

**ELBRIDGE STUART FOUNDATION
DBA STUART FOUNDATION**

FINANCIAL STATEMENTS

**For the Years Ended
December 31, 2016 and 2015**

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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, 2016 and 2015, 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, 2016 and 2015, 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

Bregante + Company LLP

September 29, 2017

www.bcocpa.com

**ELBRIDGE STUART FOUNDATION
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STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 321,339	\$ 338,859
Investments receivable	1,258,886	593,205
Due from related entity	1,056,615	6,912,082
Investments, at fair value	494,185,259	487,622,426
Prepaid excise taxes	330,440	-
Prepaid expenses and other assets	366,402	225,594
Property and equipment, net	<u>1,032,237</u>	<u>1,272,548</u>
Total assets	<u>\$ 498,551,178</u>	<u>\$ 496,964,714</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 550,670	\$ 367,214
Grants payable	2,240,846	1,865,000
Deferred taxes	1,978,405	1,971,176
Excise tax payable	<u>-</u>	<u>23,299</u>
Total liabilities	4,769,921	4,226,689
Unrestricted net assets	<u>493,781,257</u>	<u>492,738,025</u>
Total liabilities and net assets	<u>\$ 498,551,178</u>	<u>\$ 496,964,714</u>

See accompanying notes to the financial statements

**ELBRIDGE STUART FOUNDATION
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STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Changes in unrestricted net assets:		
Revenue:		
Grant revenue	\$ 7,636,129	\$ -
Dividends, interest, and operating income from investments	8,842,092	9,056,874
Net gain (loss) on investments:		
Realized	14,512,019	26,978,589
Unrealized	<u>(361,457)</u>	<u>(30,281,023)</u>
Total revenue	30,628,783	5,754,440
Expenses:		
Program services	5,228,005	5,046,208
Grants	18,905,030	17,457,758
Investment management fees and expenses	3,874,562	4,049,151
Management and general	1,185,007	1,088,486
Federal excise tax on net investment income	<u>392,947</u>	<u>32,762</u>
Total expenses	<u>29,585,551</u>	<u>27,674,365</u>
Increase (decrease) in unrestricted net assets	1,043,232	(21,919,925)
Unrestricted net assets, beginning of year	<u>492,738,025</u>	<u>514,657,950</u>
Unrestricted net assets, end of year	<u><u>\$ 493,781,257</u></u>	<u><u>\$ 492,738,025</u></u>

See accompanying notes to the financial statements

**ELBRIDGE STUART FOUNDATION
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STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Changes in net assets	\$ 1,043,232	\$ (21,919,925)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	392,964	367,304
Net realized gain on investments	(14,512,019)	(26,978,589)
Net unrealized loss on investments	361,457	30,281,023
Deferred taxes	7,229	(605,620)
Changes in operating assets and liabilities:		
Investments receivable	(665,681)	7,416,978
Other receivables	-	649
Due from related entity	5,855,467	-
Prepaid excise tax	(330,440)	-
Prepaid expenses and other assets	(140,808)	(28,186)
Accounts payable and accrued expenses	183,456	(91,121)
Grants payable	375,846	(1,895,010)
Excise tax payable	<u>(23,299)</u>	<u>(375,127)</u>
Net cash used by operating activities	<u>(7,452,596)</u>	<u>(13,827,624)</u>
Cash flows from investing activities:		
Proceeds from investments	92,642,978	69,599,089
Purchases of investments	(85,055,249)	(56,062,279)
Purchases of property and equipment	<u>(152,653)</u>	<u>(105,443)</u>
Net cash provided by investing activities	<u>7,435,076</u>	<u>13,431,367</u>
Net decrease in cash	(17,520)	(396,257)
Cash and cash equivalents, beginning of year	<u>338,859</u>	<u>735,116</u>
Cash and cash equivalents, end of year	<u>\$ 321,339</u>	<u>\$ 338,859</u>

Noncash investing activities:

During the years ended December 31, 2016 and 2015, the Foundation disposed of fully depreciated computer and office equipment costing \$179,033 and \$16,744, respectively.

See accompanying notes to the financial statements

**ELBRIDGE STUART FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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 Foundation is dedicated to the protection, education and development of children and youth, working toward ensuring that all children grow up in caring families, learn in vibrant and effective schools and have opportunities to become productive members of their communities. Its grant-making activities are primarily directed to organizations in the states of California and Washington.

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. Since no donor restrictions exist on the Foundation's net assets, all of the Foundation's net assets are classified as unrestricted.

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, 2016 and 2015

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.

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.

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.

