

THE SCHMIDT FAMILY FOUNDATION
AND SUBSIDIARY

Consolidated Financial Statements
December 31, 2008 and 2007

Together with
Independent Auditors' Report

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

TABLE OF CONTENTS

December 31, 2008

	PAGE
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities and Changes in Net Assets	3
Consolidated Statement of Cash Flows	4
Notes to Consolidated Financial Statements	5 - 17

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Schmidt Family Foundation and Subsidiary

We have audited the accompanying consolidated statement of financial position of The Schmidt Family Foundation and Subsidiary (the "Foundation", a California non-profit public benefit corporation), as of December 31, 2008 and 2007, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Foundation as of December 31, 2008 and 2007, and the related consolidated statements of activities and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



San Jose, California
September 30, 2009

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Consolidated Statement of Financial Position

ASSETS

	December 31,	
	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 33,157,170	\$ 3,725,155
Investments	114,795,285	214,439,482
Investment related receivables	274,249	1,284,928
Investment related prepaids	-	129,879
Program-related investment loan receivable, net	1,931,217	-
Prepaid excise tax	260,938	-
Deposits	29,200	600
Property and equipment, net	<u>3,860,600</u>	<u>3,770,403</u>
 Total assets	 <u>\$ 154,308,659</u>	 <u>\$ 223,350,447</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 147,867	\$ 172,564
Accrued liabilities	215,238	102,633
Tenant improvement allowance	30,000	-
Grants payable, net	<u>3,902,693</u>	<u>5,366,275</u>
 Total liabilities	 4,295,798	 5,641,472
 Commitments		
 Net assets - unrestricted	 <u>150,012,861</u>	 <u>217,708,975</u>
 Total liabilities and net assets	 <u>\$ 154,308,659</u>	 <u>\$ 223,350,447</u>

The accompanying notes are an integral part of these consolidated financial statements

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Consolidated Statement of Activities and Changes in Net Assets

	Year Ended December 31,	
	<u>2008</u>	<u>2007</u>
Revenue (loss) and other support:		
Contributions	\$ 35,936	\$ 143,469,165
Net realized and unrealized gain (loss) on investments	(63,701,607)	1,384,410
Dividend and interest income	4,180,120	4,467,508
Contributed services, facilities, and travel	58,471	82,994
Rental income	11,710	-
	<u>(59,415,370)</u>	<u>149,404,077</u>
Total revenue (loss) and other support		
Investment related expenses	(306,225)	(186,768)
Federal excise tax	286,171	(1,486,811)
	<u>(59,435,424)</u>	<u>147,730,498</u>
Net revenue (loss) and other support		
Expenses:		
Program services - grants awarded	5,764,044	7,725,553
Program services - other	1,813,166	880,291
Program services - contributed travel	39,900	36,494
Management and general	643,580	97,666
	<u>8,260,690</u>	<u>8,740,004</u>
Total expenses		
Change in net assets	(67,696,114)	138,990,494
Net assets, unrestricted, beginning of period	<u>217,708,975</u>	<u>78,718,481</u>
Net assets, unrestricted, end of period	<u>\$ 150,012,861</u>	<u>\$ 217,708,975</u>

The accompanying notes are an integral part of these consolidated financial statements

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Consolidated Statement of Cash Flows

	Year Ended December 31,	
	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ (67,696,114)	\$ 138,990,494
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Net realized and unrealized loss (gain) on investments	63,701,607	(1,384,410)
Contributed investments	(35,936)	(143,469,165)
Depreciation	21,905	-
Changes in operating assets and liabilities:		
Investment related receivables	1,010,679	4,068,372
Investment related prepaids	129,879	(129,879)
Prepaid excise tax	(260,938)	-
Deposits	(28,600)	(600)
Accounts payable	(24,697)	172,564
Accrued liabilities	112,605	(513,849)
Tenant improvement allowance	30,000	-
Grants payable, net	(1,463,582)	(179,447)
Net cash used by operating activities	(4,503,192)	(2,445,920)
Cash flows from investing activities:		
Investment in loan receivable	(1,931,217)	-
Acquisition of property and equipment	(112,102)	(3,770,403)
Purchases of investments	72,561,814	150,926,199
Proceeds from sale of investments	(36,583,288)	(147,525,852)
Net cash provided (used) by investing activities	33,935,207	(370,056)
Increase (decrease) in cash and cash equivalents	29,432,015	(2,815,976)
Cash and cash equivalents, beginning of period	3,725,155	6,541,131
Cash and cash equivalents, end of period	\$ 33,157,170	\$ 3,725,155

