THE HEISING-SIMONS FOUNDATION
(A NONPROFIT ORGANIZATION)

DECEMBER 31, 2018 AND 2017

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

The Heising-Simons Foundation
(A Nonprofit Organization)

Independent Auditors' Report
and Consolidated Financial Statements

HOOD & STRONG LLP
CERTIFIED PUBLIC ACCOUNTANTS

A Century Strong

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, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended December 31, 2018, 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, 2018 and 2017, 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 4, 2019

The Heising-Simons Foundation
(A Nonprofit Organization)

Consolidated Statement of Financial Position

December 31,		2018		2017
Assets				
Cash and equivalents	$	1,018,698	$	920,192
Investments, at fair value		525,077,006		489,250,726
Investments in transit		19,047,174		8,057,445
Program related investments, net		2,798,715		2,767,465
Prepaid expenses and other assets		809,376		509,062
Prepaid excise taxes		236,892		
Leasehold improvements and equipment, net of accumulated depreciation		5,026,956		3,479,551
Security deposits		143,511		105,000
Total assets	$	554,158,328	$	505,089,441
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	$	2,208,815	$	1,163,984
Direct charitable activities payable		2,096,857		719,935
Grants payable, net of discounts		48,170,420		41,358,717
Deferred excise taxes payable		3,028,000		3,577,000
Total liabilities		55,504,092		46,819,636
Net Assets Without Donor Restrictions		498,654,236		458,269,805
Total liabilities and net assets	$	554,158,328	$	505,089,441

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,	2018	2017
Revenues and Support:		
Contributions	$ 29,700,000	$ 19,970,757
Investment income:		
Net realized gains on investments	149,802,337	55,952,824
Net unrealized (losses)/gains on investments	(26,749,700)	53,882,957
Interest and dividend income	434,480	496,048
Net investment income before federal excise taxes	123,487,117	110,331,829
Federal excise tax expense	954,000	1,555,900
Total revenues and support	152,233,117	128,746,686
Expenses:		
Program services:		
Grants to charitable organizations	100,030,929	74,705,996
Other program expenses	8,702,989	6,887,743
Total program services	108,733,918	81,593,739
Management and general	3,114,768	2,989,397
Total expenses	111,848,686	84,583,136
Increase in Net Assets	40,384,431	44,163,550
Net Assets, Without Donor Restrictions - beginning of year	458,269,805	414,106,255
Net Assets, Without Donor Restrictions - end of year	$ 498,654,236	$ 458,269,805

See accompanying notes to consolidated financial statements.

Heising Simons Foundation
(A Nonprofit Organization)

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

	Program Services	Management and General	Total
Grants to charitable organizations	$ 100,030,929		$ 100,030,929
Salaries and wages	4,270,931	$ 1,166,808	5,437,739
Salary related expenses	1,638,052	491,028	2,129,080
Professional services and program consultants	1,076,862	399,006	1,475,868
Facilities	1,149,378	519,066	1,668,444
Operations	65,949	133,174	199,123
Equipment, hardware, and software	133,438	107,975	241,413
Membership and licenses	2,457	10,475	12,932
Insurance		25,016	25,016
Travel, meetings, and professional development	365,922	262,220	628,142
	$ 108,733,918	$ 3,114,768	$ 111,848,686

See accompanying notes to consolidated financial statements.

The Heising-Simons Foundation
(A Nonprofit Organization)

