

**ELBRIDGE STUART FOUNDATION  
DBA STUART FOUNDATION**

**FINANCIAL STATEMENTS**

**For the Years Ended  
December 31, 2018 and 2017**

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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, 2018 and 2017, and the related statements of activities, functional expenses, 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, 2018 and 2017, 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*

October 17, 2019

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**ELBRIDGE STUART FOUNDATION  
DBA STUART FOUNDATION**

**STATEMENTS OF FINANCIAL POSITION**

**December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 281,397	\$ 258,923
Investments receivable	9,625,540	10,322,441
Grant receivable	40,000	40,000
Investments, at fair value	483,403,403	530,084,134
Prepaid excise taxes	150,003	204,498
Prepaid expenses and other assets	518,693	431,316
Property and equipment, net	<u>458,364</u>	<u>732,308</u>
 Total assets	 <u>\$ 494,477,400</u>	 <u>\$ 542,073,620</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 741,143	\$ 644,316
Grants payable	5,782,000	3,991,000
Deferred taxes	<u>1,645,063</u>	<u>2,697,981</u>
 Total liabilities	 8,168,206	 7,333,297
Net assets:		
Without donor restrictions	486,234,502	534,620,323
With donor restrictions	<u>74,692</u>	<u>120,000</u>
 Total net assets	 <u>486,309,194</u>	 <u>534,740,323</u>
 Total liabilities and net assets	 <u>\$ 494,477,400</u>	 <u>\$ 542,073,620</u>

See accompanying notes to the financial statements.

**ELBRIDGE STUART FOUNDATION  
DBA STUART FOUNDATION**

**STATEMENTS OF ACTIVITIES**

**For the Years Ended December 31, 2018 and 2017**

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Changes in net assets:						
Revenue:						
Grant revenue	\$ -	\$ 60,000	\$ 60,000	\$ 7,254	\$ 120,000	\$ 127,254
Dividends, interest, and operating income from investments	8,109,393	-	8,109,393	11,494,714	-	11,494,714
Net gain (loss) on investments:						
Realized	29,011,977	-	29,011,977	28,434,051	-	28,434,051
Unrealized	(52,645,908)	-	(52,645,908)	36,701,700	-	36,701,700
Net assets released from restrictions	<u>105,308</u>	<u>(105,308)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	(15,419,230)	(45,308)	(15,464,538)	76,637,719	120,000	76,757,719
Expenses:						
Grants	20,776,030	-	20,776,030	22,539,814	-	22,539,814
Program services	5,174,755	-	5,174,755	5,289,011	-	5,289,011
Investment management fees and expenses	5,829,164	-	5,829,164	5,347,051	-	5,347,051
Management and general	1,612,962	-	1,612,962	1,210,696	-	1,210,696
Federal excise tax on net investment income (loss)	<u>(426,320)</u>	<u>-</u>	<u>(426,320)</u>	<u>1,412,081</u>	<u>-</u>	<u>1,412,081</u>
Total expenses	<u>32,966,591</u>	<u>-</u>	<u>32,966,591</u>	<u>35,798,653</u>	<u>-</u>	<u>35,798,653</u>
Changes in net assets	(48,385,821)	(45,308)	(48,431,129)	40,839,066	120,000	40,959,066
Net assets, beginning of year	<u>534,620,323</u>	<u>120,000</u>	<u>534,740,323</u>	<u>493,781,257</u>	<u>-</u>	<u>493,781,257</u>
Net assets, end of year	<u>\$ 486,234,502</u>	<u>\$ 74,692</u>	<u>\$ 486,309,194</u>	<u>\$ 534,620,323</u>	<u>\$ 120,000</u>	<u>\$ 534,740,323</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, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Changes in net assets	\$ (48,431,129)	\$ 40,959,066
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	376,026	445,935
Net realized gain on investments	(29,011,977)	(28,434,052)
Net unrealized (gain) loss on investments	52,645,908	(36,701,700)
Deferred taxes	(1,052,918)	719,576
Changes in operating assets and liabilities:		
Investments receivable	696,901	(9,063,555)
Grants receivable	-	(40,000)
Prepaid excise tax	54,495	125,942
Prepaid expenses and other assets	(87,377)	(64,914)
Due from related entity	-	1,056,615
Accounts payable and accrued expenses	96,827	93,646
Grants payable	<u>1,791,000</u>	<u>1,750,154</u>
Net cash used by operating activities	<u>(22,922,244)</u>	<u>(29,153,287)</u>
Cash flows from investing activities:		
Proceeds from investments	59,282,015	80,083,517
Purchases of investments	(36,235,215)	(50,846,640)
Purchases of property and equipment	<u>(102,082)</u>	<u>(146,006)</u>
Net cash provided by investing activities	<u>22,944,718</u>	<u>29,090,871</u>
Net increase (decrease) in cash	22,474	(62,416)
Cash and cash equivalents, beginning of year	<u>258,923</u>	<u>321,339</u>
Cash and cash equivalents, end of year	<u>\$ 281,397</u>	<u>\$ 258,923</u>

**Noncash investing activities:**

During the year ended December 31, 2018 the Foundation disposed of fully depreciated computer and office equipment costing \$21,962.

