

# Schwab Charitable Fund

Financial Statements as of and  
for the Years Ended June 30, 2017 and 2016,  
and Independent Auditors' Report



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Schwab Charitable Fund:

We have audited the accompanying financial statements of Schwab Charitable Fund (the "Fund"), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 audit 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 auditor's 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 Fund'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 Fund'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 Schwab Charitable Fund as of June 30, 2017 and 2016, 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.

*Deloitte & Touche LLP*

November 8, 2017

## SCHWAB CHARITABLE FUND

### STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2017 AND 2016

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	2017	2016
<b>ASSETS</b>		
CASH, CASH EQUIVALENTS AND SHORT-TERM SECURITIES	\$ 11,621,310	\$ 8,784,178
INVESTMENTS	10,614,598,460	8,051,948,785
RECEIVABLES	6,553,798	6,062,233
PREPAIDS AND OTHER ASSETS	<u>1,579,587</u>	<u>10,641,711</u>
TOTAL	<u>\$ 10,634,353,155</u>	<u>\$ 8,077,436,907</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Grants payable	\$ 11,701,674	\$ 15,036,679
Accounts payable and accrued liabilities	3,421,322	2,587,098
Related-party payable	<u>2,616,529</u>	<u>1,570,035</u>
Total liabilities	<u>17,739,525</u>	<u>19,193,812</u>
NET ASSETS - Unrestricted	<u>10,616,613,630</u>	<u>8,058,243,095</u>
TOTAL	<u>\$ 10,634,353,155</u>	<u>\$ 8,077,436,907</u>

See notes to financial statements.

## SCHWAB CHARITABLE FUND

### STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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	2017	2016
CHANGES IN NET ASSETS:		
Revenues and support:		
Donor contributions	\$ 3,079,955,600	\$ 1,923,849,375
Investment income	68,957,084	95,662,857
Net realized and unrealized gains(losses) on investments	<u>1,006,645,745</u>	<u>(281,563,304)</u>
Total revenues and support	<u>4,155,558,429</u>	<u>1,737,948,928</u>
Expenses:		
Grants to charitable organizations	1,565,163,847	1,171,832,217
Management, general, and program-related costs	<u>32,024,047</u>	<u>28,079,877</u>
Total expenses	<u>1,597,187,894</u>	<u>1,199,912,094</u>
INCREASE IN NET ASSETS - Unrestricted	2,558,370,535	538,036,834
NET ASSETS - Unrestricted		
Beginning of year	<u>8,058,243,095</u>	<u>7,520,206,261</u>
End of year	<u>\$ 10,616,613,630</u>	<u>\$ 8,058,243,095</u>

See notes to financial statements.

# SCHWAB CHARITABLE FUND

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
<b>OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 2,558,370,535	\$ 538,036,834
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Non-cash contributions of securities	(291,741,301)	(288,183,616)
Net realized and unrealized (gains)/losses on investments	(1,006,667,735)	281,563,304
Changes in operating assets and liabilities:		
Receivables	(1,054,580)	(360,541)
Prepays and other assets	462,124	(311,762)
Grants payable	(3,335,005)	9,230,948
Accounts payable and accrued liabilities	834,224	450,590
Related-party payable	1,046,494	311,832
	<u>1,257,914,756</u>	<u>540,737,589</u>
Net cash provided by operating activities		
<b>INVESTING ACTIVITIES:</b>		
Sales of investments	1,626,790,922	1,218,591,713
Purchases of investments	(2,890,468,546)	(1,746,483,894)
Advanced subscriptions for investments	8,600,000	(9,900,000)
	<u>(1,255,077,624)</u>	<u>(537,792,181)</u>
Net cash used in investing activities		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	2,837,132	2,945,408
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>8,784,178</u>	<u>5,838,770</u>
End of year	<u>\$ 11,621,310</u>	<u>\$ 8,784,178</u>
<b>SUPPLEMENTAL DISCLOSURE FOR NON-CASH INVESTING ACTIVITIES</b>		
Non-cash contributions of securities	<u>\$ 291,741,301</u>	<u>\$ 288,183,616</u>
Non-cash redemption and subscription of alternative investments	<u>\$ 135,262,120</u>	<u>\$ 271,112,153</u>
Change in redemption receivable	<u>\$ (563,015)</u>	<u>\$ 20,141,684</u>

See notes to financial statements.

