

**THE MAY AND STANLEY SMITH CHARITABLE TRUST**

---

**FINANCIAL STATEMENTS**

December 31, 2015 and 2014

# THE MAY AND STANLEY SMITH CHARITABLE TRUST

---

## C O N T E N T S

	<b>Page(s)</b>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5–13

## INDEPENDENT AUDITORS' REPORT

To the Trustees  
The May and Stanley Smith Charitable Trust

We have audited the accompanying financial statements of The May and Stanley Smith Charitable Trust, which comprise the statements of financial position of as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, 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 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 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 auditors consider 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 The May and Stanley Smith Charitable Trust as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Burr Pilger Mayer, Inc.*

San Francisco, California  
June 7, 2016

**THE MAY AND STANLEY SMITH CHARITABLE TRUST**

**STATEMENTS OF FINANCIAL POSITION**

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 380,081	\$ 246,037
Investments, at fair value	407,882,906	436,418,046
Dividends and interest receivable	486,872	748,398
Prepaid federal excise tax and other assets	22,307	19,004
Contribution receivable from May Smith Trust	660,000	4,725,000
	<u>660,000</u>	<u>4,725,000</u>
Total assets	<u>\$ 409,432,166</u>	<u>\$ 442,156,485</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Grants payable	\$ 4,882,000	\$ 5,262,500
Accounts payable	511,433	552,074
Federal excise and other taxes payable	2,705	23,445
	<u>2,705</u>	<u>23,445</u>
Total liabilities	5,396,138	5,838,019
Net assets - unrestricted	<u>404,036,028</u>	<u>436,318,466</u>
Total liabilities and net assets	<u>\$ 409,432,166</u>	<u>\$ 442,156,485</u>

The accompanying notes are an integral part of these financial statements.

**THE MAY AND STANLEY SMITH CHARITABLE TRUST**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the years ended December 31, 2015 and 2014

	2015	2014
Net investment income:		
Net realized and unrealized (losses) gains on investments	\$ (20,305,349)	\$ 15,842,392
Dividends	9,850,938	10,930,276
Interest, capital gains, and other income	1,272,366	480,057
Custodial and investment related expenses	(2,896,961)	(2,886,575)
Net investment (loss) income before federal excise tax	(12,079,006)	24,366,150
Federal excise and other taxes	(345,818)	(321,132)
Net investment (loss) income	(12,424,824)	24,045,018
Support:		
Change in value of May Smith Trust	(420,382)	(275,000)
Net investment (loss) income and support	(12,845,206)	23,770,018
Expenses:		
Grants	17,952,626	17,826,176
Grants administration	1,484,606	1,348,632
Total expenses	19,437,232	19,174,808
Change in net assets	(32,282,438)	4,595,210
Net assets - unrestricted, beginning of year	436,318,466	431,723,256
Net assets - unrestricted, end of year	\$ 404,036,028	\$ 436,318,466

The accompanying notes are an integral  
part of these financial statements.

**THE MAY AND STANLEY SMITH CHARITABLE TRUST**

**STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (32,282,438)	\$ 4,595,210
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized losses (gains) on investments	20,305,349	(15,842,392)
Decrease in value of contribution receivable from the May Smith Trust	420,382	275,000
Changes in operating assets and liabilities:		
Dividends and interest receivable	261,526	(162,966)
Prepaid federal excise tax and other assets	(3,303)	3,861
Grants payable	(380,500)	339,500
Accounts payable	(40,641)	(36,263)
Federal excise and other taxes payable	(20,740)	23,445
Contribution receivable from May Smith Trust	3,644,618	3,700,000
Net cash used in operating activities	(8,095,747)	(7,104,605)
Cash flows from investing activities:		
Purchase of investments	(266,820,463)	(129,658,456)
Proceeds from sale of investments	275,050,254	136,884,246
Net cash provided by investing activities	8,229,791	7,225,790
Increase in cash and cash equivalents	134,044	121,185
Cash and cash equivalents, beginning of year	246,037	124,852
Cash and cash equivalents, end of year	\$ 380,081	\$ 246,037
Supplemental disclosures of cash flow information:		
Federal excise taxes paid	\$ 378,431	\$ 272,000

The accompanying notes are an integral part of these financial statements.

