THE HEISING-SIMONS FOUNDATION
(A NONPROFIT ORGANIZATION)

DECEMBER 31, 2015 AND 2014

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

The Heising-Simons Foundation
(A Nonprofit Organization)

Independent Auditors' Report
and 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 financial statements of **THE HEISING-SIMONS FOUNDATION (the Foundation)** which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Heising-Simons Foundation as of December 31, 2015 and 2014, 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, 2016

The Heising-Simons Foundation
(A Nonprofit Organization)

Statement of Financial Position

December 31,	2015	2014
Assets		
Cash and equivalents	$ 31,054,146	$ 21,113,592
Investments - at fair value	307,485,963	202,871,335
Investments in transit	25,000,000	77,000,000
Program related investment, net	2,404,966	-
Prepaid expenses and other assets	154,467	103,063
Prepaid excise taxes	90,029	58,293
Leasehold improvements and equipment, net of accumulated depreciation	3,925,542	1,482,072
Security deposits	80,000	84,500
Total assets	$ 370,195,113	$ 302,712,855
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 504,644	$ 787,506
Deferred excise taxes payable	2,533,000	1,744,000
Grants payable - net of discounts	29,416,318	25,682,214
Total liabilities	32,453,962	28,213,720
Unrestricted Net Assets	337,741,151	274,499,135
Total liabilities and net assets	$ 370,195,113	$ 302,712,855

See accompanying notes to financial statements.

The Heising-Simons Foundation
(A Nonprofit Organization)

Statement of Activities and Changes in Net Assets

Year Ended December 31,2015 (with comparative totals for 2014)

	2015	2014
Revenues and Support:		
Contributions	$ 27,719,595	$ 9,500,000
Investment income:		
Net realized gains on investments	23,570,355	29,346,267
Net unrealized gains on investments	58,344,273	26,081,169
Interest and dividend income	21,139	2,630
Net investment income before federal excise taxes	81,935,767	55,430,066
Federal excise tax expense	787,700	660,310
Total revenues and support	108,867,662	64,269,756
Expenses:		
Program services:		
Grants to charitable organizations	39,569,841	37,200,381
Other program expenses	2,320,608	1,571,160
Total program services	41,890,449	38,771,541
Management and general	3,735,197	1,817,881
Total expenses	45,625,646	40,589,422
Increase in Net Assets	63,242,016	23,680,334
Net Assets, unrestricted - beginning of year	274,499,135	250,818,801
Net Assets, unrestricted - end of year	$ 337,741,151	$ 274,499,135

See accompanying notes to financial statements.

The Heising-Simons Foundation
(A Nonprofit Organization)

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2014

	2014		
	Unrestricted	Temporarily Restricted	Total
Revenues and Support:			
Contributions	$ 9,500,000	$ -	$ 9,500,000
Investment income:			
Net realized gains on investments	29,346,267	-	29,346,267
Net unrealized gains on investments	26,081,169	-	26,081,169
Interest and dividend income	2,630	-	2,630
Net investment income before federal excise taxes	55,430,066	-	55,430,066
Federal excise tax expense	660,310		660,310
Total revenues and support	64,269,756	-	64,269,756
Net Assets Released from Restrictions	1,000,000	(1,000,000)	-
Expenses:			
Program services:			
Grants to charitable organizations	37,200,381	-	37,200,381
Other program expenses	1,571,160		1,571,160
Total program services	38,771,541	-	38,771,541
Management and general	1,817,881	-	1,817,881
Total expenses	40,589,422	-	40,589,422
Increase (Decrease) in Net Assets	24,680,334	(1,000,000)	23,680,334
Net Assets - beginning of year	249,818,801	1,000,000	250,818,801
Net Assets - end of year	$ 274,499,135	$ -	$ 274,499,135

See accompanying notes to financial statements.