# SCHWAB CHARITABLE FUND

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** — Schwab Charitable Fund (the “Fund”) is an independent, public charity established in California, to increase charitable giving in the United States of America by providing useful information, unbiased guidance, and advantageous ways to give. Between January 2011 and April 2014, all Fund employees became employees of Charles Schwab & Co., Inc. All of the former and new employees are seconded back to the Fund under the Fund’s direction and control.

**Basis of Presentation** — The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. The Fund had no temporarily restricted or permanently restricted net assets as of June 30, 2017 and 2016.

**Significant Estimates** — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and support, and expenses during the reporting period. Actual results could differ from these estimates. The Fund’s significant accounting estimate is the fair value of its alternative investments.

**Unrestricted Net Assets** — Unrestricted net assets represent unrestricted resources available to support the Fund’s operations.

**Temporarily Restricted Net Assets** — Temporarily restricted net assets represent contributions whose use is limited by donor-imposed stipulations that may expire by the passage of time. As of June 30, 2017 and 2016, there were no temporarily restricted net assets.

**Estimated Fair Value of Financial Instruments** — The carrying amounts of cash and cash equivalents, receivables, other assets, grants payable, accounts payable and related-party payable approximate fair value because of the short maturity of these items. Investments are reflected at estimated fair value as described below. The fair value of the note payable to related party disclosed in Note 4 is based on the present value of the expected future cash flows discounted by market rates for similar borrowings.

Instruments measured and reported at fair value are classified in one of the following categories based on inputs:

*Level I* — Quoted prices are available in active markets for identical instruments as of the reporting date. The type of instruments that would generally be included in Level I are publicly traded equity securities. As required by Accounting Standards Codification (ASC) 820 *Fair Value Measurements*, the Fund, to the extent that it holds such instruments, does not adjust the quoted price for these instruments, even in situations where the Fund holds a large position and a sale could reasonably impact the quoted price.

*Level II* — Pricing inputs are observable for instruments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. These inputs may include quoted prices for identical instruments on an inactive market or prices for similar instruments. The types of instruments included in this category are publicly traded fixed income securities and investment funds valued at net asset value redeemable in the near term. Fair value is determined using quoted prices in active markets for similar instruments as of the reporting date.

*Level III* — Pricing inputs are unobservable for the instruments and include situations where there is little, if any, market activity for the instrument. The inputs into determination of fair value require significant judgment or estimation by the Fund. The types of instruments, which would generally be included in this category, include investment funds, such as hedge funds, private equity funds, real estate funds, and venture capital funds, which are not readily marketable.

The Fund values these instruments in good faith at the Fund's pro rata interest in the net assets of these entities, as a practical expedient, at fair value based on information, including but not limited to, subscription documents, audited financial statements, investor statements, and fund manager reports provided by fund managers, general partners, and independent advisors. Considerable judgment is required to interpret the factors used by management to develop such estimates of fair value. Accordingly, it is possible that an entity's results may subsequently be adjusted and the adjustments may be material to the Fund. Because of the inherent uncertainty of valuations, the estimated values of instruments with fund managers may differ significantly from the values that would have been used had a ready market for the securities existed, and the difference could be material.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement. The Fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the instrument.

**Cash, Cash Equivalents and Short-Term Securities** — Cash and cash equivalents include cash and liquid investments with a maturity of three months or less at the date of purchase. Short-term securities have a maturity date less than a year. As of June 30, 2017, the Fund held \$1,742,854 and \$2,984,668 in cash equivalents and short-term securities, respectively. The holdings include Certificates of Deposit. There were no cash equivalents or short-term securities held on June 30, 2016.

**Investments** — Investments are reflected on the statements of financial position at fair value with changes in unrealized gains and losses resulting from changes in fair value reflected in the statements of activities and changes in net assets as part of net realized and unrealized gains (losses) on investments.

Marketable securities listed on a national or international securities exchange or marketable securities traded in the over-the-counter market for which there is a last sale price available are classified as Level I and are reported at the market closing price as determined in good faith by the Fund.

Nonmarketable securities and other investments are reported at fair value based upon information provided by the underlying portfolio funds' managers or their respective general partners, and reflect the Fund's pro rata share of the fair value of the net assets of the investment fund. If the Fund determines, based on information provided by the management of such investment fund and its own

due diligence and investment valuation procedures, that the valuation for any investment fund does not represent fair value, the Fund will estimate the fair value of the investee fund in good faith and in a manner that the Fund reasonably chooses.

