primarily directed to organizations located in Los Angeles County.

Due from related entity: As of December 31, 2016, there were assets with an estimated value of \$1,056,615 remaining to be transferred. These assets were fully transferred during 2017.

NOTE N -- Subsequent events

The date to which events occurring after December 31, 2017 have been evaluated for possible adjustments to the financial statements or disclosure is September 20, 2018, which is the date on which the financial statements were available to be issued.