The William and Flora Hewlett Foundation

Financial Statements

December 31, 2015 and 2014

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Independent Auditor's Report

To The Board of Directors of The William and Flora Hewlett Foundation:

We have audited the accompanying financial statements of The William and Flora Hewlett Foundation ("The Foundation"), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets and statements of cash flows for the years then ended.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of the 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.

Auditor's Responsibility
Our responsibility is to express an opinion on the 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 from 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 our 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, we consider internal control relevant to the Foundation'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 Foundation'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 Foundation at December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 29, 2016

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The William and Flora Hewlett Foundation
Statements of Financial Position
December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Assets		
Cash	$ 8,844	$ 7,862
Investments, at fair value (Notes 3 and 4)	8,983,048	9,003,389
Unrelated business income (UBI) tax refund due	921	684
Prepaid expenses and other assets	2,243	4,425
Property and equipment, net (Note 5)	25,046	26,143
Total assets	$ 9,020,102	$ 9,042,503
Liabilities and Net Assets		
Accounts payable and accrued liabilities	$ 9,277	$ 8,473
Accrued postretirement health care benefit (Note 6)	7,072	8,321
Deferred federal excise tax payable	37,499	39,546
Grants payable (Note 7)	226,634	179,786
Total liabilities	280,482	236,126
Net assets, unrestricted	8,739,620	8,806,377
Total liabilities and net assets	$ 9,020,102	$ 9,042,503

See accompanying notes to the financial statements.

The William and Flora Hewlett Foundation
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Revenue		
Interest, dividends and other income	$ 59,142	$ 70,424
Gain on investment portfolio (Note 3)	345,538	851,088
Investment management expense	(14,867)	(13,964)
Net investment income	389,813	907,548
Tax expense on investment income (Note 9)	(18,305)	(5,332)
Net investment revenue	371,508	902,216
Expense		
Grants awarded, net of cancellations	(400,398)	(360,025)
Direct and other charitable activities	(7,868)	(8,487)
Administrative expenses	(31,920)	(30,235)
Post-retirement plan - actuarial gain (loss)	1,921	(1,612)
Total expense	(438,265)	(400,359)
Change in net assets, unrestricted	(66,757)	501,857
Net assets, unrestricted		
Beginning of year	8,806,377	8,304,520
End of year	$ 8,739,620	$ 8,806,377

See accompanying notes to the financial statements.

The William and Flora Hewlett Foundation
Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Cash flows used in operating activities:		
Interest and dividends received	$ 54,115	$ 65,676
Cash paid for taxes	(18,127)	(2,856)
Cash paid to suppliers and employees	(51,998)	(52,737)
Grants paid	(353,550)	(430,982)
Net cash used in operating activities	(369,560)	(420,899)
Cash flows from investing activities:		
Purchases of property and equipment	(364)	(842)
Cash received from partnership distributions	408,901	505,280
Proceeds from sale of investments	27,706,259	37,177,434
Purchase of investments	(27,744,254)	(37,264,690)
Net cash from investing activities	370,542	417,182
Cash flows from financing activities:		
Cash received from lines of credit	100,000	120,000
Cash paid on lines of credit	(100,000)	(120,000)
Net cash from financing activities	-	-
Net change in cash	982	(3,717)
Cash, beginning of year	7,862	11,579
Cash, end of year	$ 8,844	$ 7,862

See accompanying notes to the financial statements.

The William and Flora Hewlett Foundation
Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(dollars in thousands)

	2015	2014
Reconciliation of change in net assets to net cash used in operating activities:		
Change in total net assets	$ (66,757)	$ 501,857
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Post-retirement plan - actuarial (gain) loss	(1,921)	1,612
Depreciation and amortization	1,461	1,442
Net unrealized and realized gain on investments	(345,538)	(851,088)
(Decrease) increase in deferred federal excise tax payable	(2,047)	4,251
Increase in accrued postretirement health care benefit	672	558
Changes in operating assets and liabilities:		
Increase in interest and dividends receivable	(5,027)	(4,748)
Decrease (increase) in prepaid expenses and other	2,182	(2,272)
Increase (decrease) in accounts payable and accrued liabilities	804	(1,891)
(Increase) decrease in UBI tax refund due	(237)	337
Increase (decrease) in grants payable	46,848	(70,957)
Net cash used in operating activities	$ (369,560)	$ (420,899)

See accompanying notes to the financial statements.

1. The Organization

The William and Flora Hewlett Foundation (the "Foundation") is a private foundation incorporated in 1966 as a non-profit 501(c)(3) charitable organization. The Foundation's grantmaking activities are concentrated in the program areas of education, environment, performing arts, global development and population, and advancing the field of philanthropy. More detailed information regarding the Foundation's charitable activities can be obtained from the Foundation's website at www.hewlett.org.

2. Significant Accounting Policies

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America ("U. S. GAAP").

