THE HEISING-SIMONS FOUNDATION
(A NONPROFIT ORGANIZATION)

DECEMBER 31, 2014 AND 2013

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

The Heising-Simons Foundation
(A Nonprofit Organization)

Independent Auditors' Report and Financial Statements

HOOD & STRONG LLP

CERTIFIED PUBLIC ACCOUNTANTS

Consultants and

Business Advisors

100 First Street

14th Floor

San Francisco

CA 94105

415.781.0793

fax 415.421.2976

60 South Market Street

Suite 200

San Jose

CA 95113

408.998.8400

fax 408.998.8485

Independent Auditors' Report

THE BOARD OF DIRECTORS
THE HEISING-SIMONS FOUNDATION
Los Altos, California

Report on the Financial Statements

We have audited the accompanying financial statements of **THE HEISING-SIMONS FOUNDATION (the Foundation)** which comprise the statement of financial position 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 audit to obtain reasonable assurance about whether the financial statements are free of 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 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 Heising-Simons Foundation as of December 31, 2014 and 2013, and the results of its activities and changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

San Francisco, California
October 21, 2015

The Heising-Simons Foundation
(A Nonprofit Organization)

Statement of Financial Position

December 31,	2014	2013
Assets		
Cash and equivalents	$ 21,113,592	$ 39,568,460
Investments - at fair value	202,871,335	197,259,093
Investments in transit	77,000,000	31,599,322
Prepaid expenses	103,063	23,562
Prepaid excise taxes	58,293	191,492
Leasehold improvements and equipment, net of accumulated depreciation	1,482,072	57,337
Security deposits	84,500	4,500
Total assets	$ 302,712,855	$ 268,703,766
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 787,506	$ 76,387
Deferred excise taxes payable	1,744,000	1,222,000
Grants payable - net of discounts	25,682,214	16,586,578
Total liabilities	28,213,720	17,884,965
Net Assets:		
Unrestricted	274,499,135	249,818,801
Temporarily restricted	-	1,000,000
Total net assets	274,499,135	250,818,801
Total liabilities and net assets	$ 302,712,855	$ 268,703,766

See accompanying notes to financial statements.

The Heising-Simons Foundation
(A Nonprofit Organization)

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2014 (with comparative totals for 2013)

	2014			
	Unrestricted	Temporarily Restricted	Total	2013 Total
Revenues and Support:				
Contributions	$ 9,500,000	$ -	$ 9,500,000	$ 25,686,712
Investment income:				
Net realized gains on investments	29,346,267	-	29,346,267	19,477,022
Net unrealized gains on investments	26,081,169	-	26,081,169	17,600,370
Interest and dividend income	2,630	-	2,630	2,157
Net investment income before federal excise taxes	55,430,066	-	55,430,066	37,079,549
Federal excise tax expense	660,310		660,310	742,000
Total revenues and support	64,269,756	-	64,269,756	62,024,261
Net Assets Released from Restrictions	1,000,000	(1,000,000)	-	-
Expenses:				
Program services:				
Grants to charitable organizations	37,200,381	-	37,200,381	22,782,085
Other program expenses	1,571,160		1,571,160	572,863
Total program services	38,771,541	-	38,771,541	23,354,948
Management and general	1,817,881	-	1,817,881	1,205,532
Total expenses	40,589,422	-	40,589,422	24,560,480
Increase (Decrease) in Net Assets	24,680,334	(1,000,000)	23,680,334	37,463,781
Net Assets - beginning of year	249,818,801	1,000,000	250,818,801	213,355,020
Net Assets - end of year	$ 274,499,135	$ -	$ 274,499,135	$ 250,818,801

See accompanying notes to financial statements.

The Heising-Simons Foundation
(A Nonprofit Organization)

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
Revenues and Support:			
Contributions	$ 24,686,712	$ 1,000,000	$ 25,686,712
Investment income:			
Net realized gains on investments	19,477,022	-	19,477,022
Net unrealized gains on investments	17,600,370	-	17,600,370
Interest and dividend income	2,157	-	2,157
Net investment income before federal excise taxes	37,079,549	-	37,079,549
Federal excise tax expense	742,000		742,000
Total revenues and support	61,024,261	1,000,000	62,024,261
Net Assets Released from Restrictions	1,000,000	(1,000,000)	-
Expenses:			
Program services:			
Grants to charitable organizations	22,782,085	-	22,782,085
Other program expenses	572,863		572,863
Total program services	23,354,948	-	23,354,948
Management and general	1,205,532	-	1,205,532
Total expenses	24,560,480	-	24,560,480
Increase in Net Assets	37,463,781	-	37,463,781
Net Assets - beginning of year	212,355,020	1,000,000	213,355,020
Net Assets - end of year	$ 249,818,801	$ 1,000,000	$ 250,818,801

See accompanying notes to financial statements.

