Financial Statements and
Independent Auditors' Report

THE NICHOLAS ENDOWMENT

As of and for the Years Ended December 31, 2015 and 2014

THE NICHOLAS ENDOWMENT

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Nicholas Endowment

We have audited the accompanying financial statements of The Nicholas Endowment (the "Endowment"), 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 cash flows for each of 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 audits 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 the auditors' 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 auditors consider 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Nicholas Endowment as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for each of the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Haskell & White LLP

HASKELL & WHITE LLP

Irvine, California
May 8, 2017

THE NICHOLAS ENDOWMENT

Statements of Financial Position
As of December 31, 2015 and 2014

ASSETS	2015	2014
Assets:		
Cash and cash equivalents	$ 475,638	$ 736,891
Investments, at fair value (Notes 1 and 2)	35,524,390	38,000,352
Total assets	$ 36,000,028	$ 38,737,243
LIABILITIES AND NET ASSETS		
Liabilities:		
Federal excise tax liabilities	$ 65,834	$ 141,761
Total liabilities	65,834	141,761
Net Assets:		
Unrestricted	35,934,194	38,595,482
Total net assets	35,934,194	38,595,482
Total liabilities and net assets	$ 36,000,028	$ 38,737,243

See accompanying notes to financial statements.

THE NICHOLAS ENDOWMENT

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2015 and 2014

	2015	2014
Investment income:		
Interest, dividends and mutual fund distributions	$ 707,268	$ 1,639,428
Operating income (loss) from partnerships	148,039	(14,506)
Net realized gains on investments sold	2,195,922	590,752
Net change in unrealized gains/losses on investments	(4,091,846)	(713,905)
Investment management and custodian fees	(101,919)	(127,559)
Federal excise tax benefit	44,622	27,084
Total net investment (loss) income	(1,097,914)	1,401,294
Expenses:		
Grants awarded (Note 1)	1,478,505	1,585,250
General and administrative	84,869	69,924
Total expenses	1,563,374	1,655,174
Change in net assets	(2,661,288)	(253,880)
Net assets at beginning of the year	38,595,482	38,849,362
Net assets at end of the year	$ 35,934,194	$ 38,595,482

See accompanying notes to financial statements.

THE NICHOLAS ENDOWMENT

Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Change in net assets	$ (2,661,288)	$ (253,880)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized losses on investments	1,895,924	123,153
Change in liabilities:		
Federal excise tax liabilities	(75,927)	(27,084)
Net cash used in operating activities	(841,291)	(157,811)
Cash flows from investing activities		
Proceeds from sale of investments	10,185,847	4,227,756
Purchase of investments	(9,605,809)	(3,721,136)
Net cash provided by investing activities	580,038	506,620
Net change in cash and cash equivalents	(261,253)	348,809
Cash and cash equivalents, beginning of year	736,891	388,082
Cash and cash equivalents, end of year	$ 475,638	$ 736,891
Supplemental disclosure of cash flow information:		
Cash paid during the year for federal excise taxes	$ 26,215	$ 30,719

See accompanying notes to financial statements.

THE NICHOLAS ENDOWMENT

Notes to Financial Statements
December 31, 2015 and 2014

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Nicholas Endowment (the "Endowment") was established in 2002 to provide a perpetual base of funding to supported organizations and charities. The Endowment awards grants in the areas of science and education, performing and visual arts, and other selected causes.

Effective January 1, 2011, the Endowment was converted from a public charity to a private foundation. With this conversion, the minimum distribution of assets is based upon an assessment of the endowment value at the end of each year. The year ended December 31, 2011 was considered a grace year and the minimum distribution of assets assessment started with the year ended December 31, 2012. The Endowment was in compliance with the minimum distribution requirement for each of the years ended December 31, 2015 and 2014.

Basis of Presentation

The financial statements of the Endowment have been prepared on the accrual basis of accounting and on the basis of unrestricted, temporarily restricted and permanently restricted net assets. As of December 31, 2015 and 2014, all of the Endowment's net assets are unrestricted. The statements of financial position are prepared using specialized accounting principles of Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and gains, and expenses and losses. Such estimates primarily relate to fair value of investments that do not have readily determinable market values and unsettled transactions and events as of the date of the financial statements. Accordingly, actual results may differ from estimated amounts.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents may include, bank checking accounts, money market funds and highly-liquid debt instruments with maturities of three months or less when purchased.

Investments

Investments are presented at estimated fair value. Where available and appropriate, alternative investments, which generally do not have a readily determinable fair value, are valued using fund-provided net asset values per share or ownership interest (NAVs) as allowed under Financial Accounting Standards Board Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

The ultimate liquidation of alternative investments is restricted to certain time periods and is generally limited to sell to the fund manager or distributions from the fund. Due to the inherent uncertainty of valuation of nonmarketable and restricted investments, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed and the differences could be material.