Investments

To the extent available, the Foundation's investments are recorded at fair value based on quoted prices in active markets. The Foundation's investments that are listed on any U.S. or non-U.S. recognized exchanges are valued based on readily available market quotations. When such inputs do not exist, fair value measurements are based on the best available information and usually require a degree of judgment. Futures, forwards, swaps and options that are traded on exchanges are valued at the last reported sale price or, if they are traded over-the-counter, at the most recent bid price. For alternative investments, which are principally limited partnership investments in private equity, real assets, absolute return and distressed / credit funds, the value is primarily based on the net asset value (NAV) of the underlying investments. The NAV is reported by external investment managers, including general partners, in accordance with their policies as described in their respective financial statements and offering memoranda. These investments are generally less liquid than other investments. For these, the value reported may differ from the values that would have been reported had a ready market for these investments existed, and the difference could be material to the change in net assets of the Foundation.

Investment transactions are recorded on trade date. Realized gains and losses on sales of investments are determined on the specific identification basis.

Foreign currency amounts are translated into U.S. dollars based upon exchange rates as of December 31. Transactions in foreign currencies are translated into U.S. dollars at the exchange rate prevailing on the transaction date.

Cash equivalents categorized as investments include money market mutual funds, foreign currency held for investment purposes, and fixed income securities with an original or remaining maturity when purchased of three months or less.

Cash

Cash consists of funds held in commercial interest-bearing accounts, for operating expenses.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line basis over their estimated useful lives. The headquarters building and associated fixtures are depreciated over ten to fifty years. Furniture, computers and office equipment are depreciated over estimated useful lives of three to ten years.

Net Asset Classification

The Foundation's net assets are all classified as unrestricted. The Foundation has no temporarily or permanently restricted net assets.

Grant Expense

Grant expense is recognized in the period when the grant award is approved by the Foundation.

Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) and is classified as a private foundation under Section 509(a) of the Internal Revenue Code. The Foundation is subject to federal excise taxes and taxes on unrelated business income.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (“ASU”) 2015-07 *Fair Value Measurements: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*, amending the Accounting Standards Codification (ASC) 820. This update eliminates the requirement to include investments in the fair value hierarchy table whose fair values are measured at net asset value using the practical expedient. The guidance will be effective for the Foundation beginning January 1, 2016. The Foundation does not expect the new guidance to have a material impact on its financial statements.

(dollars in thousands)

3. Investments

The Foundation's investment portfolio, at December 31 consists of the following:

	2015	2014
Investments, at fair value		
Public equities	$ 679,051	$ 657,527
Commingled funds	2,382,040	2,480,629
Alternative assets	4,796,839	4,758,797
Fixed income	944,517	1,172,727
Net payable on forward fixed income transactions	(745,039)	(598,098)
Cash equivalents	667,914	388,104
Net receivable from investments	274,062	146,806
Derivatives	(16,336)	(3,103)
Total	$ 8,983,048	$ 9,003,389

Approximately 47% of the Foundation's assets at both December 31, 2015 and 2014, were invested (directly or indirectly) in publicly traded equities, which are listed on national exchanges, quoted on NASDAQ, or in the over-the-counter market; treasury and agency bonds of the U.S. government; and investment grade corporate bonds for which active trading markets exist.

Alternative assets consist of private equity, real assets, absolute return and distressed / credit assets, held in partnership or trust format. Approximately 53% of the Foundation's investments at December 31, 2015 and 2014 were invested with various limited partnerships and managers that invest in the securities of companies that are not immediately liquid, such as venture capital and buyout firms, and real estate limited partnerships that have investments in various types of properties. At December 31, 2015 and 2014, the Foundation's commitment to contribute additional capital in future years to various partnerships was approximately $1,754,129 and $1,406,891, respectively.

The investment goal of the Foundation is to maintain or grow its asset size and spending power in real (inflation adjusted) terms with risk at a level appropriate to the Foundation's program objectives. The Foundation diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies. As a general practice, except for certain index swaps, all financial assets of the Foundation are managed by external investment management firms selected by the Foundation. All financial assets of the Foundation are held in custody by a major commercial bank, except for assets invested with partnerships, commingled funds and the overlay swaps, which have separate arrangements related to their legal structure.

(dollars in thousands)

Net realized and unrealized gains on investments are reflected in the statements of activities and changes in net assets. The net gain on the Foundation's investment portfolio for the years ended December 31, 2015 and 2014 consists of the following:

	2015	2014
Net realized gain	$ 467,557	$ 554,188
Net unrealized (loss) / gain	(122,019)	296,900
	$ 345,538	$ 851,088

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the value of the Foundation's investments and total net assets balance could fluctuate materially.

The Foundation's holdings in limited partnerships entail liquidity risk. There is no readily available market for investments in limited partnerships. The underlying investments held within these partnerships are generally in privately held companies. There is no readily available market for such privately held companies, and investments in those may be subject to legal restrictions on transfer. As a result, there is no assurance that the Foundation will be able to realize liquidity for such investments in a specified time frame.