# THE MAY AND STANLEY SMITH CHARITABLE TRUST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

---

### 1. Organization

The May and Stanley Smith Charitable Trust (the “Trust”) was established in 1989 to provide grants to organizations that serve the needs of children, the elderly, the disabled and the disadvantaged. The Trust makes grants primarily to organizations serving people in the Western Region of the United States and in British Columbia and Canada. A small number of grants are made to organizations in the Bahamas, the United Kingdom, Hong Kong and Australia. The Trust has been classified by the Internal Revenue Service (“IRS”) as a private foundation, as defined in Section 509(a) of the Internal Revenue Code (“IRC”). The Trust has been recognized by the IRS as a foreign organization for purposes of IRC Section 4948. For the years ended December 31, 2015 and 2014, the Trust complied with the IRS requirement to spend or distribute for charitable purposes a minimum of five percent of the average fair value of its investment assets for the preceding year. The trustees may distribute principal or income, or both, for the purposes defined in the Trust agreement. The Trust is supported through investment income and contributions.

### 2. Summary of Significant Accounting Policies

#### *Basis of Accounting*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

#### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates.

#### *Cash and Cash Equivalents*

The Trust considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### *Concentration of Credit Risk*

The Trust maintains cash balances with one bank. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per insured bank. Cash and investment balances are insured through the Securities Investor Protection Corporation up to \$500,000 and by Lloyd’s of London up to \$900,000. Cash and investment balances may at times exceed these limits. To date, the Trust has not experienced any losses in these accounts.

#### *Investments*

Investments are stated at quoted market prices or estimated fair values. Gains or losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses that result from sales or maturities of investments are calculated on an adjusted cost basis. Dividend and interest income are accrued when earned.

Continued

# THE MAY AND STANLEY SMITH CHARITABLE TRUST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

---

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

#### *Fair Value Measurement*

Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

Receivables and liabilities are measured at carrying value which approximated fair value due to their short maturity.

#### *Fair Value of Financial Instruments*

The estimated values of certain of the Trust's financial instruments not measured on a recurring basis (including receivables, accounts payable, and grants payable) approximate their carrying values due to their short length to maturity.

#### *Covered Calls*

The use of call options is a part of the Trust's investment strategy. Covered calls are recorded at fair value and generally expire within one to three months from the original dates. Realized gains of \$1,553,340 and \$2,586,728, and unrealized gain of \$7,394 and \$41,094, are reported in the statements of activities and changes in net assets for the years ended December 31, 2015 and 2014, respectively. Cash flows from covered calls are classified as an investing activity on the statements of cash flows.

#### *Tax Exempt Status*

The Trust has obtained tax-exempt status for income tax purposes from the IRS under IRC Section 501(c)(3), and from the Franchise Tax Board under Section 23701(d) of the California Revenue and Tax Code. The Trust, a private foundation, has been recognized by the IRS as a foreign organization for purposes of IRC Section 4948 and as such is subject only to a federal excise tax of 4% on its gross U.S. sourced interest and dividends. For the years ended December 31, 2015 and 2014, the excise tax expense was \$336,353 and \$314,636, respectively. All excise taxes are considered to be current taxes and no deferred taxes are necessary.

#### *Risks and Uncertainties*

The Trust invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risk. The Trust invests in bond funds whose durations are typically less than 5 years. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect investment values reported in the statements of financial position.

