

THE MAY AND STANLEY SMITH CHARITABLE TRUST

FINANCIAL STATEMENTS

December 31, 2014 and 2013

THE MAY AND STANLEY SMITH CHARITABLE TRUST

C O N T E N T S

Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5-17

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, 2014 and 2013, 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, 2014 and 2013, 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 Jose, California
June 8, 2015

THE MAY AND STANLEY SMITH CHARITABLE TRUST

STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 13,841,800	\$ 19,686,544
Investments, at fair value	422,822,283	408,239,752
Dividends and interest receivable	748,398	585,432
Prepaid federal excise tax and other assets	19,004	22,865
Contribution receivable from May Smith Trust	4,725,000	8,700,000
	<u>442,156,485</u>	<u>437,234,593</u>
Total assets	<u>\$ 442,156,485</u>	<u>\$ 437,234,593</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Grants payable	\$ 5,262,500	\$ 4,923,000
Accounts payable	552,074	588,337
Federal excise and other taxes payable	23,445	-
Total liabilities	<u>5,838,019</u>	<u>5,511,337</u>
Net assets - unrestricted	<u>436,318,466</u>	<u>431,723,256</u>
Total liabilities and net assets	<u>\$ 442,156,485</u>	<u>\$ 437,234,593</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, 2014 and 2013

	2014	2013
Net investment income:		
Net realized and unrealized gains on investments	\$ 15,842,392	\$ 61,756,812
Foreign exchange losses	-	(1,126,200)
Dividends	10,930,276	9,484,630
Interest, capital gains and other income	480,057	402,823
Custodial and investment related expenses	(2,886,575)	(2,331,222)
Net investment income before federal excise tax	24,366,150	68,186,843
Federal excise and other taxes	(321,132)	(264,135)
Net investment income	24,045,018	67,922,708
Support:		
Change in value of contribution receivable from May Smith Trust	(275,000)	150,000
Net investment income and support	23,770,018	68,072,708
Expenses:		
Grants	17,826,176	14,704,876
Grant administration	1,285,000	1,060,000
Legal, accounting and other	63,632	196,254
Total expenses	19,174,808	15,961,130
Change in net assets	4,595,210	52,111,578
Net assets - unrestricted, beginning of year	431,723,256	379,611,678
Net assets - unrestricted, end of year	\$ 436,318,466	\$ 431,723,256

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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 4,595,210	\$ 52,111,578
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains	(15,842,392)	(61,756,812)
Foreign exchange losses	-	1,126,200
Decrease (increase) in value of contribution receivable from the May Smith Trust	275,000	(150,000)
Changes in operating assets and liabilities:		
Dividends and interest receivable	(162,966)	65,474
Prepaid federal excise tax and other assets	3,861	(22,865)
Grants payable	339,500	2,204,000
Accounts payable	(36,263)	133,893
Federal excise and other taxes payable	23,445	(44,061)
Contribution receivable from May Smith Trust	3,700,000	450,000
Net cash used in operating activities	(7,104,605)	(5,882,593)
Cash flows from investing activities:		
Purchase of investments	(135,624,385)	(212,441,736)
Proceeds from sale of investments	136,884,246	219,029,401
Net cash provided by investing activities	1,259,861	6,587,665
Effect of exchange rate changes on cash	-	(137,530)
(Decrease) increase in cash	(5,844,744)	567,542
Cash and cash equivalents, beginning of year	19,686,544	19,119,002
Cash and cash equivalents, end of year	\$ 13,841,800	\$ 19,686,544
Supplemental disclosures of cash flow information:		
Federal excise taxes paid	\$ 272,000	\$ 331,061

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

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

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, 2014 and 2013, 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 equivalent 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 balances may at times exceed these limits. To date, the Trust has not experienced any losses in these accounts.

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

2. Summary of Significant Accounting Policies, continued

Contributions

Conditional promises to give are recognized as contribution revenue and receivables when conditions of the contributions have been substantially met.

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.

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 \$2,586,728 and \$1,573,582, and unrealized gain of \$41,094 and \$276,301, are reported in the statement of activities for the years ended December 31, 2014 and 2013, respectively. Cash flows from covered calls are classified as an investing activity on the statement of cash flows.