The Heising-Simons Foundation

(A Nonprofit Organization)

Statement of Cash Flows

Year Ended December 31,	2014	2013
Cash Flows from Operating Activities:		
Increase in net assets	$ 23,680,334	$ 37,463,781
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	14,027	10,745
Loss on disposal of equipment	550	
Net realized gains on investments	(29,346,267)	(19,477,022)
Net unrealized gains on investments	(26,081,169)	(17,600,370)
Grants payable discount	33,738	(23,965)
Changes in:		
Prepaid expenses	(79,501)	(5,176)
Prepaid excise taxes	133,199	(191,492)
Security deposits	(80,000)	-
Accounts payable and accrued expenses	93,857	43,191
Federal excise taxes payable	522,000	352,000
Grants payable	9,061,898	(3,639,667)
Net cash used by operating activities	(22,047,334)	(3,067,975)
Cash Flows from Investing Activities:		
Purchases of leasehold improvements and equipment	(822,050)	(21,632)
Investments in transit	(45,400,678)	(19,107,277)
Proceeds from sale of investments	99,980,193	76,308,607
Purchases of investments	(50,164,999)	(25,000,000)
Net cash provided by investing activities	3,592,466	32,179,698
Net (Decrease) Increase in Cash and Equivalents	(18,454,868)	29,111,723
Cash and Equivalents, beginning of year	39,568,460	10,456,737
Cash and Equivalents, end of year	$ 21,113,592	$ 39,568,460
Supplemental Disclosure:		
Federal excise taxes paid	$ -	$ 581,492
Capital expenditures included in accounts payable and accrued expenses	$ 617,262	$ -

See accompanying notes to financial statements.

Note 1 - Description of Foundation:

The Heising-Simons Foundation (the "Foundation") was organized in 2007 under the Nonprofit Public Benefit Corporation Law for charitable purposes. The specific charitable focus of the Foundation is to make grants dedicated to sustainable, research-based solutions in education, environment, science, and policy.

Note 2 - Significant Accounting Policies:

a. Method of Accounting

The accounts of the Foundation are maintained on the accrual basis of accounting as determined using accounting principles generally accepted in the United States of America (U.S. GAAP).

b. Basis of Presentation

The Foundation's financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Unrestricted net assets represent unrestricted resources available to support the Foundation's operations and temporarily restricted resources, which become available for use by the Foundation in accordance with the intentions of donors.

Temporarily restricted net assets represent contributions that are limited in use by the Foundation in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Foundation according to the terms of the contribution. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the Foundation classifies the support as unrestricted. Temporarily restricted net assets at December 31, 2013 and net assets released for the years ended December 31, 2014 and 2013 were to support grants for early math education and research. The Foundation has no temporarily restricted net assets at December 31, 2014.

Permanently restricted net assets represent contributions to be held as investments in perpetuity as directed by the donor. The Foundation has no permanently restricted net assets.

c. Cash and Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents principally include cash in banks and money market funds except those held for investment purposes.

d. Investments

Investments are reported at fair value. Changes in fair values as well as realized gains and losses are reflected in the statement of activities and changes in net assets. Certain investments are valued at the net asset value per unit or percentage of ownership as reported by the investment funds in which the Foundation is invested.

e. Fair Value Measurements

The Foundation 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 Foundation reports certain investments using the Net Asset Value (NAV) per share as determined by the investment funds in which the Foundation is invested 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.

Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 reporting depending on lock up and notice periods associated with the underlying investment funds. The Foundation classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 - Inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2 - Observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability that are not corroborated by market data.

f. Fair Value of Financial Instruments

The estimated fair value of the Foundation's financial instruments not measured at fair value on a recurring basis (including receivables, accounts payable, accrued expenses and grants payable) approximates their carrying values due to their short length to maturity.

g. Investments in Transit

Investments in transit consist of funds that are in the process of being liquidated from or transferred to investment accounts.

h. Leasehold Improvements and Equipment

Leasehold improvements and equipment are stated at cost. Leasehold improvements comprised a majority of the balance at December 31, 2014. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or lease term, whichever is shorter. Useful lives range from five to ten years. Depreciation expense for the years ended December 31, 2014 and 2013 totaled $14,027 and $10,745, respectively. Depreciation of the leasehold improvements did not begin until 2015.