The Fund reviews the investment funds' audited financial statements annually. The Fund also performs ongoing due diligence procedures on each of the investment funds which includes periodic communications with the general partners and managers of the funds.

Investments received through gifts are recorded at estimated fair value at the date of donation.

Realized gains and losses resulting from sales of investments are calculated on an adjusted cost based on the trade date for publicly traded investments or upon closing of the transaction for other investments. Dividend and interest income are accrued when earned.

**Receivables** — As of June 30, 2017 and 2016, receivables included redemptions of \$1,705,576 and \$2,268,591 that were requested by the Fund and approved by the general partners of certain alternative investments during the year ended June 30, 2017 and 2016, but not deposited by the Fund until July 1, 2017 and 2016.

**Prepaid and Other Assets** — Prepaid and other assets may include advanced subscriptions that were deposited in hedge funds during the year ended June 30, but not credited to the Fund until July 1. There were advanced subscriptions of \$1,300,000 as of June 30, 2017 and \$9,990,000 as of June 30, 2016.

**Revenue Recognition** — Contributions are recognized as revenue when received or unconditionally promised. The Fund reports contributions as restricted support if such contributions are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

All contributions are subject to the variance power established by the Fund's formal contribution agreements. This variance power provides the Fund's board of directors with the ability to modify donor stipulations that are incapable of fulfillment or inconsistent with the charitable needs of the community. As a result of this variance power, these contributions are classified as unrestricted for financial statement purposes.

Contributions of services are recognized when received if such services (a) enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. The value of contributed services recognized as in-kind contributions in the accompanying statements of activities and changes in net assets was \$1,867,062 and \$1,153,495 for the years ended June 30, 2017 and 2016, respectively, which consisted primarily of professional services and administration costs.

Contributions of securities are recognized at fair value on the date received from the donor and recorded as donor contributions in the accompanying statements of activities and changes in net assets. Contributions of securities are classified as operating cash flows in the statements of cash flows. Contributed securities not liquidated at year-end are treated as non-cash contributions of securities on the statements of cash flows.

**Grants** — Grants are recognized when the unconditional promise to give is approved by the Fund. Grants payable of \$11,701,674 and \$15,036,679 as of June 30, 2017 and 2016, respectively, are payable within one year.

**Exemption from Taxes** — The Fund has been classified as a tax-exempt organization that is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code and from California income taxes under Revenue and Taxation Code Section 23701(d).

**New Accounting Pronouncements** — In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. The amendments are intended to improve the guidance on net asset classification as well as the information presented in the financial statements and financial statement notes regarding liquidity, financial performance, and cash flows for Not-for-Profits. Specifically, the ASU addresses (1) the complexity and understandability of net asset classifications, (2) the lack of consistency in the type of information provided about expenses, and (3) inconsistencies in the reporting of a) operating information in the statement of activities and (b) operating cash flows in the statement of cash flows. The ASU's amendments are effective for fiscal years beginning after December 15, 2017 and for interim periods within fiscal years beginning after December 15, 2018 and early adoption is permitted. The Fund has not adopted this guidance but is evaluating the impact of ASU 2016-14 on future reporting periods.

**Subsequent Events** — The Fund evaluated subsequent events through November 8, 2017, the date these financial statements were available to be issued. No material events or transactions have occurred that would require recognition or disclosure in these financial statements.

## 2. FAIR VALUE MEASUREMENTS

As of June 30, 2017 and 2016, the Fund's investments, by fair value hierarchy levels, are summarized as follows:

Fair Value Measurements as of June 30, 2017				
	Total	Level I	Level II	Level III
Short-term investment funds	\$ 1,371,652,101	\$ 1,371,652,101	\$ -	\$ -
Equities	3,663,453,004	3,663,453,004	-	-
Index funds	1,959,280,073	1,959,280,073	-	-
Fixed income funds	1,398,491,696	1,398,491,696	-	-
Fixed income securities	637,847,397	-	637,847,397	-
Other	4,771,404	4,771,404	-	-
Alternative investments:				
Hedge funds	1,392,948,804	-	-	-
Private equity	186,153,981	-	-	-
Total investments	<u>\$ 10,614,598,460</u>	<u>\$ 8,397,648,278</u>	<u>\$ 637,847,397</u>	<u>\$ -</u>