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

2. Summary of Significant Accounting Policies, continued

Foreign Exchange

Gains and losses resulting from currency exchange rate fluctuations on foreign investments are recognized on a monthly basis using the average daily exchange rate at the end of the period. Gains and losses recognized from the purchase or sale of foreign investments are calculated using the average daily exchange rate upon the date of the transaction. The Trust had net foreign exchange losses of \$1,126,200 for the year ended December 31, 2013, which are reported in the statements of activities. The Trust experienced no gains or losses on currency exchange during the year ended December 31, 2014 since the trust had sold all of their investments in Canadian securities during the year ended December 31, 2013.

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, 2014 and 2013, the excise tax expense was \$314,636 and \$264,135, 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 statement of financial position.

Grants

Grants are expensed when the unconditional promise to give is approved by the Board of Trustees. 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. There were no conditional grants made during the year ended December 31, 2013.

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

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, 2014 and 2013.

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. Pricing inputs include situations where there is little, if any, market activity for the investment. Investments that are included in this category generally include privately held investments and securities held in partnership format, and for these the Net Asset Value ("NAV") as a practical expedient has been used. These investments consist of real estate, private equity, hedge, and multi-strategy funds.

The Trust follows the guidance for investments in certain entities that calculate NAV per share that permits, as a practical expedient, a reporting entity to measure the fair value of an investment, within its scope, on the basis of the NAV per share of the investment if the NAV of the investment is calculated in a manner consistent with the measurement principles of accounting for investment companies as of the reporting entity's measurement date. Investments measured at NAV per share are classified either as Level 2 or 3 in the fair value hierarchy, depending on the liquidity of the investment.

There were no transfers between Level 3 and Level 2 for the years ended December 31, 2014 and 2013.

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

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, 2014:

	<u>Level 1</u> Quoted prices in active markets	<u>Level 2</u> Significant other observable inputs	<u>Level 3</u> Significant unobservable inputs	<u>Total</u>
<u>December 31, 2014</u>				
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 and steel	5,922,000	-	-	5,922,000
Media	6,961,200	-	-	6,961,200
Metal fabricate and 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>-</u>	<u>208,142,188</u>
International equities:				
International chemicals	5,557,300	-	-	5,557,300
International equity funds	71,772,560	-	-	71,772,560
Total international equities	<u>77,329,860</u>	<u>-</u>	<u>-</u>	<u>77,329,860</u>
Commodities	<u>15,841,506</u>	<u>-</u>	<u>-</u>	<u>15,841,506</u>
Income investments	<u>32,904,750</u>	<u>-</u>	<u>-</u>	<u>32,904,750</u>

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

3. Fair Value Measurements and Investments, continued

	<u>Level 1</u> Quoted prices in active markets	<u>Level 2</u> Significant other observable inputs	<u>Level 3</u> Significant unobservable inputs	Total
<u>December 31, 2014, continued</u>				
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	<u>55,016,997</u>	<u>-</u>	<u>-</u>	<u>55,016,997</u>
International debt securities:				
International bond funds	<u>19,676,713</u>	<u>-</u>	<u>-</u>	<u>19,676,713</u>
Private equity: real estate fund	<u>-</u>	<u>-</u>	<u>14,084,689</u>	<u>14,084,689</u>
Liabilities:				
Covered calls	<u>(174,420)</u>	<u>-</u>	<u>-</u>	<u>(174,420)</u>
Total	<u>\$ 408,737,594</u>	<u>\$ -</u>	<u>\$ 14,084,689</u>	<u>\$ 422,822,283</u>
Contribution receivable from May Smith Trust	<u>\$ -</u>	<u>\$ 4,725,000</u>	<u>\$ -</u>	<u>\$ 4,725,000</u>

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

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, 2013:

	<u>Level 1</u> Quoted prices in active markets	<u>Level 2</u> Significant other observable inputs	<u>Level 3</u> Significant unobservable inputs	<u>Total</u>
<u>December 31, 2013</u>				
U.S. equity securities:				
U.S. common stocks:				
Aerospace/defense	\$ 16,892,590	\$ -	\$ -	\$ 16,892,590
Auto manufacturers	10,827,470	-	-	10,827,470
Auto parts and equipment	4,835,350	-	-	4,835,350
Banks	6,617,250	-	-	6,617,250
Chemicals	5,772,000	-	-	5,772,000
Computers	18,802,188	-	-	18,802,188
Diversified financial services	23,045,280	-	-	23,045,280
Healthcare services	5,487,200	-	-	5,487,200
Insurance	18,641,200	-	-	18,641,200
Internet	16,385,405	-	-	16,385,405
Media	5,196,500	-	-	5,196,500
Miscellaneous manufacturing	14,544,260	-	-	14,544,260
Oil and gas	12,727,040	-	-	12,727,040
Oil and gas services	11,309,170	-	-	11,309,170
Pharmaceuticals	20,304,240	-	-	20,304,240
Retail	9,742,600	-	-	9,742,600
Software	5,777,260	-	-	5,777,260
Total U.S. common stocks	<u>206,907,003</u>	<u>-</u>	<u>-</u>	<u>206,907,003</u>
International equities:				
International chemicals	5,619,600	-	-	5,619,600
International equity funds	69,126,210	-	-	69,126,210
International manufacturing	7,482,600	-	-	7,482,600
International oil and gas	5,146,200	-	-	5,146,200
Total international equities	<u>87,374,610</u>	<u>-</u>	<u>-</u>	<u>87,374,610</u>
Commodities	<u>15,519,104</u>	<u>-</u>	<u>-</u>	<u>15,519,104</u>
Income investments	<u>24,959,250</u>	<u>-</u>	<u>-</u>	<u>24,959,250</u>