Renewals and betterments that amend the economic useful lives of the related assets are capitalized. The Foundation expenses, as incurred, other expenditures for repairs and maintenance.

i. Contribution Revenue Recognition

Contributions are generally recognized as revenue when received or unconditionally promised. Contributions of assets other than cash are recorded at their estimated fair value.

j. Tax Status

The Foundation is a nonprofit organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and Section 23701d of the Revenue and Taxation Code of the State of California. The Foundation has been determined by the Internal Revenue Service to be a private foundation within the meaning of Section 509(a) of the Code. The Foundation is subject to federal excise taxes based on net investment income as defined in the Tax Reform Act of 1969. Deferred taxes are recorded on the unrealized gain on investments. In addition, the Foundation could be subject to tax on unrelated business income, if any, generated by its investments.

The Foundation follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740 for accounting for uncertainty in income taxes. Management evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements.

k. Grant Expense

Grant expense consists of grants made to various other charitable organizations as determined by the Foundation's Board of Directors and are recorded when commitments have been formally approved.

l. Grants Payable

The Foundation recognizes grants payable for unconditional promises to give and conditional promises to give when the possibility of not meeting the condition is remote. Grants payable are recorded at a discounted rate if they will extend beyond one year from the date of commitment. Discounts are amortized as grant expense over the life of the grant commitment.

m. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

n. Concentrations of Risk

Financial instruments, which potentially subject the Foundation to concentrations of credit and other risks, consist of cash and equivalents and investments. The Foundation's investments are exposed to various risks, such as interest rate, market fluctuations and credit risks.

Cash is transferred to operating accounts as needed, the balances of which may exceed FDIC insured limits.

o. Reclassifications

Certain reclassifications have been made to the 2013 financial statements in order to conform to the 2014 presentation. These reclassifications had no impact on net assets or changes in net assets.

p. Recent Accounting Pronouncements

Pronouncements effective in the future

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in this Update apply to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. Under Topic 820, a reporting entity is permitted, as a practical expedient, to estimate the fair value of certain investments using those investments' NAV per share. Prior to ASU 2015-07, these investments were categorized in the fair value hierarchy based on whether the investment was redeemable with the investee at net asset value on measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. These criteria were different from the criteria used for all other investments. All other investments are categorized based on inputs to the fair value.

To alleviate inconsistencies in the categorization of investments within the hierarchy, ASU 2015-07 removes the requirement to categorize all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also clarify that certain disclosure requirements are limited to investments for which the entity has elected to measure fair value using that practical expedient, and not all investments eligible to be measured at fair value using the practical expedient. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2016, for non public entities, however early application is permitted. The Foundation is currently evaluating the impact of this pronouncement on its financial statements.

q. Subsequent Events

The Foundation evaluated subsequent events from December 31, 2014 through October 21, 2015, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements, except as disclosed in Notes 3 and 6.

Note 3 - Investments:

The Foundation uses the Net Asset Value (NAV) to determine the fair value of all the investments which do not have readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The following table lists investments valued at NAV, which were all funds and investments held at December 31, 2014 and 2013.

	Redemption	Notice Period (days)	Fair Value Level	2014 Fair Value	2013 Fair Value
Medallion Capital Investments, Ltd.	Quarterly	10	2	$ 103,393,536	$ 56,907,514
Blackstone Partners Offshore Fund, Ltd.	Semi-annual	95	3	59,352,535	115,280,789
Overland Relative Value Fund, Ltd.	Quarterly	60	2	24,225,543	25,070,790
Bluestem Partners, LP	Annually	90	3	15,763,028	
Madrigal Foundation Funds, LP	Semi-annual	120	3	136,693	
				$ 202,871,335	$ 197,259,093

The investments above in Medallion, a Bermuda exempted company, Blackstone, a Cayman Islands exempted company, Overland, a Cayman Islands exempted company, and Bluestem, a Delaware limited partnership, do not have lockup periods. The investment in Madrigal, a Delaware limited partnership, is subject to a thirty-six month lockup period. The Foundation redeemed a substantial portion of its investments in Blackstone, Overland, and Bluestem, effective as of December 31, 2014, and transferred to Madrigal the remainder of its investments in those investments, effective January 1, 2015, in satisfaction of a portion of the Foundation's capital commitment to Madrigal. After the transfer occurred, the remaining commitment to Madrigal is $74,835,000.

Each of Medallion, Blackstone, and Overland are in separate master/feeder structures designed to permit entities with qualified U.S. taxable investors and entities with both U.S. tax-exempt and non-U.S. investors to participate in a professionally managed investment program by investing in a diverse portfolio facilitated through their investments in several other investment funds (collectively referred to as "master funds").