Continued

# THE MAY AND STANLEY SMITH CHARITABLE TRUST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

---

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

#### ***Grants***

Grants are expensed when the unconditional promise to give is approved by the Board of Trustees. During the year ended December 31, 2015, the Board of Trustees approved a \$25,000 grant conditional upon the recipient organization's engagement of a professional evaluator; and a \$70,000 grant conditional upon the recipient organization's receipt of a building permit. As of December 31, 2015, the recipient organizations had not met the conditions of the grants. However, as management assessed the probability of the recipient organizations meeting the conditions as very likely, the grants totaling \$95,000 are included in grants payable.

During the year ended December 31, 2014, the Board of Trustees approved a grant conditional upon the recipient organization's receipt of a building permit. As of December 31, 2014, the recipient organization had not met the condition of the grant. However, as management assessed the probability of the recipient organization meeting the condition as very likely, the grant of \$1,500,000 is included in grants payable.

#### ***Reclassifications***

Certain reclassifications have been made to the 2014 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

#### ***Recent Accounting Pronouncements***

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, *Fair Value Measurements: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. The amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The Trust has elected to early adopt ASU 2015-07 (see Note 3).

### 3. Fair Value Measurements and Investments

Generally accepted accounting principles establish a hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The following is a brief description of these three levels:

*Level 1* – Quoted prices in active markets for identical assets. Investments in this level have been valued at the closing price on the active market on which the securities are traded at December 31, 2015 and 2014.

*Level 2* – Observable inputs other than quoted prices in active markets for identical assets, quoted prices for identical or similar assets in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets. Investments held in this level, including the contribution from the May Smith Trust, have been calculated using the most recent trading activity for identical or similar securities and changes in interest rates.

*Level 3* – Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset.

Continued

# THE MAY AND STANLEY SMITH CHARITABLE TRUST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 3. Fair Value Measurements and Investments, continued

There were no transfers between Level 3 and Level 2 for the years ended December 31, 2015 and 2014.

The following table presents the Trust's assets measured at fair value on a recurring basis as of December 31, 2015:

December 31, 2015	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Investments by fair value level:			
U.S. equity securities:			
U.S. common stocks:			
Aerospace/defense	\$ 5,848,666	\$ -	\$ 5,848,666
Airlines	4,790,425	-	4,790,425
Auto manufacturers	5,344,337	-	5,344,337
Banks	5,623,213	-	5,623,213
Biotechnology	12,034,252	-	12,034,252
Computers	9,785,496	-	9,785,496
Diversified financial services	27,993,343	-	27,993,343
Electronics	2,005,414	-	2,005,414
Healthcare products	6,387,031	-	6,387,031
Healthcare services	18,356,456	-	18,356,456
Insurance	13,549,079	-	13,549,079
Internet	18,397,518	-	18,397,518
Media	6,842,137	-	6,842,137
Miscellaneous manufacturing	6,801,960	-	6,801,960
Pharmaceuticals	22,011,691	-	22,011,691
Real Estate	5,249,244	-	5,249,244
Retail	6,423,489	-	6,423,489
Semiconductors	7,914,024	-	7,914,024
Software	4,760,300	-	4,760,300
Telecommunications	5,903,497	-	5,903,497
Transportation	3,158,327	-	3,158,327
Trucking and leasing	3,132,335	-	3,132,335
Total U.S. common stocks	202,312,234	-	202,312,234

Continued

**THE MAY AND STANLEY SMITH CHARITABLE TRUST**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2015 and 2014

**3. Fair Value Measurements and Investments, continued**

December 31, 2015, continued	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
U.S. Preferred Stock	\$ 13,752,900	\$ -	\$ 13,752,900
International equity funds	73,796,983	-	73,796,983
Income investments	23,250,350	-	23,250,350
Mutual funds	17,167,187	-	17,167,187
Money market funds	18,454,641	-	18,454,641
U.S. debt securities:			
Bond funds - ETF	25,290,944	-	25,290,944
Mutual funds	15,719,329	-	15,719,329
Total U.S. debt securities	41,010,273	-	41,010,273
Liabilities:			
Covered calls	(100,695)	-	(100,695)
Total investments by fair value level	<u>\$ 389,643,873</u>	<u>\$ -</u>	389,643,873
Investments measured at the net asset value (NAV):			
Private equity: real estate fund			<u>18,239,033</u>
Total investments			<u>\$ 407,882,906</u>
Contribution receivable from May Smith Trust	<u>\$ -</u>	<u>\$ 660,000</u>	<u>\$ 660,000</u>