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

3. Fair Value Measurements and Investments, continued

	<u>Level 1</u> Quoted prices in active markets	<u>Level 2</u> Significant other observable inputs	<u>Level 3</u> Significant unobservable inputs	Total
<u>December 31, 2013, continued</u>				
U.S. debt securities				
Bond funds - ETF	\$ 28,453,600	\$ -	\$ -	\$ 28,453,600
Mutual funds	25,265,035			25,265,035
Total U.S. debt securities	53,718,635	-	-	53,718,635
International debt securities				
International bond funds	19,852,842	-	-	19,852,842
Liabilities				
Covered calls	(91,692)	-	-	(91,692)
Total	\$ 408,239,752	\$ -	\$ -	\$ 408,239,752
Contribution receivable from May Smith Trust	\$ -	\$ 8,700,000	\$ -	\$ 8,700,000

The following table sets forth the changes (including the change in fair value) for investments classified within Level 3 of the fair value hierarchy for the year ended December 31, 2014:

	Private Equity Real Estate Fund
Fair value, beginning of year	\$ -
Purchases	17,279,323
Settlements	(3,750,959)
Unrealized gains	671,261
Realized loss	(114,936)
Fair value, end of year	\$ 14,084,689
Net unrealized gains included in the statement of activities for Level 3 investments held at end of year	\$ 671,261

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

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 table lists the investment in the real estate fund as of 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

Investments are presented in the financial statements at fair value. Net realized gains and losses on sales of securities are determined using the actual cost of the specific securities sold. The following reconciles the fair value of the Trust's investments at December 31, 2014 and 2013:

	2014	2013
Fair value, beginning of year	\$ 408,239,752	\$ 354,059,275
Purchases, at cost	135,624,385	212,441,736
Sales, at fair value	(136,884,246)	(219,029,401)
Net realized and unrealized gains on investments	15,842,392	61,756,812
Foreign exchange losses on investments	-	(988,670)
Fair value, end of year	<u>\$ 422,822,283</u>	<u>\$ 408,239,752</u>
Cost less bond amortization, end of year	<u>\$ 374,818,558</u>	<u>\$ 349,799,400</u>

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

3. Fair Value Measurements and Investments, continued

Investments in marketable securities at December 31, 2014 and 2013 are summarized as follows (in United States Dollars):

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<u>December 31, 2014</u>				
U.S. equity securities and other investments	\$ 224,162,140	\$ 55,964,748	\$ (9,153,755)	\$ 270,973,133
International equity securities	73,171,780	4,735,489	(577,409)	77,329,860
Total equity securities	<u>297,333,920</u>	<u>60,700,237</u>	<u>(9,731,164)</u>	<u>348,302,993</u>
U.S. debt securities	56,040,304	52,932	(1,076,239)	55,016,997
International debt securities	21,647,223	-	(1,970,510)	19,676,713
Total debt securities	<u>77,687,527</u>	<u>52,932</u>	<u>(3,046,749)</u>	<u>74,693,710</u>
Total investments	375,021,447	60,753,169	(12,777,913)	422,996,703
Covered calls	<u>(202,889)</u>	<u>44,576</u>	<u>(16,107)</u>	<u>(174,420)</u>
Investments, net	<u>\$ 374,818,558</u>	<u>\$ 60,797,745</u>	<u>\$ (12,794,020)</u>	<u>\$ 422,822,283</u>
<u>December 31, 2013</u>				
U.S. equity securities and other investments	\$ 193,461,103	\$ 60,806,051	\$ (6,881,797)	\$ 247,385,357
International equity securities	80,727,082	6,997,093	(349,565)	87,374,610
Total equity securities	<u>274,188,185</u>	<u>67,803,144</u>	<u>(7,231,362)</u>	<u>334,759,967</u>
U.S. debt securities	54,043,058	307,373	(631,796)	53,718,635
International debt securities	21,647,224	-	(1,794,382)	19,852,842
Total debt securities	<u>75,690,282</u>	<u>307,373</u>	<u>(2,426,178)</u>	<u>73,571,477</u>
Total investments	349,878,467	68,110,517	(9,657,540)	408,331,444
Covered calls	<u>(79,067)</u>	<u>27,566</u>	<u>(40,191)</u>	<u>(91,692)</u>
Investments, net	<u>\$ 349,799,400</u>	<u>\$ 68,138,083</u>	<u>\$ (9,697,731)</u>	<u>\$ 408,239,752</u>

