THE HEISING-SIMONS FOUNDATION
(A NONPROFIT ORGANIZATION)

DECEMBER 31, 2016 AND 2015

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

The Heising-Simons Foundation
(A Nonprofit Organization)

Independent Auditors' Report
and Consolidated Financial Statements

HOOD & STRONG LLP
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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **THE HEISING-SIMONS FOUNDATION (the Foundation)** which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Heising-Simons Foundation as of December 31, 2016 and 2015, 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
November 6, 2017

The Heising-Simons Foundation

(A Nonprofit Organization)

Consolidated Statement of Financial Position

December 31,	2016	2015
Assets		
Cash and equivalents	$ 3,636,303	$ 31,054,146
Investments - at fair value	362,002,494	307,485,963
Investments in transit	76,495,953	25,000,000
Program related investment, net	2,436,216	2,404,966
Prepaid expenses and other assets	324,128	154,467
Prepaid excise taxes	-	90,029
Leasehold improvements and equipment, net of accumulated depreciation	3,623,475	3,925,542
Security deposits	80,000	80,000
Total assets	$ 448,598,569	$ 370,195,113
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 1,089,650	$ 504,644
Deferred excise taxes payable	2,496,000	2,533,000
Grants payable - net of discounts	30,906,664	29,416,318
Total liabilities	34,492,314	32,453,962
Unrestricted Net Assets	414,106,255	337,741,151
Total liabilities and net assets	$ 448,598,569	$ 370,195,113

See accompanying notes to consolidated financial statements.

The Heising-Simons Foundation
(A Nonprofit Organization)

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31,	2016	2015
Revenues and Support:		
Contributions	$ 35,345,000	$ 27,719,595
Investment income:		
Net realized gains on investments	105,526,792	23,570,355
Net unrealized (losses)/gains on investments	(2,690,012)	58,344,273
Interest and dividend income	1,214,669	21,139
Net investment income before federal excise taxes	104,051,449	81,935,767
Federal excise tax expense	1,225,200	787,700
Total revenues and support	138,171,249	108,867,662
Expenses:		
Program services:		
Grants to charitable organizations	53,483,402	39,569,841
Other program expenses	5,551,563	2,320,608
Total program services	59,034,965	41,890,449
Management and general	2,771,180	3,735,197
Total expenses	61,806,145	45,625,646
Increase in Net Assets	76,365,104	63,242,016
Net Assets, unrestricted - beginning of year	337,741,151	274,499,135
Net Assets, unrestricted - end of year	$ 414,106,255	$ 337,741,151

See accompanying notes to consolidated financial statements.

The Heising-Simons Foundation
(A Nonprofit Organization)

Consolidated Statement of Cash Flows

Years Ended December 31,	2016	2015
Cash Flows from Operating Activities:		
Increase in net assets	$ 76,365,104	$ 63,242,016
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	459,787	359,837
Loss on disposal of equipment	1,043	7,996
Net realized gains on investments	(105,526,792)	(23,570,355)
Net unrealized (losses)/gains on investments	2,690,012	(58,344,273)
Program related investment discount	(31,250)	95,034
Grants payable discount	(187,699)	(73,755)
Changes in:		
Prepaid expenses	(169,661)	(51,404)
Prepaid excise taxes	90,029	(31,736)
Security deposits	-	4,500
Accounts payable and accrued expenses	585,006	334,400
Federal excise taxes payable	(37,000)	789,000
Grants payable	1,678,045	3,807,859
Net cash used by operating activities	(24,083,376)	(13,430,881)
Cash Flows from Investing Activities:		
Purchases of leasehold improvements and equipment	(158,763)	(3,428,565)
Investments in transit	(51,495,953)	52,000,000
Proceeds from sale of investments	207,387,365	37,300,000
Purchase of program related investment	-	(2,500,000)
Purchases of investments	(159,067,116)	(60,000,000)
Net cash (used) provided by investing activities	(3,334,467)	23,371,435
Net (Decrease) Increase in Cash and Equivalents	(27,417,843)	9,940,554
Cash and Equivalents, beginning of year	31,054,146	21,113,592
Cash and Equivalents, end of year	$ 3,636,303	$ 31,054,146
Supplemental Disclosure:		
Federal excise and income taxes paid, net of refunds	$ 1,070,145	$ 99,000

See accompanying notes to consolidated 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 solutions in climate and clean energy, research in science, enhance the education of our youngest learners, and support human rights for all people.

In 2016, the Foundation established a single member California limited liability company (the Company) where the Foundation is the sole member. The Company is formed for the purpose of making investments in various investment vehicles. The Company has been consolidated into the Foundation's financial statements.