The accompanying notes are an integral part of these consolidated financial statements

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 1 - Organization and operations:

The Schmidt Family Foundation (the “Foundation”) was incorporated on January 24, 2006 as a California non-profit public benefit corporation that supports activities for charitable, scientific, literary, and educational purposes. The Foundation’s mission is to advance the creation of an increasingly intelligent relationship between human activity and the use of the world’s natural resources. The Foundation’s support and revenue comes primarily through contributions and investments.

Greenhound, LLC (“Greenhound”), a wholly owned subsidiary of the Foundation, was formed on September 26, 2007 as a limited liability company to further the Foundation’s mission by working with the town of Nantucket, Massachusetts and the regional transit authority to help develop a better model for the island’s seasonal bus system. The goal is to reduce traffic congestion in the historic downtown streets and offer islanders and visitors an attractive mass transit option that the Foundation hopes will become a zero-emission operation.

The Foundation’s main direct charitable activity, The 11th Hour Project, established since the Foundation’s formation, works to promote a fuller understanding of the impact of human activity within the web of interdependent living systems. Together with the Foundation, they connect organizations with good information on how to develop a more responsible relationship with the world’s water, energy, and food resources thereby lessening the impacts of climate change

Note 2 - Summary of significant accounting policies:

Principles of consolidation - The accompanying consolidated financial statements include the accounts of the Foundation and its subsidiary, Greenhound, LLC, after elimination of intercompany accounts and transactions.

Basis of accounting - The consolidated financial statements have been prepared on the accrual basis of accounting which recognizes revenue and support when earned and expenses when incurred and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of presentation - Consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) in its Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its consolidated financial position and activities according to three classes of net assets: permanently restricted, temporarily restricted, and unrestricted net assets. Unrestricted net assets have no donor-imposed restrictions and include those revenues and expenses associated with program and supporting services. As of December 31, 2008 and 2007, all of the Foundation’s net assets were unrestricted.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 2 - Summary of significant accounting policies (continued):

Use of estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents - Cash and cash equivalents consist of cash and money market funds. The Foundation considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents.

Investment related receivables - Investment related receivables include stock sales settlements, interest receivable from bonds, and other dividend and interest earnings outstanding at year-end.

Investments - All investments are valued in accordance with generally accepted accounting principles ("GAAP") in the United States, including SFAS No. 157, *Fair Value Measurements*, which was adopted on January 1, 2008.

Publicly traded - The Foundation invests in marketable securities and money market funds. All debt securities and equity securities are carried at quoted market prices as of the last trading date of the Foundation's fiscal year. Contributions of public stock are recorded at quoted market prices at the date of donation. Unrealized gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales of mutual funds are calculated on an adjusted cost basis. The adjusted cost, as a result of reinvested dividends, is the estimated fair value of the mutual fund at the beginning of the year or the cost if purchased during the year. Realized gains and losses resulting from the sales or maturities of debt and other marketable securities are calculated on an actual cost basis. Dividend and interest income are accrued when earned.

