

Schwab Charitable Fund

Financial Statements as of and
for the Years Ended June 30, 2020 and 2019,
and Independent Auditors' Report

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, 2020 and 2019, 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, 2020 and 2019, 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 13, 2020

SCHWAB CHARITABLE FUND

STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Cash and Cash Equivalents	\$ 18,637,738	\$ 10,043,866
Investments	17,116,359,559	15,219,611,881
Receivables	11,213,000	81,151,370
Prepays and Other Assets	<u>11,587,183</u>	<u>6,022,927</u>
TOTAL	<u>\$ 17,157,797,480</u>	<u>\$ 15,316,830,044</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Grants payable	\$ 16,244,570	\$ 98,055,603
Accounts payable and accrued liabilities	6,234,099	5,140,762
Related-party payable	<u>3,747,104</u>	<u>2,641,844</u>
Total liabilities	<u>26,225,773</u>	<u>105,838,209</u>
NET ASSETS - Without Donor Restrictions	<u>17,131,571,707</u>	<u>15,210,991,835</u>
TOTAL	<u>\$ 17,157,797,480</u>	<u>\$ 15,316,830,044</u>

See notes to financial statements.

SCHWAB CHARITABLE FUND

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CHANGES IN NET ASSETS:		
Revenues and support:		
Donor contributions	\$ 4,729,102,432	\$ 4,367,044,568
Investment income	158,400,812	193,620,725
Net realized and unrealized gains(losses) on investments	<u>388,616,210</u>	<u>281,246,998</u>
Total revenues and support	<u>5,276,119,454</u>	<u>4,841,912,291</u>
Expenses:		
Grants to charitable organizations	3,297,355,695	2,478,188,431
Management and general expenses	4,096,261	2,612,310
Program expenses	48,326,544	39,642,013
Fundraising expenses	<u>5,761,082</u>	<u>6,006,554</u>
Total expenses	<u>3,355,539,582</u>	<u>2,526,449,308</u>
INCREASE IN NET ASSETS - Without Donor Restrictions	1,920,579,872	2,315,462,983
NET ASSETS - Without Donor Restrictions		
Beginning of year	<u>15,210,991,835</u>	<u>12,895,528,852</u>
End of year	<u>\$ 17,131,571,707</u>	<u>\$ 15,210,991,835</u>

See notes to financial statements.

SCHWAB CHARITABLE FUND

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,920,579,872	\$ 2,315,462,983
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Non-cash contributions of securities	(304,370,079)	(724,405,522)
Net realized and unrealized (gains)/losses on investments	(388,616,210)	(281,246,998)
Changes in operating assets and liabilities:		
Receivables	(1,240,927)	(1,125,851)
Prepays and other assets	(5,564,256)	(3,472,500)
Grants payable	(81,811,033)	88,648,151
Accounts payable and accrued liabilities	1,093,337	950,836
Related-party payable	1,105,260	(1,097,719)
	<u>1,141,175,964</u>	<u>1,393,713,380</u>
Net cash provided by operating activities		
INVESTING ACTIVITIES:		
Sales of investments	4,121,039,382	2,472,306,137
Purchases of investments	(5,253,621,474)	(3,865,998,600)
Advanced subscriptions for investments	-	-
	<u>(1,132,582,092)</u>	<u>(1,393,692,463)</u>
Net cash used in investing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	8,593,872	20,917
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>10,043,866</u>	<u>10,022,949</u>
End of year	<u>\$ 18,637,738</u>	<u>\$ 10,043,866</u>
SUPPLEMENTAL DISCLOSURE FOR NON-CASH INVESTING ACTIVITIES		
Non-cash contributions of securities	<u>\$ 304,370,079</u>	<u>\$ 724,405,524</u>
Non-cash redemption and subscription of alternative investments	<u>\$ 453,914,888</u>	<u>\$ 43,267,822</u>
Change in redemption receivable	<u>\$ (71,089,288)</u>	<u>\$ 66,740,777</u>

See notes to financial statements.

SCHWAB CHARITABLE FUND

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

1. ORGANIZATION

Schwab Charitable Fund (the “Fund”) is an independent, public charity established in California, with a mission to increase charitable giving in the United States of America by providing useful information, unbiased guidance, and advantageous ways to give. Charles Schwab & Co., Inc. provides administrative and back-office services as necessary to administer and maintain all of the donor-advised accounts of the Fund. All Fund employees are employed by Charles Schwab & Co., Inc. and are seconded back to the Fund under the Fund’s direction and control.

2. RELATED-PARTY TRANSACTIONS

The Fund has an Administrative Service Agreement with Charles Schwab & Co., Inc. that provides personnel, facilities and technology. Administrative service fees incurred to Charles Schwab & Co., Inc. were \$2,456,451 and \$2,112,554 for the years ended June 30, 2020 and 2019, respectively. These fees are included in the three functional expense categories (Management, Program and Fundraising) on the Statement of Activities and Changes in Net Assets. See “Functional Allocation of Expenses” in Note 3 for details of allocation.