Continued

# THE MAY AND STANLEY SMITH CHARITABLE TRUST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 3. Fair Value Measurements and Investments, continued

The following table presents the Trust's investments measured at fair value on a recurring basis as of December 31, 2014:

December 31, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Investments by fair value level:			
U.S. equity securities:			
U.S. common stocks:			
Aerospace/defense	\$ 16,131,145	\$ -	\$ 16,131,145
Auto manufacturers	6,144,160	-	6,144,160
Banks	14,393,250	-	14,393,250
Biotechnology	13,733,380	-	13,733,380
Chemicals	5,929,300	-	5,929,300
Commercial services	6,120,600	-	6,120,600
Computers	17,133,784	-	17,133,784
Diversified financial services	30,977,390	-	30,977,390
Healthcare services	7,106,400	-	7,106,400
Insurance	11,997,700	-	11,997,700
Internet	10,279,909	-	10,279,909
Iron/steel	5,922,000	-	5,922,000
Media	6,961,200	-	6,961,200
Metal fabricate/hardware	6,022,000	-	6,022,000
Miscellaneous manufacturing	6,494,800	-	6,494,800
Oil and gas	6,121,000	-	6,121,000
Oil and gas services	15,667,470	-	15,667,470
Pharmaceuticals	21,006,700	-	21,006,700
Total U.S. common stocks	<u>208,142,188</u>	<u>-</u>	<u>208,142,188</u>
International equities:			
International equity funds	71,772,560	-	71,772,560
International chemicals	5,557,300	-	5,557,300
Total international equities	<u>77,329,860</u>	<u>-</u>	<u>77,329,860</u>
Commodities	<u>15,841,506</u>	<u>-</u>	<u>15,841,506</u>
Income investments	<u>32,904,750</u>	<u>-</u>	<u>32,904,750</u>
Money market funds	<u>13,595,763</u>	<u>-</u>	<u>13,595,763</u>

Continued

**THE MAY AND STANLEY SMITH CHARITABLE TRUST**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2015 and 2014

**3. Fair Value Measurements and Investments, continued**

December 31, 2014, continued	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
U.S. debt securities:			
Bond funds - ETF	\$ 27,464,950	\$ -	\$ 27,464,950
Mutual funds	27,552,047	-	27,552,047
Total U.S. debt securities	55,016,997	-	55,016,997
International debt securities:			
International bond funds	19,676,713	-	19,676,713
Liabilities:			
Covered calls	(174,420)	-	(174,420)
Total investments by fair value level	\$ 422,333,357	\$ -	422,333,357
Investments measured at the net asset value (NAV):			
Private equity: real estate fund			14,084,689
Total investments			\$ 436,418,046
Contribution receivable from May Smith Trust	\$ -	\$ 4,725,000	\$ 4,725,000

The Trust uses the NAV to determine the fair value of all the underlying investments which do not have readily determinable fair values and prepare their financial statements consistent with the measurement principles of an investment company or have attributes of an investment company. The following table lists the investment in the real estate fund as of December 31, 2015 and 2014:

**December 31, 2015**

Asset	Strategy	NAV in Fund	Number of Funds	Remaining Life	Unfunded Commitments
Private equity:					
Real estate fund	Domestic real estate related assets	\$ 18,239,033	1	8 years	\$ 6,822,300

**December 31, 2014**

Asset	Strategy	NAV in Fund	Number of Funds	Remaining Life	Unfunded Commitments
Private equity:					
Real estate fund	Domestic real estate related assets	\$ 14,084,689	1	9 years	\$ 6,996,637

As a limited partner in the real estate fund, the Trust may not withdraw from the real estate fund prior to its dissolution.