Note 2 - Significant Accounting Policies:

a. Method of Accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The consolidated financial statements include the financial statements of the Foundation and the Company. All intercompany transactions and balances have been eliminated.

b. Basis of Presentation

The Foundation's consolidated 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. The Foundation has no temporarily restricted net assets at December 31, 2016 and 2015.

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 consolidated 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. Investments in corporate bonds are carried at fair market value, based upon published market values, and all realized and unrealized gains and losses are reported in the consolidated 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.

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.

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 if selling an asset or paid if transferring a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy. 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. Investments in Transit

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

g. Leasehold Improvements and Equipment

Leasehold improvements and equipment are stated at cost. Leasehold improvements comprised a majority of the balance at December 31, 2016 and 2015. 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 three to twelve years. Depreciation expense for the years ended December 31, 2016 and 2015 totaled $459,787 and $359,837, 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.

h. 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.

i. 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 23701(d) 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 and its Company are 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 (ASC) 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.

j. 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.

k. 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.

l. Use of Estimates

The preparation of consolidated 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.

m. 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.

n. Program-Related Investments

Program related investments consist of a loan that was made for the purpose of the Foundation’s programmatic mission. The Foundation’s program related investment furthers the charitable mission of the Foundation by providing funding through a loan for related investments at cost. These investments are evaluated for impairment annually and written down if appropriate. Management has reviewed the collectability of the program-related investment and has determined no allowance is necessary as of December 31, 2016 or 2015. Interest on these receivables is generally charged below market rates. The Foundation’s loan receivables are recorded at the time the loan is agreed to by both parties.

Program related investments at December 31, 2016 and 2015, includes a $2,500,000 loan made to one organization due January 15, 2019. The interest rate on that loan receivable is 2% and is repayable in full at maturity. The loan is uncollateralized and discounted at the rate valid at the date of issuance which amounted to $63,784 and $95,034 for the years ended December 31, 2016 and 2015, respectively.

o. Recent Accounting Pronouncements

Pronouncements effective in the future:

In February 2016, the FASB issued ASU 2016-02 – Leases (Topic 842). The amendments in this update will supersede much of the existing authoritative guidance for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The standard will be effective for the Foundation, since it is not deemed a public business entity, for its fiscal year beginning after December 15, 2019, and for interim periods beginning after December 15, 2020 with early application permitted. Entities are required to use modified retrospective application for leases that exist or are entered into after the beginning of the earliest comparative period in the consolidated financial statements with the option to elect certain transition reliefs. The Foundation is currently evaluating the impact of this pronouncement on its consolidated financial statements.

In August 2016, FASB issued ASU 2016-04 Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities. The amendments change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources, and the changes in those resources, to the users of the financial statements. The standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted. The Foundation is currently evaluating the impact the new standard will have on its consolidated financial statements.

p. Subsequent Events

The Foundation evaluated subsequent events from December 31, 2016 through November 6, 2017, the date these consolidated financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements, except as described in Note 4.

Note 3 - Investments:

At December 31, 2016 and 2015, investments are recorded at fair value. The estimated fair values of the Foundation's investments are as follows:

	2016	2015
Cash equivalents (investment related)	$ 2,363,826	
Corporate bonds	32,289,958	
Alternative investments	327,348,710	$ 307,485,963
Total	$ 362,002,494	$ 307,485,963

Note 4 - Fair Value Measurements:

The table below presents assets at December 31, 2016 measured at fair value on a recurring basis:

	Level 1	Level 2	Total
Cash Equivalents (investment related)	$ 2,363,826		$ 2,363,826
Corporate Bonds:			
Communication Services		$ 5,082,807	5,082,807
Consumer		7,035,146	7,035,146
Financial Services		11,109,871	11,109,871
Technology		2,010,075	2,010,075
Healthcare		6,028,976	6,028,976
Utilities		1,023,083	1,023,083
Total corporate bonds		32,289,958	32,289,958
Investments measured at net asset value per share (a):			
Alternative Investment Funds			327,348,710
Total investments measured at net asset value			327,348,710
Total assets measured at fair value	$ 2,363,826	$ 32,289,958	$ 362,002,494

(a) In accordance with ASC subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.

Net Asset Value (NAV) Per Share

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 prepares its consolidated financial statements consistent with the measurement principles of an investment company or has the attributes of an investment company.

The following table lists investments valued at NAV, which were all alternative investments held at December 31, 2016 and 2015.

