THE HEISING-SIMONS FOUNDATION
(A NONPROFIT ORGANIZATION)

DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

The Heising-Simons Foundation
(A Nonprofit Organization)

Independent Auditors' Report
and Consolidated Financial Statements

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, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses 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, 2019 and 2018, 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 3, 2020

The Heising-Simons Foundation

(A Nonprofit Organization)

Consolidated Statement of Financial Position

December 31,		2019		2018
Assets				
Cash and equivalents	$	9,264,002	$	1,018,698
Investments, at fair value		534,697,504		525,077,006
Investments in transit		37,627,853		19,047,174
Program related investments, net		2,243,767		2,798,715
Prepaid expenses and other assets		1,165,878		809,376
Prepaid excise taxes		223,800		236,892
Leasehold improvements and equipment, net of accumulated depreciation		6,998,605		5,026,956
Security deposits		143,011		143,511
Total assets	$	592,364,420	$	554,158,328
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	$	2,263,726	$	2,208,815
Direct charitable activities payable		2,684,067		2,096,857
Grants payable, net of discounts		55,610,055		48,170,420
Deferred excise taxes payable		2,483,000		3,028,000
Total liabilities		63,040,848		55,504,092
Net Assets Without Donor Restrictions		529,323,572		498,654,236
Total liabilities and net assets	$	592,364,420	$	554,158,328

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,	2019	2018
Revenues and Support:		
Contributions	$ 36,701,722	$ 29,700,000
Investment income:		
Net realized gains on investments	91,738,277	149,802,337
Net unrealized gains/(losses) on investments	28,257,413	(26,749,700)
Interest and dividend income	1,809,680	434,480
Net investment income before federal excise taxes	121,805,370	123,487,117
Federal excise tax expense	389,000	954,000
Total revenues and support	158,118,092	152,233,117
Expenses:		
Program services:		
Grants to charitable organizations	112,322,547	100,030,929
Other program expenses	11,678,888	8,702,989
Total program services	124,001,435	108,733,918
Management and general	3,447,321	3,114,768
Total expenses	127,448,756	111,848,686
Increase in Net Assets	30,669,336	40,384,431
Net Assets, Without Donor Restrictions - beginning of year	498,654,236	458,269,805
Net Assets, Without Donor Restrictions - end of year	$ 529,323,572	$ 498,654,236

See accompanying notes to consolidated financial statements.

The Heising-Simons Foundation

(A Nonprofit Organization)

Consolidated Statement of Functional Expenses

Years Ended December 31, 2019 and 2018

	2019		
	Program Services	Management and General	2019 Total
Grants to charitable organizations	$ 112,322,547		$ 112,322,547
Salaries and wages	5,260,973	$ 1,385,704	6,646,677
Salary related expenses	2,015,114	501,713	2,516,827
Professional services and program consultants	1,516,387	381,171	1,897,558
Facilities	2,083,151	634,496	2,717,647
Operations	108,881	128,415	237,296
Equipment, hardware, and software	207,134	83,830	290,964
Membership and licenses	5,190	10,412	15,602
Insurance		28,454	28,454
Travel, meetings, and professional development	482,058	293,126	775,184
	$ 124,001,435	$ 3,447,321	$ 127,448,756

	2018		
	Program Services	Management and General	2018 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,	2019	2018
Cash Flows from Operating Activities:		
Increase in net assets	$ 30,669,336	$ 40,384,431
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	898,922	521,801
Loss on disposal of equipment		706
Net realized gains on investments	(91,743,080)	(149,802,337)
Net unrealized losses/(gains) on investments	(28,366,717)	26,749,700
Program related investment discount amortization	254,949	(31,250)
Program related loan investment converted to a grant	299,999	
Grants payable discount amortization	(105,644)	47,698
Changes in:		
Prepaid expenses and other assets	(356,502)	(300,313)
Prepaid excise taxes	13,092	(236,892)
Security deposits	500	(38,511)
Accounts payable and accrued expenses	54,911	500,448
Direct charitable activities payable	587,210	1,376,922
Deferred excise taxes payable	(545,000)	(549,000)
Grants payable	7,545,279	6,764,005
Net cash used by operating activities	(80,792,745)	(74,612,592)
Cash Flows from Investing Activities:		
Purchases of leasehold improvements and equipment	(2,870,571)	(1,525,530)
Investments in transit	(18,580,679)	(10,989,729)
Proceeds from sale of investments	237,959,818	272,438,152
Proceeds from program related investment	2,500,000	
Purchase of program related investment	(2,500,000)	
Purchases of investments	(127,470,519)	(185,211,795)
Net cash provided by investing activities	89,038,049	74,711,098
Net Change in Cash and Equivalents	8,245,304	98,506
Cash and Equivalents, beginning of year	1,018,698	920,192
Cash and Equivalents, end of year	$ 9,264,002	$ 1,018,698
	-	
Supplemental Disclosure:		
Federal excise and income taxes paid, net of refunds	$ 920,908	$ 1,832,000
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, 2019 and 2018.