Consolidated Statement of Cash Flows

Years Ended December 31,	2018	2017
Cash Flows from Operating Activities:		
Increase in net assets	$ 40,384,431	$ 44,163,550
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	521,801	479,656
Loss on disposal of equipment	706	981
Net realized gains on investments	(149,802,337)	(55,952,824)
Net unrealized losses/(gains) on investments	26,749,700	(53,882,957)
Program related investment discount amortization	(31,250)	(31,250)
Grants payable discount amortization	47,698	(137,466)
Changes in:		
Prepaid expenses	(300,313)	(184,935)
Prepaid excise taxes	(236,892)	
Security deposits	(38,511)	(25,000)
Accounts payable and accrued expenses	500,448	95,834
Direct charitable activities payable	1,376,922	698,435
Deferred excise taxes payable	(549,000)	1,081,000
Grants payable	6,764,005	10,589,519
Net cash used by operating activities	(74,612,592)	(53,105,457)
Cash Flows from Investing Activities:		
Purchases of leasehold improvements and equipment	(1,525,530)	(336,712)
Investments in transit	(10,989,729)	68,438,508
Proceeds from sale of investments	272,438,152	147,680,713
Purchase of program related investment		(299,999)
Purchases of investments	(185,211,795)	(165,093,164)
Net cash provided by investing activities	74,711,098	50,389,346
Net Change in Cash and Equivalents	98,506	(2,716,111)
Cash and Equivalents, beginning of year	920,192	3,636,303
Cash and Equivalents, end of year	$ 1,018,698	$ 920,192
Supplemental Disclosure:		
Federal excise and income taxes paid, net of refunds	$ 1,832,000	$ 484,819
Construction in progress included in accounts payable	$ 544,383	$ -

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 and perform direct charitable activities for sustainable solutions in climate and clean energy, research in science, enhancing the education of our youngest learners, and supporting 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 Accounting and Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which recognizes revenue when earned and expenses when incurred accordingly, reflect all significant receivables, payables and other liabilities.

Net assets, revenues, expenses, gain and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are those that are not restricted by donor-imposed stipulations. There are no net assets with donor restrictions as of December 31, 2018 and 2017.

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, 2018 and 2017. 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.

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. Functional Allocation of Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the Consolidated Statement of Activities and Changes in Net Assets. Expenses such as salaries, benefits, professional fees are allocated among programs and management and general based on actual use. Facility and other expenses are allocated among programs and management and general based on head count. Other program expenses include costs related to grant making and direct charitable activities.

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 23701(d) of the Revenue and Taxation Code of the State of California. The Foundation has been determined by the Internal Revenue Service (IRS) 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.

k. Grant Expense

Grants to charitable organizations 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 and all conditions have been met by the grantee.

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 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.

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 from investments to operating accounts as needed, the balances of which may exceed FDIC insured limits.

o. Program-Related Investments

Program related investments are strategic funding for the specific objective of furthering the Foundation’s charitable purpose and may be in the form of a loan or an equity investment. Debt investments are carried at cost, unless it is determined that a discount is material to the Foundation’s financial statements. Equity investments are also carried at cost.

These investments are evaluated for impairment annually and written down if appropriate. Management has reviewed the collectability of the program related investments and has determined no allowance is necessary as of December 31, 2018 or 2017. Interest on the program related investments loan 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. The equity investment made in the form of preferred stock is not convertible and is recorded at cost.

Program related investments loan receivable at December 31, 2018 and 2017, 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 and amortized over the term of the loan. The discount was $1,284 and $32,534 as of December 31, 2018 and 2017, respectively. Subsequent to year end, the program related investments loan receivable plus interest was paid in full before the maturity date.

During 2017, the Foundation made a program related equity investment in a for-profit company of preferred stock that is not convertible and is carried at its cost basis of $299,999. Subsequent to year end, the Foundation's Board of Directors approved converting the program related equity investment into a grant.

p. Reclassifications

Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. There was no effect on net assets or changes in net assets as a result of the reclassifications.

q. Recent Accounting Pronouncements

Pronouncement Adopted

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14: Not-for-Profit Entities – Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The guidance in this ASU changes presentation and disclosure requirements for nonprofit entities to provide more relevant information about their resources (and the changes in those resources) to donors, granters, creditors, and other users. These include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, and liquidity. Accordingly, the accounting change was adopted January 1, 2018 and has been retrospectively applied to all periods presented with the exception of the omission of prior year functional expense and liquidity and availability of resource information as permitted by the ASU.

Pronouncements Effective in the Future

In February 2016, the FASB issued ASU 2016-02 – Leases (Topic 842). The guidance in this ASU 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 June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958). The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It provides a framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The amendments in the Update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018. Early application of the amendments in the Update is permitted and applied prospectively. The Foundation is currently evaluating the impact of this pronouncement on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820). The guidance in this ASU modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The standard is effective for all entities for fiscal years, beginning after December 15, 2019. An entity is permitted to early adopt any removed or modified disclosures and delay adoption of the additional disclosures until their effective date. The Foundation is currently evaluating the impact of this new standard on its consolidated financial statements.

r. Subsequent Events

The Foundation evaluated subsequent events from December 31, 2018 through November 4, 2019, 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 discussed in Note 1(o) and Note 9.