Legal, tax and regulatory changes could occur during the term of the Foundation's fund investments. The regulatory environment for private equity funds is evolving, and changes in the regulation of these funds may adversely affect the value of investments held by the Foundation. The Foundation believes that the effect of any future regulatory change on the Foundation's assets would likely not be substantial.

The Foundation maintains a custody account with its primary custodian, The Bank of New York Mellon Corporation (BNY Mellon). Although the Foundation monitors BNY Mellon and believes that it is an appropriate custodian, there is no guarantee that BNY Mellon, or any other custodian that the Foundation may use from time to time, will not become insolvent. The Foundation believes that, in the event of the insolvency of its custodian, some of the Foundation's assets may be unavailable for a period of time, but that it would ultimately have full recovery of its assets.

The Foundation holds repurchase agreement and reverse repurchase agreement securities in its investment portfolio. The Foundation held both repurchase agreements and reverse repurchase agreements in 2014, and reverse repurchase agreements in 2015. These securities are held in separately managed accounts, in the cash equivalent and the distressed/credit portion of the portfolio. In a repurchase agreement, the Foundation buys a security from another party (usually a financial institution) with the agreement that it be sold back in the future at an agreed upon price. In a reverse repurchase agreement, the Foundation sells a security to another party (usually a financial institution) with the agreement that it be bought back in the future at an agreed upon price. Repurchase and reverse repurchase agreements subject the Foundation to counterparty risk, meaning that the Foundation could lose money if the other party fails to perform under the terms of the agreement. For repurchase agreements, the Foundation mitigates this risk by ensuring that its repurchase agreements are collateralized by U.S. government agency securities and treasury securities. For reverse repurchase agreements, the Foundation mitigates this risk by ensuring that it receives cash in exchange for the security. All collateral is held by the custodian and is monitored daily to ensure that it continues to meet the terms of the repurchase agreements. Investments in repurchase and reverse repurchase agreements are also based on a review of the credit quality of the counterparty.

At December 31, 2015, the Foundation’s net receivable from investments included a receivable from brokers of $360,288 and a payable to brokers of $86,226. At December 31, 2014, the net receivable from investments included a receivable from brokers of $173,906 and a payable to brokers of $27,100.

Included in the net receivable from investments is a receivable from an investment manager. This receivable is collectible over a three-year period and recorded at present value using an effective discount rate of 3.5%, resulting in a receivable value of $88,255 and $106,310 as of December 31, 2015 and 2014, respectively. The discount has been recognized as interest income over the three-year period, which ends in December 2016.

Derivative Instruments

The Foundation transacts in a variety of derivative instruments including futures, forwards, swaps and options primarily for trading purposes with each instrument's primary risk exposure being interest rate, credit, foreign exchange, equity or commodity risk. The fair value of these derivative instruments, held in the Foundation’s separately managed accounts, is included in the investments line item in the statements of financial position with changes in fair value reflected as realized gains (losses) or unrealized gains (losses) on investments within the statements of activities and changes in net assets.

The Foundation does not designate any derivative instruments as hedging instruments under U.S. GAAP.

For certain derivatives, the Foundation has a master netting arrangement which allows the counterparty to the transactions to net applicable collateral held on behalf of the Foundation against applicable liabilities of the Foundation to the counterparty.

Some investment managers retained by the Foundation have been authorized to use certain financial derivative instruments in a manner set forth by the Foundation’s written investment policy, specific manager guidelines or partnership/fund agreement documents. Specifically, financial derivative instruments may be used for the following purposes: (1) currency forward contracts and options are used to hedge nondollar exposure in foreign investments, or to take positions in managed currency portfolios; (2) futures and swap contracts are used to rebalance asset categories within the portfolio and to manage market exposures in managed portfolios; and (3) futures contracts, swaps and options are used to hedge or leverage positions in managed portfolios.

Certain of the investment managers purchase or sell fixed income securities on a delayed delivery or forward settled basis. These transactions involve a commitment by the Foundation to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period, typically from 1 to 3 months. If a security is purchased on a delayed delivery basis, the Foundation assumes the rights and risks of ownership of the security at the time of the purchase, including the risk of price and yield fluctuations. Subsequently, the Foundation reflects such fluctuations in its net assets. The investment manager may dispose of or renegotiate a delayed delivery transaction after it is entered into, and may sell the securities before they are delivered, which may result in a realized gain or loss. At December 31, 2015, the Foundation's net liability for these forward purchases and sales included a receivable from investment managers of $205,435 and a payable to investment managers of $950,474. At December 31, 2014, the net liability for these forward purchases and sales included a receivable from investment managers of $162,319 and a payable to investment managers of $760,417.