The Medallion and Overland master fund investment portfolios consist principally of readily marketable securities, which are valued at quoted market prices. Blackstone and Bluestem are so-called "funds of hedge funds." The Blackstone master fund investment portfolio and the Bluestem investment portfolio consist primarily of investments in hedge funds, whose underlying portfolios consist primarily of readily marketable securities. Madrigal also is a fund of hedge funds whose portfolio consist principally of investments in hedge funds and other funds of hedge funds.

The following is a roll-forward of the Level 3 assets for the year ended December 31, 2014:

	Blackstone	Bluestem	Madrigal	2014
Balance, beginning of year	$115,280,789	$ -0-	$ -0-	$115,280,789
Distributions	(63,000,000)	(14,000,000)		(77,000,000)
Purchases		25,000,000	$ 165,000	25,165,000
Total realized gain	9,152,752	137,653		9,290,405
Total unrealized (loss)/gain	(2,081,006)	4,625,375	(28,307)	2,516,062
Balance, end of year	$ 59,352,535	$ 15,763,028	$ 136,693	$ 75,252,256

The following is a roll-forward of the Level 3 assets for the year ended December 31, 2013:

		Blackstone
Balance, beginning of year	$	104,552,457
Total unrealized gain		10,728,332
Balance, end of year	$	115,280,789

Note 4 - Grants Payable:

The Foundation's Board of Directors authorizes certain grants to charitable organizations to be paid over multiple years. The Foundation has several grants with a contingent matching amount for a total of $1,400,000 which are not included in Grants Payable at December 31, 2014. Grants payable at December 31, 2014 are scheduled to be paid in the following years:

Year ending December 31	
2015	$ 20,349,101
2016	3,987,095
2017	1,211,025
2018	446,700
Less discounts	311,707
	$ 25,682,214

At December 31, 2013, grants payable was $16,586,578 net of discounts of $345,443.

Note 5 - Excise Taxes:

In accordance with applicable Treasury regulations, the Foundation is classified as a private foundation subject to an excise tax of two percent on net investment income, including realized gains. The Foundation is eligible to reduce its tax liability from two percent to one percent of net investment income if a certain level of distributions, calculated as defined in the Treasury regulations, is attained. The Foundation utilized one percent (1%) and two percent (2%) for the 2014 and 2013 current calculations, respectively. A rate of two percent (2%) was used for the deferred tax calculations.

Tax regulations require that certain minimum distributions be made in accordance with a specified formula. The Foundation is in full compliance with the regulations.

The provision for current and deferred excise taxes is as follows:

	December 31, 2014	December 31, 2013
Current excise tax	$ 138,310	$ 390,000
Deferred excise tax	522,000	352,000
Total	$ 660,310	$ 742,000

Note 6 - Commitments:

The Foundation has a month-to-month operating lease for approximately 2,040 square feet of office space in Los Altos, California. Rent expense for the years ended December 31, 2014 and 2013 were $73,440 and $55,620, respectively.

During 2014, the Foundation engaged in an operating lease for 11,117 square feet of office space in Los Altos for twelve years. Minimum future rental payments under the new lease are estimated as follows: $502,500 in 2015, $770,700 in 2016, $793,800 in 2017, $817,600 in 2018, $842,200 in 2019, and $6,907,400 total thereafter.

The Foundation is renovating the new office space which is estimated to cost approximately $4,300,000. As of December 31, 2014, the Foundation incurred expenses of approximately $800,000 with an estimated remaining commitment of $3,500,000 to be incurred in 2015. The renovations were completed in March 2015, at which time occupancy of the space commenced.

Note 7 - Retirement Plan:

The Foundation has a 401(k) retirement plan covering all employees who have met minimum service and age requirements. The Foundation will match 200% of the employees' contribution up to 8% of eligible compensation subject to legal limits. In addition, the Foundation may make additional contributions at the discretion of the Board of Directors. The Foundation's contributions to the plan amounted to $205,778 and $115,980 for the years ended December 31, 2014 and 2013, respectively.

Note 8 - Related Parties:

For the years ended December 31, 2014 and 2013, contributions received by the Foundation were made by individuals or Trust arrangements created by involved persons or having beneficiaries related to the Foundation's Directors.

For the year ended December 31, 2014, the Foundation received funds of $1,000,000 from another Foundation that has involved persons related to a Director of the Foundation. The funds were directed to specific grantees to be paid out in 2015 and were recorded in grants payable.