The Heising-Simons Foundation
(A Nonprofit Organization)

Statement of Cash Flows

Years Ended December 31,	2015	2014
Cash Flows from Operating Activities:		
Increase in net assets	$ 63,242,016	$ 23,680,334
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	359,837	14,027
Loss on disposal of equipment	7,996	550
Net realized gains on investments	(23,570,355)	(29,346,267)
Net unrealized gains on investments	(58,344,273)	(26,081,169)
Program related investment discount	95,034	-
Grants payable discount	(73,755)	33,738
Changes in:		
Prepaid expenses	(51,404)	(79,501)
Prepaid excise taxes	(31,736)	133,199
Security deposits	4,500	(80,000)
Accounts payable and accrued expenses	334,400	93,857
Federal excise taxes payable	789,000	522,000
Grants payable	3,807,859	9,061,898
Net cash used by operating activities	(13,430,881)	(22,047,334)
Cash Flows from Investing Activities:		
Purchases of leasehold improvements and equipment	(3,428,565)	(822,050)
Investments in transit	52,000,000	(45,400,678)
Proceeds from sale of investments	37,300,000	99,980,193
Purchase of program related investment	(2,500,000)	-
Purchases of investments	(60,000,000)	(50,164,999)
Net cash provided by investing activities	23,371,435	3,592,466
Net Increase (Decrease) in Cash and Equivalents	9,940,554	(18,454,868)
Cash and Equivalents, beginning of year	21,113,592	39,568,460
Cash and Equivalents, end of year	$ 31,054,146	$ 21,113,592

	2015	2014
Supplemental Disclosure:		
Federal excise taxes paid	$ 99,000	$ -
Capital expenditures included in accounts payable and accrued expenses	$ -	$ 617,262

See accompanying notes to financial statements.

Note 1 - Description of Foundation:

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

Note 2 - Significant Accounting Policies:

a. Method of Accounting

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

b. Basis of Presentation

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

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

Temporarily restricted net assets represent contributions that are limited in use by the Foundation in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of the Foundation according to the terms of the contribution. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. If a restriction is fulfilled in the same fiscal year in which the contribution is received, the Foundation classifies the support as unrestricted. Temporarily restricted net assets released for the year ended December 31, 2014 was to support grants for early math education and research. The Foundation has no temporarily restricted net assets at December 31, 2015 and 2014.

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

c. Cash and Equivalents

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

d. Investments

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

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. Fair Value of Financial Instruments

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

g. Investments in Transit

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

i. Leasehold Improvements and Equipment

Leasehold improvements and equipment are stated at cost. Leasehold improvements comprised a majority of the balance at December 31, 2015 and 2014. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or lease term, whichever is shorter. Useful lives range from three to twelve years. Depreciation expense for the years ended December 31, 2015 and 2014 totaled $359,837 and $14,027, 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.

j. 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.

k. 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 is subject to federal excise taxes based on net investment income as defined in the Tax Reform Act of 1969. Deferred taxes are recorded on the unrealized gain on investments. In addition, the Foundation could be subject to tax on unrelated business income, if any, generated by its investments.

The Foundation follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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.

l. 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.

m. 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.

n. Use of Estimates

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

o. 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.

p. 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, 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, 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 $95,034 and was recorded in program services – grants to charitable organizations in the statement of activities and changes in net assets.

q. Recent Accounting Pronouncements

Adopted

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

To alleviate inconsistencies in the categorization of investments within the hierarchy, ASU 2015-07 removes the requirement to categorize all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also clarify that certain disclosure requirements are limited to investments for which the entity has elected to measure fair value using that practical expedient, and not all investments eligible to be measured at fair value using the practical expedient. The amendments in this update will generally be effective for fiscal periods beginning after December 15, 2016, for non public entities, however early application is permitted. The Foundation early adopted ASU 2015-07, an amendment to ASU Topic 820, as of December 31, 2015.

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 financial statements with the option to elect certain transition reliefs. The Foundation is currently evaluating the impact of this pronouncement on its 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 financial statements.

r. <u>Subsequent Events</u>

The Foundation evaluated subsequent events from December 31, 2015 through November 3, 2016, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements, except as disclosed in Notes 3 and 7.