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

3. Fair Value Measurements and Investments, continued

The Trust's investments in U.S. and international debt securities at December 31, 2014 and 2013 are summarized below:

<u>December 31, 2014</u>	<u>Cost</u>	<u>Fair value</u>
Bond funds	\$ 49,790,696	\$ 47,141,663
Mutual funds	27,896,831	27,552,047
	<u>\$ 77,687,527</u>	<u>\$ 74,693,710</u>
 <u>December 31, 2013</u>	 <u>Cost</u>	 <u>Fair value</u>
Bond funds	\$ 49,793,450	\$ 48,306,442
Mutual funds	25,896,831	25,265,035
	<u>\$ 75,690,281</u>	<u>\$ 73,571,477</u>

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.

The Trust received \$3,700,000 and \$450,000 in cash from the May Smith Trust during the years ended December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, \$4,725,000 and \$8,700,000, 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.

Contribution receivable at December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Contribution receivable, beginning of year	\$ 8,700,000	\$ 9,000,000
Cash received from the May Smith Trust	(3,700,000)	(450,000)
Net (decrease) increase in value of the May Smith Trust	<u>(275,000)</u>	<u>150,000</u>
Contribution receivable, end of year	<u>\$ 4,725,000</u>	<u>\$ 8,700,000</u>

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

5. Net Assets

Net assets on the statement 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, 2014 and 2013 are as follows:

	2014	2013
Contributed capital	\$ 135,970,395	\$ 135,970,395
Contributed capital from the May Smith Trust	61,652,486	57,952,486
Contribution receivable from the May Smith Trust	4,725,000	8,700,000
Net increase in value since inception of the Trust, net of grants and operating expenses	233,970,585	229,100,375
Total net assets - unrestricted	<u>\$ 436,318,466</u>	<u>\$ 431,723,256</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,

2015	<u>\$ 5,262,500</u>
------	---------------------

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 statement of activities as follows for the years ended December 31, 2014 and 2013:

	2014	2013
Realized gains from the sale of investments, net	\$ 26,279,019	\$ 13,528,051
Unrealized (losses) gains on investments held, net	<u>(10,436,627)</u>	<u>48,228,761</u>
Net realized and unrealized gains on investments	<u>\$ 15,842,392</u>	<u>\$ 61,756,812</u>

Continued

THE MAY AND STANLEY SMITH CHARITABLE TRUST

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014 and 2013

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. During the year ended December 31, 2013, a trustee of the Trust was the daughter of the co-owner of the company that provides investment management services to the Trust. The individual ceased being a co-owner as of December 31, 2013. The investment management company was paid fees in the amount of \$1,956,222 during the year ended December 31, 2013. The Trust had fees payable of \$521,905 due to the investment management company at December 31, 2013. For the year ended December 31, 2013, the investment management company was paid commissions in amount of \$156,208, which are included in the price of the securities.

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 \$1,285,000 and \$1,060,000 for the years ended December 31, 2014 and 2013, respectively. There were no fees due to the administrative services company at December 31, 2014 or 2013.

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 \$11,340 and \$9,140 for the years ended December 31, 2014 and 2013, respectively. There were no fees due to the accounting firm at December 31, 2014 or 2013.

The trustees were paid trustee fees of \$375,000 for the years ended December 31, 2014 and 2013, which are included under custodian and investment related expenses on the statement of activities and changes in net assets.

9. Subsequent Events

The Trust evaluated subsequent events for recognition and disclosure through June 8, 2015, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2014 that required recognition or disclosure in the financial statements.