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.

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, 2019 and 2018. 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, 2019 or 2018. 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 is a $2,500,000 loan bearing 2% interest, made to one organization that was paid back on January 11, 2019. The program related investments loan receivable at December 31, 2019 is a loan to one organization of $2,500,000,bearing interest at 2% with a payment due date of June 1, 2023 for the principal and accrued interest. 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 on the loans was $256,233 and $1,284 as of December 31, 2019 and 2018, 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. In 2019, 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 June 2018, the FASB issued Accounting Standards Update (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 this ASU related to contributions received are effective for annual financial statements issued for fiscal years beginning after December 15, 2018, while the amendments related to contributions made are effective one year later. The standard was implemented for the year ending December 31, 2019. The implementation did not have a material impact on the Foundation's financial statements.

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, 2021 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 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, 2019 through November 3, 2020, the date these consolidated financial statements were available to be issued.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines and forced closures of public places and businesses. The Foundation has moved staff to remote operations and have cancelled travel plans through at least the end of March 2021. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries. In addition, financial markets volatility has significantly impacted the value of major market indices. Other financial impact(s) could occur though such potential impact is unknown at this time.

The Foundation responded to the COVID-19 crisis with rapid response funds to its program grantees and regional pandemic response funds as well as specific grants for personal protective equipment, addressing the digital divide and improved health care access through clinics in California.

There were no other material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

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, 2019 and 2018:

	2019	2018
Financial assets at year-end:		
Cash and equivalents	$ 9,264,002	$ 1,018,698
Investments, at fair value	534,697,504	525,077,006
Investments in transit	37,627,853	19,047,174
Program related investments, net	2,243,767	2,798,715
Total financial assets	583,833,126	547,941,593
Amounts not available to be used within one year:		
Investments with liquidity restrictions	(20,615,117)	(17,654,469)
Program related investments with liquidity restrictions and payments due in excess of one year	(2,243,767)	(299,999)
Total amounts not available to be used within one year	(22,858,884)	(17,954,468)
Financial assets available to meet general expenditures over the next twelve months	$ 560,974,242	$ 529,987,125

Note 4 - Investments:

At December 31, 2019 and 2018, investments are recorded at fair value. The estimated fair values of the Foundation's investments are as follows:

	2019	2018
Cash equivalents (investment related)	$ 372,345	$ 2,291,039
U.S. treasuries	54,069,776	110,351,713
Corporate bonds	38,729,145	9,266,829
Alternative investments	441,526,238	403,167,425
Total	$ 534,697,504	$ 525,077,006

Note 5 - Fair Value Measurements:

The table below presents assets at December 31, 2019 measured at fair value on a recurring basis:

	Level 1	Level 2	Total
Cash Equivalents (investment related)	$ 372,345		$ 372,345
U.S. Treasury Notes and Bills		$ 54,069,776	54,069,776
Corporate Bonds:			
Consumer		2,052,446	2,052,446
Financial Services		14,177,694	14,177,694
Healthcare		6,065,957	6,065,957
Technology		16,433,048	16,433,048
Total corporate bonds		38,729,145	38,729,145
Investments measured at net asset value per share (a):			
Alternative Investment Funds			441,526,238
Total assets measured at fair value	$ 372,345	$ 92,798,921	$ 534,697,504

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

(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 which prepare its 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, 2019 and 2018.