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

See accompanying notes to the financial statements.

**ELBRIDGE STUART FOUNDATION  
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**STATEMENTS OF FUNCTIONAL EXPENSES**

**For the Years Ended December 31, 2018 and 2017**

Program, management and general, and fundraising expenses for the year ended December 31, 2018 were as follows:

	Program Expenses	Investment Management Fees and Expenses	Management and General	Total Expenses
Salaries	\$ 2,453,521	\$ 223,298	\$ 961,919	\$ 3,638,738
Management fees	-	5,417,471	-	5,417,471
Employee benefits	582,820	53,043	228,499	864,362
Rent	515,689	23,424	136,157	675,270
Consulting fees	469,645	-	15,000	484,645
Depreciation and amortization	287,183	13,014	75,829	376,026
Payroll taxes	135,154	12,301	52,977	200,432
Travel	152,384	-	5,000	157,384
Outside computer services	117,147	5,321	30,931	153,399
Communication technology	98,817	4,489	26,091	129,397
Accounting/bank fees	21,372	65,000	6,614	92,986
Professional development	64,164	2,915	16,941	84,020
Meetings	80,444	500	3,000	83,944
Board meetings	56,905	2,585	15,025	74,515
Office supplies and printing	35,574	1,616	9,393	46,583
Insurance	34,267	1,557	9,048	44,872
Temps	28,318	1,286	7,477	37,081
Maintenance and repairs	14,560	661	3,844	19,065
Legal fees	11,133	-	5,378	16,511
Membership dues	7,272	330	1,920	9,522
Postage	3,417	155	902	4,474
Miscellaneous	1,502	67	397	1,966
Recruiting	1,682	-	-	1,682
Subscriptions	1,085	99	425	1,609
Operating leases	700	32	185	917
Total expenses	<u>\$ 5,174,755</u>	<u>\$ 5,829,164</u>	<u>\$ 1,612,952</u>	<u>\$ 12,616,871</u>
	41%	46%	13%	100%

See accompanying notes to the financial statements.

**ELBRIDGE STUART FOUNDATION  
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**STATEMENTS OF FUNCTIONAL EXPENSES (Continued)**

**For the Years Ended December 31, 2018 and 2017**

Program, management and general, and fundraising expenses for the year ended December 31, 2017 were as follows:

	Program Expenses	Investment Management Fees and Expenses	Management and General	Total Expenses
Salaries	\$ 2,527,855	\$ 204,961	\$ 683,204	\$ 3,416,020
Management fees	-	4,941,075	-	4,941,075
Employee benefits	609,935	49,454	164,847	824,236
Rent	622,417	22,467	104,846	749,730
Depreciation and amortization	370,126	13,378	62,431	445,935
Consulting fees	364,755	13,184	61,525	439,464
Payroll taxes	151,292	12,267	40,890	204,449
Travel	119,987	1,250	3,750	124,987
Outside computer services	93,739	3,497	16,317	113,553
Communication technology	91,396	3,303	15,416	110,115
Accounting/bank fees	25,073	71,000	5,136	101,209
Meetings	82,042	2,965	13,838	98,845
Board meetings	78,901	2,852	13,309	95,062
Office supplies and printing	50,399	1,822	8,501	60,722
Insurance	33,529	1,212	5,655	40,396
Membership dues	15,009	542	2,532	18,083
Maintenance and repairs	14,825	536	2,501	17,862
Temps	12,521	453	2,112	15,086
Professional development	7,725	279	1,303	9,307
Legal fees	6,009	217	1,014	7,240
Postage	3,544	128	598	4,270
Subscriptions	1,694	61	286	2,041
Miscellaneous	2,084	106	491	2,681
Operating leases	689	25	116	830
Recruiting	465	17	78	560
Total expenses	<u>\$ 5,286,011</u>	<u>\$ 5,347,051</u>	<u>\$ 1,210,696</u>	<u>\$ 11,843,758</u>
	45%	45%	10%	100%

See accompanying notes to the financial statements.