	# of Funds 2016/2015	2016 Fair Value	2015 Fair Value	Unfunded Commitment	Redemption	Notice Period (days)
Multi-Strategy (a) Redeemable	2/1	$ 209,613,529	$ 217,451,083		Monthly - Quarterly	10-45
Hedge funds (b) Redeemable with restrictions	1/1	113,682,616	90,034,880	$ 17,775,585	Semi-Annual	120
Real Assets (c) Non redeemable	1/0	1,659,603	-	945,801	None	
Commercial Mortgage Back Securities (d) Non redeemable	1/0	1,500,872	-	1,555,200	None	
Real Estate Debt (e) Non redeemable	1/0	892,090	-	2,117,400	None	
		$ 327,348,710	$ 307,485,963	$ 22,393,986		

During 2016, the Foundation committed $3,000,000 in an additional real estate fund that has not been funded as of December 31, 2016 and not included in the unfunded commitments above.

(a) The multi-strategy funds are master fund investment portfolios consisting principally of readily marketable securities, which are valued at quoted market prices. As of December 31, 2016 and 2015, the Foundation owned 14.31% and 13.25% of one of the funds in this category. Subsequent to year end, the Foundation committed approximately $76 million in one of the funds.

(b) The hedge fund is a so-called "fund of hedge funds." The fund consists principally of investments in hedge funds and other funds of hedge funds and is subject to a thirty-six-month lockup period which expires December 31, 2017. As of December 31, 2016 and 2015, the Foundation owned 21.15% and 20.5%, respectively, of this fund.

(c) Real assets are investments in real property, improvements and other such assets (real or personal) located in the five boroughs of New York City and the greater New York City metropolitan area. The fund has a life span of 10 years with no redemption rights for Members.

(d) The investment objective of this fund is to invest directly or indirectly in Commercial Mortgage Back Securities (CMBS) B-Pieces and other investments and to engage in related activity.

(e) The investment objective of this fund is to invest directly or indirectly in certain real estate debt and other investments and to engage in related activity.

Note 5 - Leasehold Improvements and Equipment, Net:

Leasehold improvements and equipment at December 31, 2016 and 2015 consist of the following:

	2016	2015
Leasehold improvements	$ 3,215,846	$ 3,178,278
Furniture and equipment	692,794	678,419
Artwork	223,266	223,266
Computers and software	300,305	232,419
Total leasehold improvements and equipment	4,432,211	4,312,382
Less: accumulated depreciation	(808,736)	(386,840)
Leasehold improvements and equipment, net	$ 3,623,475	$ 3,925,542

Depreciation expense for the years ended December 31, 2016 and 2015 was $459,787 and $359,837, respectively.

Note 6 - Grants Payable:

The Foundation's Board of Directors authorizes certain grants to charitable organizations to be paid over multiple years. The Foundation has a grant with a contingent matching amount of $1,000,000 which is not included in Grants Payable at December 31, 2016. Grants payable at December 31, 2016 are scheduled to be paid in the following years:

Year ending December 31	
2017	$ 22,598,273
2018	5,869,108
2019	2,044,368
2020	968,074
Less discounts	573,159
	$ 30,906,664

At December 31, 2015, grants payable was $29,416,318 net of discounts of $385,460.

Note 7 - 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%) for the current calculations. 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,	
	2016	2015
Current excise tax/(benefit)	$ 1,262,200	$ (1,300)
Deferred excise (benefit)/tax	(37,000)	789,000
Total	$ 1,225,200	$ 787,700

Note 8 - Commitments:

The Foundation had a month-to-month operating lease for approximately 2,040 square feet of office space in Los Altos, California. Rent expense under this lease for the year ended December 31, 2015 was $18,360.

In March of 2015, the Foundation moved into new office space in Los Altos. The space has a twelve year operating lease for 11,117 square feet. Rent expense for the years ended December 31, 2016 and 2015 was $882,695 and $678,696, respectively. Minimum future rental payments under the new lease are estimated as follows: $793,800 in 2017, $817,600 in 2018, $842,200 in 2019, $867,400 in 2020, $893,400 in 2021, and $5,146,500 total thereafter.

Note 9 - 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 $542,059 and $327,678 for the years ended December 31, 2016 and 2015, respectively.

Deferred Compensation Plans

The Foundation established the Heising-Simons Foundation 457(b) Plan effective on January 1, 2016 for key employees. Deferrals are made at the discretion of the participants, subject to certain limitations. Related assets and liabilities total $63,944 at December 31, 2016.

Note 10 - Related Parties:

For the years ended December 31, 2016 and 2015, 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, 2015, the Foundation received funds of $100,000 from another Foundation that has involved persons related to a Director of the Foundation. The 2015 funds were directed to be paid out in 2016 and were recorded in pass through grants payable as of December 31, 2015. These funds were all paid out in 2016 and there were no pass through grants payable at December 31, 2016.