Note 3 - Availability of Financial Assets and Liquidity:

The Foundation's goal is to maintain financial assets to meet all grant and operating needs. As financial obligations become due investments are liquidated. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. None of these financial assets are subject to donor restrictions that make them unavailable for general expenditure within one year of the date of financial statements.

The following represents the Foundation's financial assets at December 31, 2018:

Financial assets at year-end:	
Cash and equivalents	$ 1,018,698
Investments, at fair value	525,077,006
Investments in transit	19,047,174
Program related investments, net	2,798,715
Total financial assets	547,941,593
Amounts not available to be used within one year:	
Investments with liquidity restrictions	(17,654,469)
Program related investments with liquidity restrictions	(299,999)
Total amounts not available to be used within one year	(17,954,468)
Financial assets available to meet general expenditures over the next twelve months	$ 529,987,125

Note 4 - Investments:

At December 31, 2018 and 2017, investments are recorded at fair value. The estimated fair values of the Foundation's investments are as follows:

	2018	2017
Cash equivalents (investment related)	$ 2,291,039	$ 94,469
U.S. treasuries	110,351,713	13,808,899
Corporate bonds	9,266,829	10,079,842
Alternative investments	403,167,425	465,267,516
Total	$ 525,077,006	$ 489,250,726

Note 5 - Fair Value Measurements:

The table below presents assets at December 31, 2018 measured at fair value on a recurring basis:

	Level 1	Level 2	Total
Cash Equivalents (investment related)	$ 2,291,039		$ 2,291,039
U.S. Treasuries		$ 110,351,713	110,351,713
Corporate Bonds:			
Consumer		1,004,214	1,004,214
Financial Services		5,186,044	5,186,044
Technology		3,076,571	3,076,571
Total corporate bonds		9,266,829	9,266,829
Investments measured at net asset value per share (a):			
Alternative Investment Funds			403,167,425
Total investments measured at net asset value			403,167,425
Total assets measured at fair value	$ 2,291,039	$ 119,618,542	$ 525,077,006

The table below presents assets at December 31, 2017 measured at fair value on a recurring basis:

	Level 1	Level 2	Total
Cash Equivalents (investment related)	$ 94,469		$ 94,469
U.S. Treasuries		$ 13,808,899	13,808,899
Corporate Bonds:			
Communication Services		2,016,047	2,016,047
Financial Services		6,055,860	6,055,860
Technology		2,007,935	2,007,935
Total corporate bonds		10,079,842	10,079,842
Investments measured at net asset value per share (a):			
Alternative Investment Funds			465,267,516
Total investments measured at net asset value			465,267,516
Total assets measured at fair value	$ 94,469	$ 23,888,741	$ 489,250,726

(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, 2018 and 2017.

	# of Funds 2018/2017	2018 Fair Value	2017 Fair Value	Unfunded Commitment	Redemption	Notice Period (days)
Multi-Strategy (a)						
Redeemable	2/2	$ 265,724,440	$ 336,004,254		Monthly - Quarterly	10-45
Hedge funds (b)						
Redeemable with restrictions	1/1	119,788,516	121,483,791		Semi-Annual	120
Real Assets (c)						
Non redeemable	2/1	6,881,071	2,663,816	$ 1,369,471	None	
Commercial Mortgage Back Securities (d)						
Non redeemable	2/2	4,337,489	3,117,568	2,395,152	None	
Real Estate Debt (e)						
Non redeemable	1/1	2,142,224	1,998,087	1,243,200	None	
Social Impact (f)						
Non redeemable	1/0	4,293,685		6,078,310	None	
	9/7	$ 403,167,425	$ 465,267,516	$ 11,086,133		

(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, 2018 and 2017, the Foundation owned 13.46% and 13.61%, respectively, of one of the funds in this category.

(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 expired December 31, 2017. As of December 31, 2018 and 2017, the Foundation owned 21.15% 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. One fund has an expected life span of 10 years beginning May 31, 2016, and the other fund has no set term. As of December 31, 2018, the Foundation owned 10% of one of the funds in this category.