Investments are exposed to various risks such as significant world events, interest rates, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near-term and that such changes could materially affect the amounts reported in the statements of financial position.

Grants

Grant expense is recognized in the period the grant is approved, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions. Grants payable that are expected to be paid in future years are recorded at the present value of expected future payments. At December 31, 2015 and 2014, the Endowment had no grants payable. For the years ended December 31, 2015 and 2014, grants expense totaled $1,478,505 and $1,585,250, respectively.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Taxes

The Endowment is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and corresponding state codes. However, the Endowment is subject to a federal excise tax because it is a private foundation in accordance with Internal Revenue Service regulations. The IRC imposes an excise tax on private foundations equal to 2% of net investment income, as defined by the IRC. The tax is reduced to 1% for foundations that meet certain distribution requirements under Section 4940(e) of the IRC.

The Endowment's current provision for federal excise tax is based on a 2% and 1% rate for the years ended December 31, 2015 and 2014, respectively, while the deferred provision for federal excise tax on cumulative net unrealized gains is based on a 2% rate for the years ended December 31, 2015 and 2014. As of December 31, 2015, the Endowment has a current federal excise tax liability of $32,102 and an estimated deferred tax liability of $33,732. As of December 31, 2014, federal excise tax liabilities aggregated $141,761.

The Endowment determines whether tax positions of the Endowment are "more likely than not" to be sustained upon examination by the applicable taxing authority based on the technical merits of the positions. As of December 31, 2015 and 2014, the Endowment has analyzed its significant tax positions for all open tax years (in each respective jurisdiction) and has concluded that no reserve for uncertain tax positions is required.

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The new standard will be effective for the Endowment for its year ending December 31, 2018, with early application permitted. Management is currently evaluating the impact of the adoption of this standard.

In February 2016, the FASB issued guidance regarding leases, which requires lessees to recognize on the balance sheet a right-of-use asset, representing their right to use the underlying asset for the lease term, and a lease liability for all leases with terms greater than 12 months. The guidance also requires qualitative and quantitative disclosures

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

designed to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. The guidance is effective for the Endowment in 2020. Management does not expect this guidance to significantly impact the accompanying financial statements.

In May 2015, the FASB issued Accounting Standard Update No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share*. The new guidance removes, from the fair value hierarchy, investments for which the practical expedient is used to measure fair value at net asset value (NAV). Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. The guidance is effective for the Endowment for its year ended December 31, 2016, with retrospective application required for all comparative periods presented.

In May 2014, the FASB issued new accounting guidance regarding revenue recognition from contracts with customers, which when effective will supersede existing revenue recognition requirements and will eliminate most industry-specific guidance from GAAP. The core principle of the new guidance is to require an entity to recognize as revenue the amount that reflects the consideration to which it expects to be entitled in exchange for goods or services as it transfers control to its customers. Further, the new guidance requires additional qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity can apply the new guidance retrospectively to each prior reporting period presented (i.e., the full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. The new revenue recognition standard is effective for the Endowment on January 1, 2019. Management does not expect this guidance to significantly impact the accompanying financial statements.

2. Investments

Investment Composition

The Endowment's investments measured at fair value as of December 31, 2015 and 2014 are comprised of the following:

2. Investments (continued)

	2015	2014
United States equities	$ 10,737,172	$ 12,635,718
Non-United States equities	8,221,958	8,530,336
Fixed income investments	7,515,834	7,609,972
Real asset funds	1,330,160	1,109,888
Hedge funds	6,188,996	6,328,396
Partnerships	1,530,270	1,786,042
	$ 35,524,390	$ 38,000,352

At December 31, 2015 and 2014, the Endowment had commitments to contribute additional capital to its partnership investments of approximately $1,405,000 and $1,751,000, respectively.

Fair Value Measurements

Fair value is defined as the price that the Endowment would receive to sell an asset, or pay to transfer a liability, in an orderly transaction between market participants at the measurement date. The Endowment utilizes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the Endowment's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The three-tier hierarchy of inputs is summarized below.

Level 1 - inputs are quoted prices in active markets.

Level 2 - inputs are observable, directly or indirectly; fair value is primarily determined using models or other valuation methodologies that utilize market prices of similar securities as inputs to determine fair value.

Level 3 - inputs are unobservable and include situations where there is little, if any, market activity.