	# of Funds 2019/2018	2019 Fair Value	2018 Fair Value	Unfunded Commitment	Redemption	Notice Period (days)
Multi-Strategy (a)						
Redeemable	2/2	$ 245,683,927	$ 265,724,440		Monthly - Quarterly	10-45
Hedge funds (b)						
Redeemable with restrictions	1/1	130,070,690	119,788,516		Semi-Annual	120
Debt Vehicles (c)						
Redeemable	1/0	45,156,504			Monthly	30
Real Assets (d)						
Non redeemable	2/2	6,800,538	6,881,071	$ 638,867	None	
Commercial Mortgage Back Securities (e)						
Non redeemable	2/2	5,202,342	4,337,489	2,166,252	None	
Real Estate Debt (f)						
Non redeemable	1/1	1,212,877	2,142,224	1,098,499	None	
Social Impact (g)						
Non redeemable	1/1	7,399,360	4,293,685	3,426,838	None	
	10/9	$ 441,526,238	$ 403,167,425	$ 7,330,456		

(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, 2019 and 2018, the Foundation owned 15.13% and 13.46%, 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, 2018. As of December 31, 2019 and 2018, the Foundation owned 21.5% of this fund.

(c) The investment objective of the fund that is redeemable is to invest in investment grade debt tranches of collateralize loan obligation issuers. As of December 31, 2019 the Foundation owned 100% of this fund as the fund's initial investor in its first partial year of operations.

(d) 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, 2019 and 2018, the Foundation owned 10% of one of the funds in this category.

(e) The investment objective of these funds are to invest directly or indirectly in commercial mortgage back securities 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.

(f) 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.

(g) 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, 2019 and 2018 consist of the following:

	2019	2018
Leasehold improvements	$ 7,152,204	$ 3,227,418
Furniture and equipment	1,213,728	691,839
Artwork	382,933	223,266
Computers and software	831,642	598,330
Construction in progress		1,969,084
Total leasehold improvements and equipment	9,580,507	6,709,937
Less: accumulated depreciation	(2,581,902)	(1,682,981)
Leasehold improvements and equipment, net	$ 6,998,605	$ 5,026,956

Depreciation expense for the years ended December 31, 2019 and 2018 was $898,922 and $521,801, respectively.

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. Grants payable and direct charitable activities payable at December 31, 2019 are scheduled to be paid in the following years:

	Grants Payable	Direct Charitable Activities Payable
Year ending December 31		
2020	$ 42,586,661	$ 1,843,204
2021	12,953,500	737,213
2022	838,465	103,650
Subtotal	56,378,626	2,684,067
Less discounts	(768,571)	
Grants payable and direct charitable activities, net	$ 55,610,055	$ 2,684,067

At December 31, 2018, grants payable was $48,170,420 net of discounts of $662,927, and direct charitable activities payable was $2,096,857.

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 1% for the current provision calculations. In 2019, tax legislation was enacted which changed the tax rate for private foundations to a flat rate of 1.39%, effective January 1, 2020. The Foundation used the new rate of 1.39% to calculate its deferred tax provision at December 31, 2019. The Foundation used a 2% rate to calculate its deferred tax provision at December 31, 2018.

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, 2019	December 31, 2018
Current excise tax expense	$ 934,000	$ 1,503,000
Deferred excise (benefit) expense	(545,000)	(549,000)
Total	$ 389,000	$ 954,000

Note 9 - Commitments and Contingencies:

Operating Lease Commitments

The Foundation leases office space in Los Altos and San Francisco, California under agreements in effect through 2027. Rent expense for the years ended December 31, 2019 and 2018 was approximately $1,512,842 and $895,200, respectively.

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

Year Ending December 31,	
2020	$ 1,585,800
2021	1,633,400
2022	1,682,400
2023	1,732,900
2024	1,784,900
Thereafter	3,646,800
Total	$ 12,066,200

Contingencies

During 2019, 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 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 $965,748 and $801,900 for the years ended December 31, 2019 and 2018, 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 $514,163 and $338,100 at December 31, 2019 and 2018, respectively.

Note 11 - Related Parties:

For the years ended December 31, 2019 and 2018, 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.

The Foundation in 2019 provided services and incurred expenses on behalf of a newly formed 501(c)(4) organization whose directors are the members of the Foundation's board and management. The services provided and expenses incurred, in 2019 totaled $262,634 and are included in other assets as receivable at December 31, 2019.