Continued

# THE MAY AND STANLEY SMITH CHARITABLE TRUST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 4. Contribution Receivable

May Smith established the May Smith Trust, a personal trust, on October 10, 1982, to provide for May Smith's support and maintenance during her life and certain charitable gifts and donations after her death. Upon her death in July 2006, the May Smith Trust is in the process of being dissolved in accordance with her wishes.

During the years ended December 31, 2015 and 2014, respectively, the Trust received \$3,644,618 and \$3,700,000 in cash and securities from the May Smith Trust. As of December 31, 2015 and 2014, approximately \$660,000 and \$4,725,000, respectively, of the net assets remaining in the May Smith Trust are to be paid to The May and Stanley Smith Charitable Trust upon final administration of the May Smith Trust's activities.

### 5. Net Assets

Net assets on the statements of financial position are comprised of original and subsequent capital contributions to the Trust, anticipated contributions, and increases in value through investment activity. Net assets are all considered unrestricted.

Net assets for the years ended December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Contributed capital	\$ 135,970,395	\$ 135,970,395
Contributed capital from the May Smith Trust	65,297,104	61,652,486
Contribution receivable from the May Smith Trust	660,000	4,725,000
Net increase in value since inception of the Trust, net of grants and operating expenses	<u>202,108,529</u>	<u>233,970,585</u>
Total net assets - unrestricted	<u>\$ 404,036,028</u>	<u>\$ 436,318,466</u>

### 6. Grants Payable

The Trust sometimes approves grants that have a payment or payments in future years, or that are paid when certain future requirements are met by the grantee. Grants authorized but unpaid at year-end are reported as liabilities. Discounting of grants payable over multiple years would be immaterial and is not reflected in the financial statements. The following is a summary of grants authorized and payable:

Year ending December 31:	
2016	\$ 4,757,000
2017	<u>125,000</u>
Total grants payable	<u>\$ 4,882,000</u>

Continued

# THE MAY AND STANLEY SMITH CHARITABLE TRUST

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

### 7. Net Realized and Unrealized Gains and Losses on Investments

Realized gains and losses from the sale of investments are recognized as the difference between sales proceeds and original cost. Unrealized gains and losses include changes in the fair market value during the year. Gains and losses (realized and unrealized) included in earnings are reported in the statements of activities and changes in net assets as follows for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Realized gains from the sale of investments, net	\$ 30,520,043	\$ 26,279,019
Unrealized losses on investments held, net	<u>(50,825,392)</u>	<u>(10,436,627)</u>
Net realized and unrealized (losses) gains on investments	<u>\$ (20,305,349)</u>	<u>\$ 15,842,392</u>

### 8. Related Parties

The Trust Instrument authorizes trustees to use the services of a business or professional firm with which a trustee may be associated, and to compensate the firm for those services. A trustee is the managing member of the company that provides administrative services to the Trust. Fees to the administrative services company were \$1,425,000 and \$1,285,000 for the years ended December 31, 2015 and 2014, respectively. There were no fees due to the administrative services company at December 31, 2015 or 2014.

Another trustee is the managing partner of the accounting firm that provides tax return preparation services to the Trust. Fees to the accounting firm were \$9,970 and \$11,340 for the years ended December 31, 2015 and 2014, respectively. Fees due to the accounting firm were \$7,815 and \$0 at December 31, 2015 and 2014, respectively.

The trustees were paid trustee fees of \$375,000 for the years ended December 31, 2015 and 2014, which are included under custodian and investment related expenses on the statements of activities and changes in net assets.

### 9. Subsequent Events

The Trust evaluated subsequent events for recognition and disclosure through June 7, 2016, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2015 that required recognition or disclosure in the financial statements.