

MAY AND STANLEY SMITH CHARITABLE TRUST

FINANCIAL STATEMENTS

December 31, 2022 and 2021



MAY AND STANLEY SMITH CHARITABLE TRUST

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INDEPENDENT AUDITORS' REPORT

To the Trustees of
May and Stanley Smith Charitable Trust

Opinion

We have audited the financial statements of May and Stanley Smith Charitable Trust, which comprise the statements of financial position as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of May and Stanley Smith Charitable Trust as of December 31, 2022 and 2021, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of May and Stanley Smith Charitable Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about May and Stanley Smith Charitable Trust's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Trustees of
May and Stanley Smith Charitable Trust

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 May and Stanley Smith Charitable Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about May and Stanley Smith Charitable Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in black ink that reads "BPM LLP". The "B" is stylized with a diagonal stroke, and the "M" and "L" are also stylized.

Long Beach, California
October 13, 2023

MAY AND STANLEY SMITH CHARITABLE TRUST

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 73,167	\$ 137,476
Investments, at fair value	402,347,151	499,804,925
Net receivables from unsettled trades	-	10,387,534
Dividends and interest receivable	419,294	740,364
Prepays and other current assets	<u>267,279</u>	<u>53,068</u>
 Total assets	 <u>\$ 403,106,891</u>	 <u>\$ 511,123,367</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Grants payable	\$ 8,130,000	\$ 10,575,500
Accounts payable and accrued expenses	834,669	913,668
Federal excise and other taxes payable	<u>-</u>	<u>275,000</u>
 Total liabilities	 8,964,669	 11,764,168
 Net assets without donor restrictions	 <u>394,142,222</u>	 <u>499,359,199</u>
 Total liabilities and net assets	 <u>\$ 403,106,891</u>	 <u>\$ 511,123,367</u>

MAY AND STANLEY SMITH CHARITABLE TRUST
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended December 31, 2022 and 2021

	2022	2021
Net investment gain (loss):		
Realized gain (loss) from the sale of investments, net	\$ (41,642,734)	\$ 34,308,035
Unrealized gain (loss) on investments held, net	(46,487,468)	(3,821,123)
Dividends, interest and other income, net of investment expenses	5,308,211	17,616,288
Net investment gain (loss) before federal excise and other tax expense	(82,821,991)	48,103,200
Federal excise and other taxes	208,834	1,143,130
Net investment gain (loss)	(83,030,825)	46,960,070
Service fee income	32,481	31,566
Total investment gain, support and service fee income	(82,998,344)	46,991,636
Expenses:		
Grants and grants management	21,960,017	26,416,585
General and administrative	258,616	235,906
Total expenses	22,218,633	26,652,491
Change in net assets	(105,216,977)	20,339,145
Net assets without donor restrictions, beginning of year	499,359,199	479,020,054
Net assets without donor restrictions, end of year	\$ 394,142,222	\$ 499,359,199

MAY AND STANLEY SMITH CHARITABLE TRUST

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (105,216,977)	\$ 20,339,145
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	88,130,202	(30,486,912)
Changes in operating assets and liabilities:		
Grants payable	(2,445,500)	375,500
Dividends and interest receivable	321,070	(254,710)
Accounts payable and accrued expenses	(78,999)	104,702
Federal excise and other taxes payable	(275,000)	176,245
Prepaid and other current assets	(214,211)	51,114
Net cash used in operating activities	<u>(19,779,415)</u>	<u>(9,694,916)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	205,467,068	183,653,554
Purchase of investments	(196,139,496)	(163,727,002)
Net receivables from unsettled trades	<u>10,387,534</u>	<u>(10,387,534)</u>
Net cash provided by investing activities	<u>19,715,106</u>	<u>9,539,018</u>
Change in cash and cash equivalents	(64,309)	(155,898)
Cash and cash equivalents, beginning of year	<u>137,476</u>	<u>293,374</u>
Cash and cash equivalents, end of year	<u>\$ 73,167</u>	<u>\$ 137,476</u>
Supplemental disclosures of cash flow information:		
Federal excise and other taxes paid	<u>\$ 565,000</u>	<u>\$ 877,329</u>

MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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, 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, 2022 and 2021, 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, contributions and client service fees.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and reflect net assets with and without donor restrictions.