Net premiums paid (or received) with respect to open options contracts at December 31, 2015 and 2014 were $(10,820) and $(4,300), respectively. The total value of investments pledged with respect to options and futures contracts at December 31, 2015 and 2014 was $321 and $6,036, respectively. The value of restricted cash held at brokers as collateral for variation margin at December 31, 2015 and 2014 was $23,957 and $8,614, respectively.

In the opinion of the Foundation's management, the use of financial derivative instruments in its investment program is appropriate and customary for the investment strategies employed. Using those instruments reduces certain investment risks and may add value to the portfolio. The instruments themselves, however, do involve investment and counterparty risk in amounts greater than what are reflected in the Foundation's financial statements. Management does not anticipate that losses, if any, from such instruments would materially affect the financial position of the Foundation.

(dollars in thousands)

The following table lists the fair value of derivatives, and repurchase and reverse repurchase agreements, by contract type as included in the statement of financial position at December 31, 2015. The table excludes exposures relating to derivatives held indirectly through commingled funds.

	Statement of Financial Position Location	Assets: Average Notional / # of Contracts	Assets: Gross amounts of recognized assets	Liabilities: Average Notional / # of Contracts	Liabilities: Gross amounts offset in the Statement of Financial Position	Net amounts of assets presented in the Statement of Financial Position	Collateral pledged / received [1]	Net amount
Derivatives not designated as hedging instruments under ASC 815								
Interest rate contracts	Investments	179,273	$ 1,454	107,826	$ (8,193)	$ (6,739)	$ 6,739	$ -
Futures - Interest rate contracts	Investments	-	2,245	(1)	(2,913)	(668)	668	-
Credit contracts	Investments	302,125	2,702	7,009	(3,991)	(1,289)	1,289	-
Equity contracts	Investments	5,065	574	(11,594)	(9,005)	(8,431)	8,431	-
Foreign exchange contracts	Investments	240,941	274,959	(240,248)	(274,168)	791	-	791
Total derivatives			$ 281,934		$ (298,270)	$ (16,336)	$ 17,127	$ 791
Repurchase agreements	Investments		$ -		$ -	$ -	$ -	$ -
Reverse repurchase agreements	Investments		-		(73,847)	(73,847)	73,847	-
Total offsetting financial instruments			$ 281,934		$ (372,117)	$ (90,183)	$ 90,974	$ 791

[1] Excess collateral pledged / received is not shown for financial reporting purposes.

(dollars in thousands)

The following table lists the fair value of derivatives, and repurchase and reverse repurchase agreements, by contract type as included in the statement of financial position at December 31, 2014. The table excludes exposures relating to derivatives held indirectly through commingled funds.

	Statement of Financial Position Location	Assets: Average Notional / # of Contracts	Assets: Gross amounts of recognized assets	Liabilities: Average Notional / # of Contracts	Liabilities: Gross amounts offset in the Statement of Financial Position	Net amounts of assets presented in the Statement of Financial Position	Collateral pledged / received [1]	Net amount
Derivatives not designated as hedging instruments under ASC 815								
Interest rate contracts	Investments	157,708	$ 3,430	33,563	$ (9,028)	$ (5,598)	$ 4,414	$ (1,184)
Futures - Interest rate contracts	Investments	-	3,579	1	(3,669)	(90)	90	-
Credit contracts	Investments	308,164	6,216	759	(486)	5,730	-	5,730
Equity contracts	Investments	3,567	487	(14,355)	(4,097)	(3,610)	3,610	-
Foreign exchange contracts	Investments	193,688	138,896	(193,036)	(138,431)	465	-	465
Total derivatives			$ 152,608		$ (155,711)	$ (3,103)	$ 8,114	$ 5,011
Repurchase agreements	Investments		$ 32,400		$ -	$ 32,400	$ (32,400)	$ -
Reverse repurchase agreements	Investments		-		(62,483)	(62,483)	62,483	-
Total offsetting financial instruments			$ 185,008		$ (218,194)	$ (33,186)	$ 38,197	$ 5,011

[1] Excess collateral pledged / received is not shown for financial reporting purposes.

(dollars in thousands)

The following table indicates the gains and losses recognized as income on derivatives, by contract type, as included in the statement of activities and changes in net assets for the year ended December 31, 2015.

	Location of Gain or (Loss)	Change in Unrealized Gain or (Loss)	Realized Gain or (Loss)
Derivatives not designated as hedging instruments under ASC 815			
Interest rate contracts	Gain on investment portfolio	$ (58)	$ (5,225)
Futures - Interest rate contracts	Gain on investment portfolio	(579)	760
Credit contracts	Gain on investment portfolio	(4,835)	4,301
Equity contracts	Gain on investment portfolio	1,317	31,680
Foreign exchange contracts	Gain on investment portfolio	210	984
Total gain (loss) on derivatives, net		$ (3,945)	$ 32,500

The following table indicates the gains and losses recognized as income on derivatives, by contract type, as included in the statement of activities and changes in net assets for the year ended December 31, 2014.