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 were \$2,426,335 and \$2,154,884 for the years ended June 30, 2020 and 2019, respectively, which consisted primarily of professional services, occupancy and administration costs received from Charles Schwab & Co. These amounts are included in Donor Contributions on the accompanying Statements of Activities and Changes in Net Assets.

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, 2020 and 2019, respectively. The note has a maturity date of July 31, 2023.

3. ACCOUNTING POLICIES

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 net assets with donor restrictions and net assets without donor restrictions. Net assets without donor restrictions represent unrestricted resources available to support the Fund’s operations. Net assets with donor restrictions represent contributions whose use is limited by donor-imposed stipulations. The Fund had no net assets with donor restrictions as of June 30, 2020 and 2019.

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.

Functional Allocation of Expenses — Expenses are allocated on a functional basis among its various programs and support services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, head count, and estimates made by management.

Revenue Recognition — All gifts are subject to acceptance by the Fund. Contributions are recognized as revenue when received or unconditionally promised.

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 as an expense when the unconditional promise to give is approved by the Fund. Grants payable represents grant amounts which the Fund has approved and is in the process of making payment. Grants payable of \$16,244,570 and \$98,055,603 as of June 30, 2020 and 2019, respectively, are payable within one year.

Cash and Cash Equivalents — Cash and cash equivalents include cash and liquid investments with a maturity of three months or less at the date of purchase. The Fund held cash equivalents in the amount of \$4,239,534 and \$1,746,006 as of June 30, 2020 and 2019, respectively.

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.

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 on the statements of financial position at fair value which includes unrealized gains and losses on investments.

The Fund values investments at the last reported sale price or official closing price as reported by an independent pricing service on the primary market or exchange on which the investments are traded. The Fund discloses the fair value of its investments in a hierarchy that prioritizes 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).

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 did not estimate the fair value of any investments in the years ending June 30, 2020 and 2019. 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.

Instruments measured and reported at fair value are classified in one of the following hierarchy levels 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.

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. 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.

Receivables — As of June 30, 2020 and 2019, receivables included redemptions of \$2,847,513 and \$73,936,801 that were requested by the Fund and approved by the general partners of certain alternative investments during the year ended June 30, 2020 and 2019, but not deposited by the Fund until July 1, 2020 and 2019, respectively.

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 no advanced subscriptions as of June 30, 2020 and 2019, respectively.

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).

Subsequent Events — The Fund evaluated subsequent events through November 13, 2020, 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.

4. FAIR VALUE MEASUREMENTS

As of June 30, 2020 and 2019, the Fund's investments, by fair value hierarchy levels, are summarized as follows:

Fair Value Measurements as of June 30, 2020				
	Total	Level I	Level II	Level III
Short-term investment funds	\$ 2,925,288,101	\$ 2,925,288,101	\$ -	\$ -
Equities	5,983,464,175	5,983,464,175	-	-
Fixed income funds	1,638,929,766	1,638,929,766	-	-
Mutual Funds	2,676,157,931	2,676,157,931	-	-
ETF	980,282,415	980,282,415	-	-
Fixed income securities	621,595,864	-	621,595,864	-
Other	13,161,900	13,161,900	-	-
Alternative investments:				
Hedge funds	1,751,477,321	-	-	-
Private equity	524,502,086	-	-	-
Private debt	1,500,000	-	-	-
Total investments	<u>\$ 17,116,359,559</u>	<u>\$ 14,217,284,288</u>	<u>\$ 621,595,864</u>	<u>\$ -</u>

Fair Value Measurements as of June 30, 2019				
	Total	Level I	Level II	Level III
Short-term investment funds	\$ 2,177,621,021	\$ 2,177,621,021	\$ -	\$ -
Equities	5,189,337,114	5,189,337,114	-	-
Fixed income funds	1,332,937,019	1,332,937,019	-	-
Mutual Funds	2,801,787,779	2,801,787,779	-	-
ETF	756,323,679	756,323,679	-	-
Fixed income securities	644,106,563	-	644,106,563	-
Other	16,151,740	16,151,740	-	-
Alternative investments:				
Hedge funds	1,844,149,109	-	-	-
Private equity	455,197,857	-	-	-
Private debt	2,000,000	-	-	-
Total investments	<u>\$ 15,219,611,881</u>	<u>\$ 12,274,158,352</u>	<u>\$ 644,106,563</u>	<u>\$ -</u>

Please see next page for additional notes regarding Alternative Investments.

Alternative Investment Strategy and Redemption Information — The private equity portion of the alternative investment portfolio has unfunded commitments of \$261,027,463 and \$290,221,980 as of June 30, 2020 and 2019 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 \$453,914,888 and \$43,267,822 for the years ended June 30, 2020 and 2019.

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 18% of the category and invest in sustainable timberlands, energy and the power industry. Distressed investment funds represent about 3% of the category and invest in debt and equity securities in various levels of financial distress. Real estate funds represent about 17% of this category and invest in real property and real estate-related companies worldwide. Venture capital represents approximately 30% 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.

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