Net Assets without Donor Restriction: Net assets without donor restrictions consist of the resources of the Trust, which have not been restricted by a donor for a restricted use or time.

Net Assets with Donor Restriction: Net assets with donor restrictions represent contributions whose use by the Trust is limited in accordance with the restrictions imposed by donors. These restrictions may expire when the stipulated time has passed or may be satisfied by the actions of the Trust according to the stipulations made by the donors.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 multiple banks under a bank deposit program. Those cash balances are insured by the Federal Deposit Insurance Corporation for up to \$250,000 per insured bank. The Trust also may hold investments in a brokerage account, where it is insured by the Securities Investor Protection Corporation up to \$500,000, and by Lloyd's of London up to an additional \$900,000. Cash and investment balances may at times exceed these limits. To date, the Trust has not experienced any losses in these accounts.

MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

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. Indirect investment expenses of \$51,751 and \$51,242 are included in dividends, interest and other income, net of investment expenses on the statements of activities and changes in net assets for the years ended December 31, 2022 and 2021, respectively.

Fair Value Measurement

The Trust carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date. In addition, the Trust reports certain investments using the Net Asset Value (“NAV”) per share as determined by investment managers under the so-called “practical expedient.” The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

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

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 year-end.

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 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.

Level 1 investments have been valued at the closing price on the active market on which the securities are traded as of December 31, 2022 and 2021.

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. Cash flows from covered calls are classified as an investing activity on the statements of cash flows.

MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

2. Summary of Significant Accounting Policies, continued

Contributions

Contributions are recognized as revenue in the period received or unconditionally promised. Contributions received are recorded as with or without donor restrictions, depending on the existence and/or nature of any such restrictions. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Grants

Grants are expensed when the unconditional promise to give is approved by the Board of Trustees or management in certain cases. There were no conditional promises to give during the years ended December 31, 2022 and 2021.

Income Taxes

The Trust is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the IRC and from the California franchise and/or income taxes under Section 23701(d) of the California Revenue and Taxation Code. The Trust maintains its accounts and files its tax returns using the accrual method of accounting.

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 United States ("U.S.") sourced interest and dividends. 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.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). In November 2019, the FASB issued ASU 2019-10, *Financial Instruments-Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, which delayed the effective date of ASU 2016-02 by one year. In May 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606), and Leases (Topic 842): Effective Dates for Certain Entities*, which delayed the effective date for an additional year. The new guidance is now effective for fiscal years beginning after December 15, 2021. The Trust determined that the impact of the adoption of this accounting guidance on its financial statements is considered immaterial.

MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

3. Fair Value Measurements and Investments

The following table presents the Trust's assets measured at fair value on a recurring basis as of December 31, 2022:

	Quoted Prices in Active Markets (Level 1)	Total
Investments by fair value level:		
U.S. common stocks:		
Information Technology	\$ 9,333,351	\$ 9,333,351
Industrials	7,316,645	7,316,645
Financials	9,997,982	9,997,982
Consumer discretionary	5,181,430	5,181,430
Total U.S. common stocks	<u>31,829,408</u>	<u>31,829,408</u>
U.S. equity funds:		
Mutual funds	151,065,249	151,065,249
Total U.S. equity funds	<u>151,065,249</u>	<u>151,065,249</u>
International equity funds:		
Mutual funds	40,636,648	40,636,648
Total international equity funds	<u>40,636,648</u>	<u>40,636,648</u>
Marketable alternatives	5,384,294	5,384,294
Money market funds	21,651,389	21,651,389
U.S. fixed income mutual funds	68,351,675	68,351,675
Total investments by fair value level	<u>\$ 318,918,663</u>	318,918,663
Investments measured at the net asset value ("NAV"):		
Real estate funds		34,893,408
Hedge funds		45,206,440
Venture capital funds		3,328,640
Total investments		<u>\$ 402,347,151</u>

MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

3. Fair Value Measurements and Investments, continued

The following table presents the Trust's assets measured at fair value on a recurring basis as of December 31, 2021:

	Quoted Prices in Active Markets (Level 1)	Total
Investments by fair value level:		
U.S. common stocks:		
Information Technology	\$ 40,821,180	\$ 40,821,180
Industrials	6,452,468	6,452,468
Financials	17,981,896	17,981,896
Consumer discretionary	13,359,386	13,359,386
Materials	3,227,640	3,227,640
Total U.S. common stocks	<u>81,842,570</u>	<u>81,842,570</u>
U.S. equity funds:		
Mutual funds	<u>153,790,543</u>	<u>153,790,543</u>
Total U.S. equity funds	<u>153,790,543</u>	<u>153,790,543</u>
International equity funds:		
Mutual funds	<u>50,565,628</u>	<u>50,565,628</u>
Total international equity funds	<u>50,565,628</u>	<u>50,565,628</u>
Marketable alternatives	<u>14,380,236</u>	<u>14,380,236</u>
Money market funds	<u>21,391,714</u>	<u>21,391,714</u>
Options	<u>(25,850)</u>	<u>(25,850)</u>
U.S. fixed income mutual funds	<u>103,556,411</u>	<u>103,556,411</u>
Total investments by fair value level	<u>\$ 425,501,252</u>	425,501,252
Investments measured at the net asset value ("NAV"):		
Real estate funds		30,330,920
Hedge funds		<u>43,972,753</u>
Total investments		<u>\$ 499,804,925</u>

MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

3. Fair Value Measurements and Investments, continued

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 tables list the investments in real estate and hedge funds as of December 31, 2022 and 2021:

December 31, 2022					
Asset	Strategy	NAV in Fund	Number of Funds	Remaining Life	Unfunded Commitments
Private equity:					
Real estate funds	Domestic real estate related assets	\$ 34,893,408	5	1-9 years	\$ 30,563,761
Hedge funds	U.S. exchange listed equity securities	45,206,440	1	NA	-
Venture Capital	NYCA Investment Fund	3,328,640	1	7-9 years	-
		<u>\$ 83,428,488</u>			<u>\$ 30,563,761</u>

December 31, 2021					
Asset	Strategy	NAV in Fund	Number of Funds	Remaining Life	Unfunded Commitments
Private equity:					
Real estate funds	Domestic real estate related assets	\$ 30,330,920	4	2-10 years	\$ 15,794,485
Hedge funds	U.S. exchange listed equity securities	43,972,753	1	NA	-
		<u>\$ 74,303,673</u>			<u>\$ 15,794,485</u>

The Trust is a limited partner in SFF Realty Fund IV, L.P. and agrees to contribute \$20,000,000 as capital commitment and the term of this partnership lasts until October 2030. SFF Realty Fund IV, LP can make capital calls as determined by the General Partner for investment costs or partnership expenses. Commitments of \$400,000 and \$0 were funded for the years ended December 31, 2022 and 2021, respectively. SFF Realty Fund IV, L.P. made a \$630,000 capital call in April 2023.

The Trust is a limited partner in SFF Realty Fund III, L.P. and agrees to contribute \$2,942,748 as capital commitment and the term of Partnership lasts until February 2026. SFF Realty Fund III, L.P. can make capital calls as determined by the General Partner for investment costs or partnership expenses. SFF Realty Fund III, L.P. made a \$290,840 capital call in September 2023.

In April 2022, the Trust entered into an agreement of limited partnership with The Rise Fund III, L.P. and agrees to contribute \$12,000,000 as capital commitment with a 10-year commitment. Commitments of \$0 were funded for the year ended December 31, 2022. The Rise Fund III, L.P. made a capital call of \$961,086 in May 2023.

MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

3. Fair Value Measurements and Investments, continued

In 2022, the Trust entered into an agreement of limited partnership with NYCA Investment Fund IV-A L.P. and agrees to contribute \$12,500,000 as capital commitment. Commitments of \$3,125,000 were funded for the year ended December 31, 2022, and all funds contributed are restricted from withdraw. NYCA Investment Fund IV-A L.P. made capital calls of \$937,500 in both May and July 2023.

In 2022, the Trust entered into an agreement of limited partnership with March Capital Opportunity Fund IV, L.P. and agrees to contribute \$10,000,000 as capital commitment. Commitments of \$6,000,000 were funded for the year ended December 31, 2022. March Capital Opportunity Fund IV, L.P. made a capital call of \$750,000 in March 2023.

As a limited partner in the closed-end real estate funds, the Trust may not withdraw from the real estate funds prior to a fund's dissolution. The hedge fund permits monthly withdrawals with 45 days prior notice.

4. Covered Calls

The Trust had written covered calls as part of its investment strategy. Included in equity securities as of December 31, 2022 and 2021 were short calls on various securities. The short calls constituted covered calls and entitled the holder to acquire 0 and 122,000 shares at various set prices per share for the years ended December 31, 2022 and 2021, respectively. The 2021 calls expired on January 21, 2022.

The notional and fair value of the calls were as follows as of December 31:

	2022		2021	
	Notional Value	Fair Value	Notional Value	Fair Value
Covered calls	\$ -	\$ -	\$ (6,162,740)	\$ (25,850)

All of the Trust's derivative instruments are marked to current value as a change in net assets. The fair values of these instruments are included in investments in equity securities. The Trust recognized \$711,749 and \$98,648 of net gains related to derivative activity for the years ended December 31, 2022 and 2021, respectively. These net gains are reported as net realized and unrealized gain on investments in the statements of activities and changes in net assets.

5. Grants Payable

The Trust sometimes approves grants that have a payment or payments in future years or 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:	
2023	\$ 7,762,819
2024	367,181
Total grants payable	<u>\$ 8,130,000</u>

MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

6. 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 without donor restrictions and are comprised of the following since inception through the years ended December 31:

	2022	2021
Contributed capital	\$ 135,970,395	\$ 135,970,395
Contributed capital from the May Smith Trust	65,365,606	65,365,606
Cumulative grants paid and payable	(402,661,297)	(383,375,088)
Net increase in value since inception of the Trust, net of operating expenses	595,467,518	681,398,286
Total net assets without donor restrictions	<u>\$ 394,142,222</u>	<u>\$ 499,359,199</u>

7. Functional Expense Allocation

The indirect costs associated with certain expenses have been allocated on a functional basis in the statements of activities and changes in net assets. Certain expenses are not directly identifiable with one specific function and require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include the salaries and benefits, trustee fees, office and occupancy, and professional and consultant fees, and travel and meetings expenses, all of which are allocated on the basis of estimates of time and use. The Trust provides administrative services to another foundation, a related party trust which shares one trustee with the Trust (see Note 11).

The expenses were allocated as follows for the years ended December 31:

	2022			2021		
	Grants and Grants Management	General and Administrative	Total	Grants and Grants Management	General and Administrative	Total
Grants	\$ 19,286,209	\$ -	\$ 19,286,209	\$ 24,189,378	\$ -	\$ 24,189,378
Salaries and benefits	1,844,745	74,302	1,919,047	1,525,555	61,446	1,587,001
Trustee fees	312,992	13,287	326,279	312,992	13,287	326,279
Professional and consultants	179,080	157,453	336,533	87,836	145,333	233,169
Office and occupancy	266,790	10,746	277,536	290,986	15,443	306,429
Travel and meetings	70,201	2,828	73,029	9,838	397	10,235
	<u>\$ 21,960,017</u>	<u>\$ 258,616</u>	<u>\$ 22,218,633</u>	<u>\$ 26,416,585</u>	<u>\$ 235,906</u>	<u>\$ 26,652,491</u>

MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

8. Federal Excise and Other Taxes Expense

Federal excise tax expense was calculated at a rate of 4%. The Trust pays foreign taxes on foreign dividends and unrelated business income tax ("UBIT") as applicable. Federal excise and other taxes are included in the statements of activities and changes in net assets as follows for the years ended December 31:

	2022	2021
Federal excise and other taxes expense:		
Current federal excise tax	\$ 152,759	\$ 382,496
Foreign tax	132,536	98,920
UBIT	(76,461)	661,714
Total federal excise tax expense	<u>\$ 208,834</u>	<u>\$ 1,143,130</u>

9. Payout Requirement

The IRC requires private foundations to annually disburse approximately 5% of the market value of investment assets, less the federal excise tax, for the current year by the end of next year. This payout requirement may be satisfied by payments for grants, program-related investments, direct conduct of charitable activities, and certain administrative expenses. The Trust has met the required minimum distributions, but has undistributed income amounts that must be distributed before the end of the next fiscal year of approximately \$11,267,000 and \$11,285,000 as of December 31, 2022 and 2021, respectively.

10. Liquidity

The Trust has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Trust invests cash in excess of daily requirements in various short-term investments, including short-term treasury instruments. The Trust had the following financial assets available to meet cash needs for general expenditures within one year as of December 31:

	2022	2021
Cash	\$ 73,167	\$ 137,476
Investments, at fair value	402,347,151	499,804,925
Net receivables from unsettled trades	-	10,387,534
Dividends and interest receivable	419,294	740,364
Total financial assets	402,839,612	511,070,299
Less:		
Venture capital investments	(3,328,640)	-
Private equity investments in real estate	(34,893,408)	(30,330,920)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 364,617,564</u>	<u>\$ 480,739,379</u>

MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

10. Liquidity, continued

The Trust has a goal to maintain financial assets, consisting of cash and fixed income investments, on hand to meet three years of normal operating expenses, totaling approximately \$90,000,000. The breakdown of these assets that the Trust counts towards this goal is as follows as of December 31:

	2022	2021
Cash	\$ 73,167	\$ 137,476
Money market funds	21,651,389	21,391,714
U.S. fixed income mutual funds	68,351,675	103,556,411
	<u>\$ 90,076,231</u>	<u>\$ 125,085,601</u>

11. Related Parties

The Trust 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 served as CEO from October 2019 to November 2020, and continued to serve as a paid consultant through December 2021. Expenses related to consulting services from the Trustee totaled \$0 and \$3,648 for the years ended December 31, 2022 and 2021, respectively.

Another trustee is a partner of the accounting firm that provides tax return preparation services to the Trust. Expenses related to the accounting firm were \$21,700 and \$13,105 for the years ended December 31, 2022 and 2021, respectively. Fees due to the accounting firm were \$17,250 and \$12,000 as of December 31, 2022 and 2021, respectively.

The Trust provides administrative services to another foundation, a related party trust which shares one trustee with the Trust.

The trustees were paid trustee fees totaling \$375,000 for the years ended December 31, 2022 and 2021, which are allocated between grants management, general and administrative, and investment related expenses on the statements of activities and changes in net assets.

12. Commitments and Contingencies

Lease Commitments

During the year ended December 31, 2019, the Trust extended an existing lease agreement for an additional 60 months with an unrelated party for office space in Corte Madera, California. Monthly rent is \$15,600 with fixed increases over the term of the lease.

MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

12. Commitments and Contingencies, continued

Lease Commitments, continued

Future minimum base rents required under the lease agreement described above are as follows:

For the years ending December 31:	
2023	\$ 210,537
2024	219,610
2025	<u>38,469</u>
	<u>\$ 468,616</u>

13. Subsequent Events

Other than the events described in Note 3, the Trust has evaluated all events and transactions that occurred after December 31, 2022 up through October 13, 2023, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred outside the normal course of operations which require additional disclosure or adjustment.