	Location of Gain or (Loss)	Change in Unrealized Gain or (Loss)	Realized Gain or (Loss)
Derivatives not designated as hedging instruments under ASC 815			
Interest rate contracts	Gain on investment portfolio	$ (5,919)	$ (2,213)
Futures - Interest rate contracts	Gain on investment portfolio	1,491	1,473
Credit contracts	Gain on investment portfolio	(873)	4,868
Equity contracts	Gain on investment portfolio	1,105	1,593
Foreign exchange contracts	Gain on investment portfolio	779	4,779
Total gain (loss) on derivatives, net		$ (3,417)	$ 10,500

Credit Default Swaps

The Foundation's investment managers enter into credit default swaps. The Foundation managers use these swaps to reduce risk where the Foundation has exposure to the issuer, or to take an active long or short position with respect to the likelihood of an event of default. The reference obligation of the swap can be a single issuer, a "basket" of issuers, or an index. The underlying referenced assets are typically corporate debt, sovereign debt and asset backed securities.

The buyer of a credit default swap is generally obligated to pay the seller fixed periodic payments over the term of the contract in return for a contingent payment upon the occurrence of a negative credit event with respect to an underlying reference obligation. If a credit event occurs, the seller typically must pay the contingent payment to the buyer, which is typically the par value (equal to the notional amount less recovery value of the security or underlying securities) of the reference obligation, though the actual payment may be mitigated by terms of the International Swaps and Derivative Agreement ("ISDA"), allowing for netting arrangements and collateral.

The contingent payment may be a cash settlement or a physical delivery of the reference obligation in return for payment of the face amount of the obligation. If the Foundation's investment manager is a buyer and no credit event occurs, the Foundation may lose its investment and recover nothing. However, if a credit event occurs, the buyer typically receives full notional value for a reference obligation that may have little or no value. As a seller, the Foundation receives a fixed rate of income throughout the term of the contract, which typically is between one month and five years, provided that no credit event occurs. If a credit event occurs, the Foundation may be obligated to pay the buyer an amount up to the full notional value of the reference obligation.

As of December 31, 2015 and 2014, the Foundation is the seller ("providing protection") on a total notional amount of $324,899 and $372,259, respectively. The notional amounts of the swaps are not recorded in the financial statements; however the notional amount does approximate the maximum potential amount of future payments that the Foundation could be required to make if the Foundation were the seller of protection and a credit event were to occur.

(dollars in thousands)

Those credit default swaps for which the Foundation was providing protection at December 31, 2015 are summarized as follows:

Written Credit Derivative Contracts	**Single Name Credit Default Swaps**		**Credit Default Swap Index**			
Reference Asset:	**Corporate Debt**	**Sovereign Debt**	**Asset Backed Securities**	**Corporate Debt**	**Sovereign Debt**	**Total**
Fair value of written credit derivatives	$ (3,518)	$ (14)	$ (39)	$ 2,282	$ -	$ (1,289)
Maximum potential amount of future payments	$ 49,613	$ 16,100	$ 10,266	$ 248,920	$ -	$ 324,899
Recourse provisions with 3rd parties to recover any amounts paid under the credit derivative						$ -

Maximum Potential Amount of Future Payments By Contract Term

	0-12 months	**1-5 years**	**5-10 years**	**Over 10 years**	**Total**
Current rating on underlying:					
AAA	$ -	$ -	$ -	$ 10,266	$ 10,266
AA		25,000	3,500		28,500
A		31,513	2,000		33,513
BBB		205,900			205,900
<BBB		46,720			46,720
Total	$ -	$ 309,133	$ 5,500	$ 10,266	$ 324,899

(dollars in thousands)

Those credit default swaps for which the Foundation was providing protection at December 31, 2014 are summarized as follows:

Written Credit Derivative Contracts	**Single Name Credit Default Swaps**		**Credit Default Swap Index**			
Reference Asset:	**Corporate Debt**	**Sovereign Debt**	**Asset Backed Securities**	**Corporate Debt**	**Sovereign Debt**	**Total**
Fair value of written credit derivatives	$ 931	$ (213)	$ (46)	$ 4,896	$ 172	$ 5,740
Maximum potential amount of future payments	$ 47,381	$ 41,600	$ 6,535	$ 259,500	$ 17,243	$ 372,259
Recourse provisions with 3rd parties to recover any amounts paid under the credit derivative						$ -

<u>Maximum Potential Amount of Future Payments By Contract Term</u>

	0-12 months	**1-5 years**	**5-10 years**	**Over 10 years**	**Total**
Current rating on underlying:					
AAA	$ 1,600	$ -	$ -	$ 6,535	$ 8,135
AA		12,700	3,500		16,200
A	3,993	47,370	9,261		60,624
BBB		274,500			274,500
<BBB	400	12,400			12,800
Total	$ 5,993	$ 346,970	$ 12,761	$ 6,535	$ 372,259

4. Valuation of Investments

U.S. GAAP has established a framework to measure fair value, and defined the required disclosures about fair value measurements. FASB Accounting Standards Codification ASC 820 on Fair Value Measurements favors the use of market-based information over entity-specific information. The standard prescribes a three-level hierarchy for fair value measurements based on the transparency of information, such as the pricing source, used in the valuation of an asset as of the measurement date.