(d) The investment objective of these funds are to invest directly or indirectly in Commercial Mortgage Back Securities (CMBS) B-Pieces and other investments and to engage in related activity. The funds are scheduled to dissolve in 2027 and 2028, unless otherwise extended or terminated under the funds’ respective limited partnership agreements.

(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. The fund is scheduled to dissolve in 2024, unless otherwise extended or terminated under the fund's limited partnership agreement.

(f) The investment objective of this fund is to invest in companies driving social and environmental impact alongside strong returns through acquisitions and restructurings. The fund is scheduled to dissolve in December 31, 2027, unless otherwise extended or terminated under the fund's limited partnership agreement.

Note 6 - Leasehold Improvements and Equipment, Net:

Leasehold improvements and equipment at December 31, 2018 and 2017 consist of the following:

	2018	2017
Leasehold improvements	$ 3,227,418	$ 3,227,418
Furniture and equipment	691,839	699,704
Artwork	223,266	223,266
Computers and software	598,330	616,459
Construction in progress	1,969,084	
Total leasehold improvements and equipment	6,709,937	4,766,847
Less: accumulated depreciation	(1,682,981)	(1,287,296)
Leasehold improvements and equipment, net	$ 5,026,956	$ 3,479,551

Depreciation expense for the years ended December 31, 2018 and 2017 was $521,801 and $479,656, respectively.

The Foundation is in the process of completing leasehold improvements on its offices. As of December 31, 2018, the Foundation has incurred $1,969,084 of construction in progress. As of December 31, 2018, the Foundation estimates it will incur approximately $2.5 million remaining in related construction.

Note 7 - Grants Payable and Direct Charitable Activities 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 conditional matching amount of $565,000 which is not included in Grants Payable at December 31, 2018. Grants payable and direct charitable activities payable at December 31, 2018 are scheduled to be paid in the following years:

	Grants Payable	Direct Charitable Activities Payable
Year ending December 31		
2019	$ 39,184,808	$ 1,426,865
2020	8,356,408	
2021	1,292,131	669,992
Subtotal	48,833,347	2,096,857
Less discounts	(662,927)	
Grants payable and direct charitable activities, net	$ 48,170,420	$ 2,096,857

At December 31, 2017, grants payable was $41,358,717 net of discounts of $710,625, and direct charitable activities payable was $719,935.

Note 8 - 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 provision calculations. A rate of two percent (2%) was used for the deferred tax provision 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, 2018	December 31, 2017
Current excise tax expense	$ 1,503,000	$ 474,900
Deferred excise (benefit) expense	(549,000)	1,081,000
Total	$ 954,000	$ 1,555,900

Note 9 - Commitments and Contingencies:

Operating Lease Commitments

Beginning in March of 2015, the Foundation moved into new office space in Los Altos, California. The space has a twelve-year operating lease for 11,117 square feet. In September of 2017, the Foundation amended the lease agreement to include 3,186 square feet of additional space in the building. During 2018, the Foundation signed a lease for office space in San Francisco, California, expiring in 2026. Rent expense for the years ended December 31, 2018 and 2017 was approximately $895,200 and $876,000, respectively.

Minimum future rental payments under these lease arrangements are estimated as follows:

Year Ending December 31,	
2019	$ 1,410,900
2020	1,587,000
2021	1,634,600
2022	1,683,600
2023	1,734,200
Thereafter	5,434,300
Total	$ 13,484,600

Contingencies

Subsequent to year end, the Foundation was informed by one of its alternative investment fund managers, the investment fund was undergoing an IRS audit. The IRS contends that the investment fund was under withholding tax on U.S. dividend income between 2005 and 2015. The effect of the IRS audit would have an approximate impact of $8,500,000 in estimated additional taxes payable related to the Foundation if the investment fund does not prevail in the IRS audit and appeal process.

Note 10 - 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 approximately $801,900 and $630,200 for the years ended December 31, 2018 and 2017, 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 approximately $338,100 and $126,800 at December 31, 2018 and 2017, respectively.

Note 11 - Related Parties:

For the years ended December 31, 2018 and 2017, 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.