**ELBRIDGE STUART FOUNDATION  
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**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2018 and 2017**

**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.

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 2018 and 2017**

**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 two categories:

Without donor restrictions: 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.

With donor restrictions: 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, 2018 of \$74,692.

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. This occurs by increasing net assets without donor restrictions and decreasing net assets with donor restrictions 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.

**Functional allocation of expenses**

The costs of providing the program services and supporting activities of The Foundation are shown on the Statements of Functional Expenses and broken into the following categories: (a) program services

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 2018 and 2017**

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

**Functional allocation of expenses (continued)**

(b) investment management fees and expenses, and (c) management and general. Expenses that can be directly identified with a specific function are allocated directly to that function. For the year ended December 31, 2018, indirect costs that benefit multiple functional areas have been allocated among the various functional areas based on salary or a square footage analysis made by The Foundation's management. Expenses allocated based on salary include personnel and related expenses and professional services. Expenses allocated based on square footage include occupancy, office and operations and depreciation.

For the year ended December 31, 2017, indirect costs are allocated among the program services and supporting activities based on allocation methods and estimates made by The Foundation's management. The methodology for functional allocation of expenses was changed in 2018 in accordance with new guidance described below under *Accounting pronouncements adopted*.

**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.

**Reclassification of financial statements**

Certain reclassifications have been made to the financial statements for the year ended December 31, 2017 to conform with the year ended December 31, 2018 financial statement presentation. Such reclassifications have no effect on changes in net assets as previously reported.

**Accounting pronouncement adopted**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities ("ASU 2016-14"), which improves the current net asset classification requirements and the information presented in financial statements and notes about an entity's liquidity, financial performance, and cash flows. The update replaces the requirement to present three classes of net assets with two classes, net assets with donor restrictions and net assets without donor restrictions. The update also removes the requirement to present or disclose the indirect method (reconciliation) if

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 2018 and 2017**

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

**Accounting pronouncement adopted**

using the direct method for the statement of cash flows as well as added several additional enhanced disclosures to the notes. The Foundation adopted this ASU for the year ended December 31, 2018. As noted above, the Foundation's management revised the expense allocation methodology for allocating indirect costs that benefit multiple functional areas for presentation in the Statement of Functional Expenses for the year ended December 31, 2018. The new expense allocation methodology was not retroactively applied to the year ended December 31, 2017.

In accordance with, ASU 2016-14, at December 31, 2017, \$534,620,323 of unrestricted net assets have been reclassified to net assets without donor restrictions and \$120,000 of temporarily restricted net assets have been reclassified to net assets with donor restrictions.

**NOTE C – Liquidity and availability of resources**

The Foundation's goal is to have cash on hand to meet one year of normal operating expenses. The Foundation targets to maintain at least 5% of total investments as fixed income and liquid short-term assets, which covers approximately 12 months of normal operating expenses. In addition, as part of its liquidity management, the Foundation invests in highly liquid assets redeemable on a monthly or quarterly basis. As more fully described in Note I, the Foundation also maintains a line of credit commitment in the amount of \$20,000,000 which it could draw upon in the event of an unanticipated liquidity need.

As of December 31, 2018 and December 31, 2017, cash and liquid short-term investments comprised 6% and 10% of total investments, respectively.

**NOTE D – 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 L). 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, 2018 and 2017, the Foundation has received approximately \$14 million and \$11 million, respectively in distributions that may be recalled to satisfy capital commitments.

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 2018 and 2017**

**NOTE D – Investments** (continued)

The following tables summarize the investment strategy types as of December 31:

	2018		
<u>Investment Type</u>	<u>Number of Funds</u>	<u>Fair Value</u>	<u>Remaining Capital Commitments</u>
Short-term investments	3	\$ 39,427,598	
International equities	<u>1</u>	<u>41,029,207</u>	
	4	80,456,805	
<b>Alternative investment strategy:</b>			
U.S. equity large cap	3	95,744,337	\$ -
U.S. equity small cap	1	9,436,296	-
Domestic long/short equity	5	64,345,840	-
International equity	2	41,228,462	-
Global	3	23,338,298	-
Diversified/multi-strategy	6	89,400,215	-
Venture capital	7	1,299,531	322,498
Buyout	9	8,382,198	15,993,777
Distressed securities	11	31,255,269	38,051,881
Fund of funds	3	1,092,984	30,000
Real estate	2	621,988	310,000
Real assets/energy	4	3,020,237	5,587,086
Other	<u>10</u>	<u>33,780,943</u>	<u>9,075,254</u>
Alternative investments (liquid and illiquid)	66	<u>402,946,598</u>	<u>69,370,496</u>
Investments, at fair value		<u>\$ 483,403,403</u>	<u>\$ 69,370,496</u>

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 2018 and 2017**

**NOTE D -- 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	
<b>Alternative investment strategy:</b>			
U.S. equity large cap	2	101,677,745	\$ -
U.S. equity small cap	1	9,902,137	-
Domestic long/short equity	5	48,675,426	-
International equity	2	47,303,113	-
Global	3	27,392,174	-
Diversified/multi-strategy	6	111,424,503	-
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>

**NOTE E -- Grant receivable**

Grant receivable consists of an unconditional promise to give from a single foundation. The balance at December 31, 2018 is \$40,000 and is expected to be received in 2019.