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

Level I – Investments whose values are based on quoted market prices in active markets for identical securities are classified as Level I. The type of investments in Level I include listed equities held in the name of the Foundation, and exclude listed equities and other securities held indirectly through commingled funds.

Level II – Investments that trade in markets that are not actively traded, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources for similar assets or liabilities are classified as Level II. These investments include certain U.S. government and sovereign obligations, government agency obligations, derivatives and certain limited marketable securities. In instances where valuation models are used, inputs can include market prices for reference securities, yield curves, exchange rates or interest rates.

Level III – Investments classified as Level III have significant unobservable pricing inputs, as they trade infrequently or not at all. The inputs into the determination of fair value of these investments are based upon the best information in the circumstances, including the use of models, and may require significant management judgment. Investments in this category include privately held investments and securities held in partnership or trust format, and for these the Net Asset Value (NAV) as a practical expedient has been used.

(dollars in thousands)

The following table summarizes the valuation of the Foundation's investments by the ASC 820 fair value hierarchy levels as of December 31, 2015:

	Level I	Level II	Level III	Total
Public Equities	$ 635,401	$ 992	$ 42,658	$ 679,051
Fixed Income [1]	609,489	335,028		944,517
Commingled Funds [2]			2,382,040	2,382,040
Cash Equivalents	512,240	155,329	345	667,914
Alternative Assets:				
Private Equity			2,259,039	2,259,039
Real Assets			622,106	622,106
Distressed / Credit		121,462	1,031,835	1,153,297
Absolute Return			762,397	762,397
Derivatives - Assets	277,317	4,617		281,934
Assets	**$ 2,034,447**	**$ 617,428**	**$ 7,100,420**	**$ 9,752,295**
Derivatives - Liabilities	(277,156)	(21,114)		(298,270)
Investments, at fair value	**$ 1,757,291**	**$ 596,314**	**$ 7,100,420**	9,454,025
Accrued Income and Net Payables and Receivables				(470,977)
Total Investments				**$ 8,983,048**

[1] Within the fixed income portion of portfolio, the Foundation holds certain asset-backed securities which are traded on a to be announced (TBA) basis. At December 31, 2015, the fair value of the long and short positions of these TBA securities were $128,819 and ($0), respectively.

[2] These are directional investments, invested mostly in equity portfolios. These funds invest mostly in long only securities, and some invest in both long and short securities. The investments are public securities, and the funds are held in partnership or trust format.

(dollars in thousands)

The following table summarizes the valuation of the Foundation's investments by the ASC 820 fair value hierarchy levels as of December 31, 2014:

	Level I	Level II	Level III	Total
Public Equities	$ 642,921	$ 35	$ 14,571	$ 657,527
Fixed Income [1]	946,190	226,537		1,172,727
Commingled Funds [2]			2,480,629	2,480,629
Cash Equivalents	255,905	131,710	489	388,104
Alternative Assets:				
Private Equity			2,114,676	2,114,676
Real Assets			803,056	803,056
Distressed / Credit		106,678	1,031,732	1,138,410
Absolute Return			702,655	702,655
Derivatives - Assets	142,482	10,126		152,608
Assets	**$ 1,987,498**	**$ 475,086**	**$ 7,147,808**	**$ 9,610,392**
Derivatives - Liabilities	(143,908)	(11,803)		(155,711)
Investments, at fair value	**$ 1,843,590**	**$ 463,283**	**$ 7,147,808**	9,454,681
Accrued Income and Net Payables and Receivables				(451,292)
Total Investments				**$ 9,003,389**

[1] Within the fixed income portion of portfolio, the Foundation holds certain asset-backed securities which are traded on a to be announced (TBA) basis. At December 31, 2014, the fair value of the short and long positions of these TBA securities were ($77,616) and $47,396, respectively.

[2] These are directional investments, invested mostly in equity portfolios. These funds invest mostly in long only securities, and some invest in both long and short securities. The investments are public securities, and the funds are held in partnership or trust format.

The two tables on the following pages summarize the Foundation's Level III reconciliation by the ASC 820 standards as of December 31, 2015 and 2014.