Note 3 - Investments:

The Foundation uses the Net Asset Value (NAV) to determine the fair value of all the investments which do not have readily determinable fair value and prepares 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 funds and investments held at December 31, 2015 and 2014.

	# of Funds 2015/2014	2015 Fair Value	2014 Fair Value	Unfunded Commitment	Redemption	Notice Period (days)
Multi-Strategy (a)						
Redeemable	1/2	$ 217,451,083	$ 127,619,079		Quarterly	10-60
Hedge funds (b):						
Redeemable	0/2		75,115,563		Semi-Annual to Annual	90-95
Redeemable with restrictions	1/1	90,034,880	136,693	$ 37,775,585	Semi-Annual	120
		$ 307,485,963	$ 202,871,335	$ 37,775,585		

The Foundation redeemed a substantial portion of its investments in three investment funds effective as of December 31, 2014, and transferred to the hedge fund redeemable with restrictions the remainder of its investments in those investments, effective January 1, 2015, in satisfaction of a portion of the Foundation's capital commitment to this investment hedge fund.

(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, 2015, the Foundation owned 13.25% and 0% of the two investments in this category.

(b) The hedge funds are so-called "funds of hedge funds." Two of the funds consist primarily of investments in hedge funds, whose underlying portfolios consist primarily of readily marketable securities. As of December 31, 2015, the Foundation did not have an ownership in these two investments. The third fund that is redeemable with restrictions consists principally of investments in hedge funds and other funds of hedge funds and is subject to a thirty-six-month lockup period. As of December 31, 2015, the Foundation owned 20.5% of this investment fund.

Subsequent to December 31, 2015, the Foundation committed and invested in new investments with capital commitments of $20 million.

Note 4 - Grants Payable:

The Foundation's Board of Directors authorizes certain grants to charitable organizations to be paid over multiple years. The Foundation has a grant with a contingent matching amount of $1,000,000 which is not included in Grants Payable at December 31, 2015. Grants payable at December 31, 2015 are scheduled to be paid in the following years:

Year ending December 31	
2016	$ 22,767,351
2017	5,262,479
2018	1,530,424
2019	241,524
Less discounts	385,460
	$ 29,416,318

At December 31, 2014, grants payable was $25,682,214 net of discounts of $311,707.

Note 5 - Excise Taxes:

In accordance with applicable Treasury regulations, the Foundation is classified as a private foundation subject to an excise tax of two percent on net investment income, including realized gains. The Foundation is eligible to reduce its tax liability from two percent to one percent of net investment income if a certain level of distributions, calculated as defined in the Treasury regulations, is attained. The Foundation utilized one percent (1%) 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, 2015	December 31, 2014
Current excise (benefit) tax	$ (1,300)	$ 138,310
Deferred excise tax	789,000	522,000
Total	$ 787,700	$ 660,310

Note 6 - 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 for the years ended December 31, 2015 and 2014 were $18,360 and $73,440, respectively.

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 year ended December 31, 2015 was $678,696. Minimum future rental payments under the new lease are estimated as follows: $770,700 in 2016, $793,800 in 2017, $817,600 in 2018, $842,200 in 2019, $867,400 in 2020, and $6,040,000 total thereafter.

Note 7 - Retirement Plan:

The Foundation has a 401(k) retirement plan covering all employees who have met minimum service and age requirements. The Foundation will match 200% of the employees' contribution up to 8% of eligible compensation subject to legal limits. In addition, the Foundation may make additional contributions at the discretion of the Board of Directors. The Foundation's contributions to the plan amounted to $327,678 and $205,778 for the years ended December 31, 2015 and 2014, respectively.

Subsequent to December 31, 2015, the Foundation established the Heising-Simons Foundation 457(b) Plan effective on January 1, 2016.

Note 8 - Related Parties:

For the years ended December 31, 2015 and 2014, 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 years ended December 31, 2015 and 2014, the Foundation received funds of $100,000 and $1,000,000, respectively, 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. The 2014 funds directed to specific grantees were recorded in grants payable as of December 31, 2014 and paid out in 2015.