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

**December 31, 2018 and 2017**

**NOTE F -- Property and equipment**

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Computer and office equipment	\$ 1,787,520	\$ 1,707,400
Leasehold improvements	<u>3,345,016</u>	<u>3,345,016</u>
	5,132,536	5,052,416
Less accumulated depreciation and amortization	<u>(4,674,172)</u>	<u>(4,320,108)</u>
Property and equipment, net	<u>\$ 458,364</u>	<u>\$ 732,308</u>

Depreciation and amortization expense for the years ended December 31, 2018, and 2017 was \$376,026 and \$445,935, respectively.

**NOTE G -- 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>	
2019	\$ 5,197,000
2020	<u>585,000</u>
	<u><u>\$ 5,782,000</u></u>

**NOTE H -- 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.

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 2018 and 2017**

**NOTE H -- Commitments (continued)**

**Operating leases (continued)**

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

<u>Years Ending December 31,</u>	
2019	\$ 859,397
2020	881,440
2021	903,249
2022	876,600
2023	848,416
Thereafter	<u>2,503,810</u>
	<u><u>\$ 6,872,912</u></u>

Rent expense for the years ended December 31, 2018 and 2017 was \$675,270 and \$749,730, respectively.

**NOTE I -- Line of credit**

The Foundation renewed its secured \$20,000,000 revolving line of credit during 2018. There were no outstanding borrowings as of December 31, 2018 and 2017.

**NOTE J -- 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, 2018 and 2017, 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.



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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 2018 and 2017**

**NOTE J -- Federal excise tax** (continued)

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

	<u>2018</u>	<u>2017</u>
Current	\$ 633,696	\$ 699,470
Deferred	<u>(1,060,016)</u>	<u>712,611</u>
	<u>\$ (426,320)</u>	<u>\$ 1,412,081</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.

**NOTE K -- 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 \$513,904 and \$491,606 for the years ended December 31, 2018 and 2017, 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 L -- 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.

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 2018 and 2017**

**NOTE M -- 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.

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

2018				
	Cash, Short-term Investments, Domestic Equities & International Equities	Alternative Investments		Total Investments
		Liquid Alternative Investments	Illiquid Alternative Investments	
Level I	\$ 80,456,805	\$ -	\$ -	\$ 80,456,805
Level II	-	-	-	-
Level III	-	281,248,473	121,698,125	402,946,598
	<u>\$ 80,456,805</u>	<u>\$ 281,248,473</u>	<u>\$ 121,698,125</u>	<u>\$ 483,403,403</u>

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**December 31, 2018 and 2017**

**NOTE M -- Valuation of investments** (continued)

2017				
	Cash, Short-term Investments, Domestic Equities & International Equities	Alternative Investments		Total Investments
		Liquid Alternative Investments	Illiquid Alternative Investments	
Level I	\$ 102,132,549	\$ -	\$ -	\$ 102,132,549
Level II	-	-	-	-
Level III	-	297,281,084	130,670,501	427,951,585
	<u>\$ 102,132,549</u>	<u>\$ 297,281,084</u>	<u>\$ 130,670,501</u>	<u>\$ 530,084,134</u>

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

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

	2018	2017
<u>Investments at fair value</u>		
Balance at January 1	\$ 427,951,585	\$ 392,583,529
Net realized appreciation included in net income	26,843,838	28,434,024
Net unrealized gain (loss) included in net income	(42,315,267)	29,466,181
Purchases of portfolio investments	23,824,612	47,003,499
Proceeds from sales, redemptions, and distributions	<u>(33,358,170)</u>	<u>(69,535,648)</u>
Balance at December 31	<u>\$ 402,946,598</u>	<u>\$ 427,951,585</u>

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

**December 31, 2018 and 2017**

**NOTE N-- 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.

**NOTE O -- Subsequent events**

The date to which events occurring after December 31, 2018 have been evaluated for possible adjustments to the financial statements or disclosure is October 17, 2019, which is the date on which the financial statements were available to be issued.