(dollars in thousands)

	Beginning Balance at January 1, 2015	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases and Other Acquisitions	Sales and Other Dispositions	Transfers Into Level III	Transfers (Out) of Level III	Ending Balance at December 31, 2015
Level III Assets								
Public Equities	$ 14,571	$ (2,957)	$ (7,602)	$ 64,697	$ (23,255)	$ -	$ (2,796)	$ 42,658
Fixed Income	-	124	(91)		(67)	1,562	(1,528)	-
Commingled Funds	2,480,629	171,911	8,494	50,460	(329,454)			2,382,040
Cash and Cash Equivalents	489		(17)	505	(632)			345
Private Equity	2,114,676	101,080	64,189	278,922	(299,828)			2,259,039
Real Assets	803,056	38,385	(56,432)	254,663	(417,566)			622,106
Distressed / Credit	1,031,732	35,554	(38,596)	113,073	(105,738)		(4,190)	1,031,835
Abs. Return	702,655	18,451	(17,070)	58,361				762,397
Total	**$ 7,147,808**	**$ 362,548**	**$ (47,125)**	**$ 820,681**	**$ (1,176,540)**	**$ 1,562**	**$ (8,514)**	**$ 7,100,420**

	Beginning Balance at January 1, 2014	Realized Gains	Change in Unrealized Gains (Losses)	Purchases and Other Acquisitions	Sales and Other Dispositions	Transfers Into Level III	Transfers (Out) of Level III	Ending Balance at December 31, 2014
Level III Assets								
Public Equities	$ 11,454	$ 4,050	$ (3,205)	$ 13,253	$ (13,253)	$ 2,272	$ -	$ 14,571
Fixed Income	3,311	124	538	11,046	(33,994)	18,975		-
Commingled Funds	2,104,329	70,783	146,735	615,177	(441,901)		(14,494)	2,480,629
Cash and Cash Equivalents	278	96	(12)	127				489
Private Equity	1,902,260	114,573	123,867	221,910	(247,934)			2,114,676
Real Assets	1,006,683	114,899	543	151,058	(470,127)			803,056
Distressed / Credit	995,319	51,583	(2,829)	277,597	(294,952)	5,014		1,031,732
Abs. Return	758,902	6,518	15,661	87,125	(180,045)	14,494		702,655
Total	**$ 6,782,536**	**$ 362,626**	**$ 281,298**	**$ 1,377,293**	**$ (1,682,206)**	**$ 40,755**	**$ (14,494)**	**$ 7,147,808**

Transfers In (Out) include investments which have been reclassified to Level I and II as the Foundation has the ability to redeem these at NAV in the near term or pricing inputs became observable. This also includes situations where pricing inputs became unobservable for certain Level II investments. All transfer amounts are based on the fair value as of the date of the event or change in circumstances that caused the transfer.

The amount included in the Statement of Activities and Changes in Net Assets for the period which is attributable to the change in unrealized gains (losses) related to assets still held at December 31, 2015 and 2014 was $1,815,982 and $1,867,345, respectively.

(dollars in millions)

The Foundation uses the NAV as a practical expedient to determine the fair value of all the underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The following table lists investments in investment funds (in partnership or trust format) by major category as of December 31, 2015:

	Strategy	Fair Value	Remaining Life (Years)	Unfunded Commitments	Redemption Terms and Restrictions
Private Equity	Venture and buyout, in the U.S. and international	$ 2,259	1 to 14	$ 815	Not eligible for redemption
Real Assets	Real estate and natural resources, primarily in the U.S.	622	1 to 14	539	Not eligible for redemption
Distressed / Credit	Distressed asset funds & credit strategies, globally	1,153	1 to 12	290	24% by value are in private equity structure, with no redemption ability. 32% by value (3 funds) have lock up provisions between 0.5 to 2 years. Side pockets exist for less than 1% by value. For the rest, terms range from daily and monthly redemption with 7 - 90 days' notice, to annual redemption with 45 - 180 days' notice.
Absolute Return	Global equity and fixed income funds in market neutral strategies	762	Not Applicable	92	24% by value (3 funds) have lock up provisions between 1 to 2.5 years. For the rest, terms range from monthly to quarterly redemption with 7 - 90 days' notice, to annual redemption with 60 days' notice.
Commingled Funds	Global funds, primarily long-only and primarily in equities	2,382	Not Applicable	18	44% by value (5 funds) have lock up provisions between 0.5 to 3.5 years. For the rest, terms range from monthly to annual redemption with 10 - 90 days' notice.
Total		$ 7,178		$ 1,754	

(dollars in millions)

The following table lists investments in investment funds (in partnership or trust format) by major category as of December 31, 2014:

	Strategy	Fair Value	Remaining Life (Years)	Unfunded Commitments	Redemption Terms and Restrictions
Private Equity	Venture and buyout, in the U.S. and international	$ 2,115	1 to 14	$ 671	Not eligible for redemption
Real Assets	Real estate and natural resources, primarily in the U.S.	803	1 to 14	426	4% by value (1 fund) has annual redemption with 60 days' notice subject to the fund's repurchase guideline. The rest are not eligible for redemption.
Distressed / Credit	Distressed asset funds & credit strategies, globally	1,138	1 to 12	310	24% by value are in private equity structure, with no redemption ability. 31% by value (4 funds) have lock up provisions between 0.5 to 2 years. Side pockets exist for approximately 1% by value. For the rest, terms range from daily and monthly redemption with 7 - 90 days' notice, to annual redemption with 45 - 180 days' notice.
Absolute Return	Global equity and fixed income funds in market neutral strategies	703	Not Applicable	-	18% by value (2 funds) have lock up provisions between 2 to 3.5 years. For the rest, terms range from monthly to quarterly redemption with 7 - 90 days' notice, to annual redemption with 60 days' notice.
Commingled Funds	Global funds, primarily long-only and primarily in equities	2,481	Not Applicable	-	36% by value (5 funds) have lock up provisions between 1 to 4.5 years. For the rest, terms range from monthly to annual redemption with 10 - 90 days' notice.
Total		$ 7,240		$ 1,407	

(dollars in thousands)

5. Property and Equipment, Net

Property and equipment consist of the following at December 31, 2015 and 2014:

	2015	2014
Building, land lease and land improvements	$ 34,357	$ 34,357
Furniture and fixtures	6,060	5,902
Computer and office equipment	3,164	3,175
	43,581	43,434
Less accumulated depreciation and amortization	(18,535)	(17,291)
	$ 25,046	$ 26,143

6. Benefit Plans

Retirement Plans

The Foundation sponsors a 403(b) defined contribution plan for its eligible employees. Foundation contributions to the plan totaled $2,158 and $2,033 in 2015 and 2014, respectively.

The Foundation also has an unfunded 457(b) deferred compensation plan. Subject to statutory limits, the Foundation contributes to the plan on behalf of eligible employees that did not receive their full contributions to the defined contribution plan due to Internal Revenue Service limits. In relation to this plan, at December 31, 2015 and 2014 the Foundation held assets of $1,541 and $1,364, respectively, which are included in prepaid expenses. These assets are designated by the Foundation to pay future 457(b) plan liabilities. The corresponding liabilities of $1,541 and $1,364, respectively, are included in accrued liabilities.

Postretirement Health Care Benefits

The Foundation provides health care benefits to retired employees and their eligible dependents. Net periodic benefit costs totaled $731 and $624 in 2015 and 2014, respectively. The Foundation recorded a liability for postretirement benefit obligations of $7,072 and $8,321 as of December 31, 2015 and 2014, respectively.

(dollars in thousands)

The weighted average discount rate assumptions used for the plan are shown below:

	2015	**2014**
Discount rate to determine benefit obligations	4.33%	3.84%
Discount rate to determine the net periodic benefit cost	3.84%	4.75%

7. Grants Payable

Grant requests are recorded as grants payable when they are awarded. Some of the grants are payable in installments, generally over a two or three-year period. Grants authorized but unpaid at December 31, 2015 are payable as follows:

Year Payable	**Amount**
2016	$ 163,588
2017	46,081
2018	14,595
2019	2,370
	$ 226,634

8. Credit Facilities

The Foundation has a collateralized revolving line of credit ("LOC") of $300,000, a one-year committed revolving LOC of $100,000 and a two-year committed revolving LOC of $200,000. At December 31, 2015 and 2014 there were no outstanding principal balances. The interest rate on these lines of credit is variable and is indexed to the one month London Interbank Offered Rate ("LIBOR").

(dollars in thousands)

9. Federal Excise and Unrelated Business Income Tax

The Foundation is a private foundation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. Private foundations are subject to a federal excise tax on net investment income and may reduce their federal excise tax rate from 2% to 1% by exceeding a certain payout target for the year. The Foundation's provision for current federal excise tax is based on a 2% rate on net investment income in 2015. Each year the current federal excise tax is levied on interest and dividend income and net realized gains of the Foundation.

At December 31, 2015 and 2014, deferred federal excise tax is provided at 2%, the maximum rate which could be paid on unrealized gains on investments.

The Foundation is also subject to current federal and state unrelated business income (UBI) tax, in connection with certain of its limited partnership interests.

	2015	2014
Current federal excise tax expense	$ 14,759	$ 1,240
Deferred federal excise tax expense	(2,095)	4,251
Excise tax expense	12,664	5,491
Unrelated business income (UBI) tax expense	5,641	(159)
Tax expense on investment income	$ 18,305	$ 5,332

The Foundation believes that it has appropriate support for the excise and other tax positions taken and, as such, does not have any uncertain tax positions that result in a material impact on the Foundation's financial position or change in total net assets.

10. Subsequent Events

The Foundation has evaluated subsequent events for the period from December 31, 2015 through April 29, 2016, the date the financial statements were issued, and believes no additional disclosures are required in the financial statements.