Fair Value Measurements as of June 30, 2016				
	Total	Level I	Level II	Level III
Short-term investment funds	\$ 1,118,899,215	\$ 1,118,899,215	\$ -	\$ -
Equities	\$ 2,767,677,390	2,767,677,390	-	-
Index funds	\$ 1,385,768,917	1,385,768,917	-	-
Fixed income funds	\$ 981,899,632	981,899,632	-	-
Fixed income securities	\$ 327,638,042	-	327,638,042	-
Other	\$ 6,397,641	6,397,641	-	-
Alternative investments:				
Hedge funds	\$ 1,276,808,984	-	-	-
Private equity	\$ 186,858,964	-	-	-
Private debt	\$ -	-	-	-
Total investments	<u>\$ 8,051,948,785</u>	<u>\$ 6,260,642,795</u>	<u>\$ 327,638,042</u>	<u>\$ -</u>

**Alternative Investment Strategy and Redemption Information** — The private equity portion of the alternative investment portfolio has unfunded commitments of \$249,772,045 and \$55,796,610 as of June 30, 2017 and 2016 under the associated investment agreements to make additional capital contributions.

Non-cash redemption and subscription of alternative investments represents internal transfers in the Fund's alternative investment portfolio of \$135,262,120 and \$271,112,153 for the years ended June 30, 2017 and 2016.

Hedge funds invest both short and long in global debt and equity securities and may use leverage to enhance returns. The funds have the ability to use derivatives to hedge risk or implement investment strategy. Redemptions from some funds may be delayed in certain instances by fund level limits on redemptions (“gates”) or the presence of illiquid assets in the funds (“side pockets”). The fair values of the investments in this category have been determined using the net asset value per share of the investment funds.

The private equity category includes funds that invest in a broad range of privately owned, domestic and foreign companies and real property. The nature of these funds is that distributions are received through the liquidation of the underlying assets of the funds. Real asset, energy and power funds represent approximately 29% of the category and invest in sustainable timberlands, energy and the power industry. Distressed investment funds represent about 9% of the category and invest in debt and equity securities in various levels of financial distress. Real estate funds represent about 25% of this category and invest in real property and real estate-related companies worldwide. Venture capital represents approximately 24% of the category and primarily invests in small domestic companies that represent emerging technologies. Buy-out funds make-up the balance of the category and typically invest in companies across a range of industries. The investment periods for these funds typically range from five to six years and the managers will generally strive to liquidate the entire fund within ten years. Funds can typically extend their time to liquidate by two to three additional years if deemed necessary. The fair values of the investments in this category have been determined using the Fund's interest in the private equity funds' net asset value.

### **3. RELATED-PARTY TRANSACTIONS**

The Fund has an Administrative Service Agreement with Charles Schwab & Co., Inc. that provides personnel, facilities and technology. Administrative service fees paid to Charles Schwab & Co., Inc. were \$1,088,668 and \$1,169,504 for the years ended June 30, 2017 and 2016, respectively. In-kind contributions of professional services, occupancy, and administration costs received from Charles Schwab & Co., Inc. were \$1,867,062 and \$1,153,495 for the years ended June 30, 2017 and 2016, respectively (see Note 1).

On July 8, 1999, the Fund entered into an interest-free, revolving promissory note agreement (the “Note”) with The Charles Schwab Corporation, with the unpaid principal balance payable when the Fund, at its discretion and in good faith, determines that it is able to do so. The principal borrowings outstanding on the Note were \$0 as of June 30, 2017 and 2016, respectively. On July 31, 2012, the Note was amended, extending the maturity date to July 31, 2014, and decreasing the maximum

principal borrowings from \$7,550,000 to \$6,800,000. On July 31, 2014, the Note was amended again, extending the maturity date to July 31, 2017 and decreasing the maximum principal borrowings from \$6,800,000 to \$3,500,000. On July 31, 2017, the Note was amended again, extending the maturity date to July 31, 2020 and striking the maximum principal borrowings.

The Fund recorded no interest expense for the years ended June 30, 2017 and 2016, respectively. The estimated fair value of the note payable to the related party was \$0 as of June 30, 2017 and 2016.

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