2. Investments (continued)

Fair Value Measurements (continued)

The following table summarizes the valuation of the Endowment's investments by their assigned three-level fair value hierarchy as of December 31, 2015 and 2014:

	2015			
	Level 1	Level 2	Level 3	Total
Equities	$ 18,959,130	$ -	$ -	$ 18,959,130
Fixed income	7,515,834	-	-	7,515,834
Real asset funds	1,330,160	-	-	1,330,160
Hedge funds	-	-	6,188,996	6,188,996
Partnerships	-	-	1,530,270	1,530,270
Total Investments	$ 27,805,124	$ -	$ 7,719,266	$ 35,524,390

	2014			
	Level 1	Level 2	Level 3	Total
Equities	$ 21,166,054	$ -	$ -	$ 21,166,054
Fixed income	7,609,972	-	-	7,609,972
Real asset funds	1,109,888	-	-	1,109,888
Hedge funds	-	-	6,328,396	6,328,396
Partnerships	-	-	1,786,042	1,786,042
Total Investments	$ 29,885,914	$ -	$ 8,114,438	$ 38,000,352

The fair value of equities, fixed income securities and real asset funds is based on quoted prices in active markets.

The Endowment has investments in hedge funds and partnerships that are classified as Level 3 investments, which are collectively referred to as "alternative" investments, whose values have been estimated by the Endowment in the absence of readily ascertainable market values. The Endowment's estimate of fair value is generally based on the NAV provided by each alternative investment fund, supported by independently audited financial statements of the alternative investment fund, when available.

2. Investments (continued)

Fair Value Measurements (continued)

Changes in Level 3 assets measured at fair value for the years ended December 31, 2015 and 2014 are as follows:

	2015						
	Balance January 1, 2015	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases	Sales	Return of Capital	Balance December 31, 2015
Hedge funds	$ 6,328,396	$ -	$ (139,400)	$ -	$ -	$ -	$ 6,188,996
Partnerships	1,786,042	113,385	62,872	291,098	(671)	(722,456)	1,530,270
	$ 8,114,438	$ 113,385	$ (76,528)	$ 291,098	$ (671)	$ (722,456)	$ 7,719,266

	2014						
	Balance January 1, 2014	Realized Gains (Losses)	Change in Unrealized Gains (Losses)	Purchases	Sales	Return of Capital	Balance December 31, 2014
Hedge funds	$ 6,718,683	$ -	$ 228,896	$ -	$ (619,183)	$ -	$ 6,328,396
Partnerships	1,996,831	394,114	(58,148)	234,737	(106,729)	(674,763)	1,786,042
	$ 8,715,514	$ 394,114	$ 170,748	$ 234,737	$ (725,912)	$ (674,763)	$ 8,114,438

Risks and Uncertainties

The Endowment maintains its cash, cash equivalents, and a significant portion of its investments with high-credit quality financial institutions. At times, balances in these accounts exceed the Federal Deposit Insurance Corporation insurance limit of $250,000 or the Securities Investor Protection Corporation insurance limit of $500,000.

To address market risk of investments, the Endowment maintains a formal investment policy that sets out performance criteria, investment guidelines and requires review of the investment managers' performances. Investments are managed by multiple investment managers, who have responsibility for investing the funds in various investment alternatives. In addition, an investment consultant is also utilized. The Endowment also has custody agreements with selected banks, which process disbursements at the direction of authorized staff and the board of trustees.

2. Investments (continued)

Risks and Uncertainties (continued)

The Endowment's holdings in limited partnerships entail liquidity risk, as 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 Endowment will be able to realize liquidity for such investments in a specified time frame.

3. Consulting Services

The Endowment has an agreement with a management group to receive consulting services. Under the terms of the agreement, the Endowment pays a monthly fee of approximately $3,300 to the management group for the management of day-to-day activities and operations, as well as the provision of administrative support to the Endowment's Trustees. Consulting service fees totaled approximately $40,000 during each of the years ended December 31, 2015 and 2014, and are included within general and administrative expenses in the accompanying statements of activities and changes in net assets.

4. Related Party Transactions

The Endowment has a conflict of interest policy which covers relationships with trustees. The policy requires annual disclosures and discussion of potential conflicts at meetings, so that trustees may continue to serve the Endowment through their professional knowledge and expertise. Additionally, the policy requires a trustee to recuse him/herself from voting on matters when a potential conflict of interest may exist.

The Endowment has, and may continue to have, trustees who are employed by organizations that are supported by the Endowment. Total grants given to these organizations totaled $300,000 for each of the years ended December 31, 2015 and 2014, respectively. In addition, the Endowment also maintains an investment in a partnership that is managed by an organization that employed a trustee. The fair value of this partnership investment as of December 31, 2015 is $768,000 and as of December 31, 2014 is $1,492,000.

5. Subsequent Events

Events occurring subsequent to year end have been evaluated for possible adjustment to the financial statements or disclosure through May 8, 2017.