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

December 31, 2016 and 2015

NOTE C -- Investments (continued)

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, 2016 and 2015, the Foundation has received approximately \$11.0 million and \$10.5 million, respectively, in distributions that may be recalled to satisfy capital commitments. The following tables summarize the investment strategy types as of December 31:

	2016		
<u>Investment type</u>	<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>

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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2016 and 2015

NOTE C -- Investments (continued)

	2015		
<u>Investment type</u>	<u>Number of funds</u>	<u>Fair value</u>	<u>Remaining capital commitments</u>
Short-term investments	5	\$ 45,338,721	
Domestic equities - U.S. equity small cap	1	13,615,346	
Domestic equities - real assets/energy	1	11,657,057	
International equities	<u>1</u>	<u>37,159,959</u>	
	8	107,771,083	
Alternative investment strategy			
U.S. equity large cap	2	98,849,827	\$ -
Domestic long/short equity	4	44,724,727	-
International equity	2	38,470,391	-
Global	3	21,393,549	-
Diversified/multi-strategy	5	89,093,238	-
Venture capital	8	2,488,833	487,498
Buyout	7	12,166,589	2,156,362
Distressed securities	10	12,473,661	8,722,034
Fund of funds	3	2,307,129	30,000
Real estate	3	3,734,173	403,628
Real assets/energy	5	9,751,871	6,095,741
Other	<u>14</u>	<u>44,397,355</u>	<u>6,439,494</u>
Alternative investments (liquid and illiquid)	66	<u>379,851,343</u>	<u>24,334,757</u>
Investments, at fair value		<u>\$ 487,622,426</u>	<u>\$ 24,334,757</u>

NOTE D -- Property and equipment

Property and equipment consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Computer and office equipment	\$ 1,627,775	\$ 1,656,776
Leasehold improvements	<u>3,502,314</u>	<u>3,499,693</u>
	5,130,089	5,156,469
Less accumulated depreciation and amortization	<u>(4,097,852)</u>	<u>(3,883,921)</u>
Property and equipment, net	<u>\$ 1,032,237</u>	<u>\$ 1,272,548</u>

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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2016 and 2015

NOTE D -- Property and equipment (continued)

Depreciation and amortization expense for the years ended December 31, 2016, and 2015 was \$392,964 and \$367,304, respectively.

NOTE E -- Grants payable

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

<u>Years Ending December 31,</u>	
2017	\$ 1,765,846
2018	<u>475,000</u>
	<u>\$ 2,240,846</u>

NOTE F -- 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 leases office equipment under various lease agreements, all of which expire by November 2017.

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

<u>Years Ending December 31,</u>	
2017	\$ 690,864
2018	728,076
2019	858,761
2020	880,804
2021	902,984
Thereafter	<u>4,228,826</u>
	<u>\$ 8,290,315</u>

Rent expense for the years ended December 31, 2016 and 2015 was \$719,054 and \$732,799, respectively.

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

December 31, 2016 and 2015

NOTE G -- Line of credit

The Foundation renewed its secured \$20,000,000 revolving line of credit during 2016. There were no outstanding borrowings as of December 31, 2016 and 2015.

NOTE H -- 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, 2016 and 2015, 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>2016</u>	<u>2015</u>
Current	\$ 392,407	\$ 645,581
Deferred	<u>540</u>	<u>(612,819)</u>
	<u>\$ 392,947</u>	<u>\$ 32,762</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.

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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2016 and 2015

NOTE I -- 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 \$455,770 and \$453,481 for the years ended December 31, 2016 and 2015, 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 J -- 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 K -- 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.

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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2016 and 2015

NOTE K -- Valuation of investments (continued)

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

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
	<u>\$ 101,601,730</u>	<u>\$ 263,746,377</u>	<u>\$ 128,837,152</u>	<u>\$ 494,185,259</u>
2015				
	Cash, Short-term Investments, Domestic Equities & International Equities	Alternative Investments		Total
		Liquid Alternative Investments	Illiquid Alternative Investments	Investments
Level I	\$ 107,771,083	\$ -	\$ -	\$ 107,771,083
Level II	-	-	-	-
Level III	-	247,402,643	132,448,700	379,851,343
	<u>\$ 107,771,083</u>	<u>\$ 247,402,643</u>	<u>\$ 132,448,700</u>	<u>\$ 487,622,426</u>

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

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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2016 and 2015

NOTE K -- Valuation of investments (continued)

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

	<u>2016</u>	<u>2015</u>
<u>Investments at fair value</u>		
Balance at January 1	\$ 379,851,343	\$ 403,890,579
Net realized appreciation included in net income	16,120,225	26,092,493
Net unrealized loss included in net income	(5,278,437)	(22,115,259)
Purchases of portfolio investments	61,989,095	30,551,099
Proceeds from sales, redemptions, and distributions	<u>(60,098,697)</u>	<u>(58,567,569)</u>
Balance at December 31	<u>\$ 392,583,529</u>	<u>\$ 379,851,343</u>

NOTE L -- 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 and 2015, there were assets with an estimated value of \$1,056,615 and \$6,912,082 remaining to be transferred, respectively.

NOTE M -- Subsequent events

The date to which events occurring after December 31, 2016 have been evaluated for possible adjustments to the financial statements or disclosure is September 29, 2017, which is the date on which the financial statements were available to be issued.