Private equity funds - To the extent that these funds invest in publicly traded investments, they are included at quoted market prices as described above. The remaining investments are carried at estimated fair values as determined by the investment manager of these securities after giving consideration to operating results, financial condition, recent sales prices of issuers' securities and other pertinent information. These investments are valued at the Foundation's percentage interest owned in these investment companies. Because of the inherent uncertainty of valuations, however, these estimated fair 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.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 2 - Summary of significant accounting policies (continued):

Property and equipment, net - Purchased property and equipment are stated at cost. Acquisitions of property and equipment in excess of \$1,000 are capitalized. Significant donated property and equipment is recorded at fair value at the date of receipt. If donors stipulate how long the assets must be used, the contributions would be recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation is computed using the modified accelerated cost recovery system (“MACRS”) over the estimated useful lives of the assets ranging from three to thirty-nine years. Leasehold improvements are amortized using the straight-line method over the lesser of the assets’ estimated useful lives or the term of the applicable lease. Expenditures for maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Program-related investment loan receivable, net - The Foundation makes loans to other non-profit organizations for charitable purposes. At December 31, 2008, the Foundation’s program-related investment includes a related party loan receivable of \$1,931,217 (net of a discount of \$68,783). Interest is calculated on the outstanding loan amount, annually, at an interest rate of 1% and is due with the principal on-demand. The loan is evaluated at a discount rate as determined by the federal interest free rate valid for the year the note was made. Management has reviewed the collectability of the program-related investment loan receivable and has determined that no allowance is necessary as of December 31, 2008. There were no program-related investment loan receivables at December 31, 2007.

Long lived assets - The Foundation reviews long lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of any assets may not be recoverable. No such impairments have been identified to date.

Accounts payable - Accounts payable include the Foundation’s trade accounts payable and other liabilities incurred in the normal course of operations.

Accrued liabilities - Accrued liabilities include professional service fees due to a related party of the Foundation, current and deferred taxes payable, and other current obligations.

Grants - Grants are made in accordance with the Foundation’s mission. Unconditional grants that are expected to be paid after one year are discounted at a federal interest free rate as determined in the year the grant was pledged and are stated at their net present value. Such present value reserves are recorded only if material to the consolidated financial statements. Grants payable reported on the consolidated financial statements consist of amounts payable in future years. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied. There were no conditional grants at December 31, 2008 and 2007.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 2 - Summary of significant accounting policies (continued):

Revenue recognition - The Foundation's revenue recognition policy is in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. SFAS No. 116 requires that contributions received, including unconditional promises to give be recognized as revenue at their fair value in the period the contribution or pledge is received. Contributions are recognized as revenue when received or un-conditionally promised. The Foundation reports gifts of cash and other assets as restricted support if such gifts are received with donor stipulations that limit the use of the donated assets. When such restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Contributed services, facilities, and travel – Contributed services, facilities, and travel related expenses are recognized in accordance with SFAS No. 116. Significant donated property and equipment are recorded at estimated fair value at the date of receipt. Contributed management and general accounting services, which require a specialized skill and which the Foundation would have paid for if not contributed, have been recorded at their estimated fair value of \$16,571 and \$22,500 for the years ended December 31, 2008 and 2007, respectively. Contributed facilities, provided by a related party, have been recorded at their estimated fair market value of \$2,000 and \$24,000 for the years ended December 31, 2008 and 2007, respectively. Contributed travel related expenses, provided by a related party, used for program related services, have been recorded at their estimated fair value of \$39,900 and \$36,494 for the years ended December 31, 2008 and 2007, respectively.

Functional expense allocations - The costs of providing the various program and supporting services have been summarized on a functional basis in the Consolidated Statement of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair value of financial instruments - Financial instruments included in the Foundation's Consolidated Statement of Financial Position as of December 31, 2008 and 2007 include cash and cash equivalents, investments, investment related receivables, and program-related investment loan receivable. For cash and cash equivalents, investment related receivables, and accrued liabilities, the carrying amounts approximate fair value due to their short maturity. Investments and program-related investment loan receivables are reflected in the accompanying Consolidated Statement of Financial Position at their estimated fair values using methodologies described above.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 2 - Summary of significant accounting policies (continued):

Concentration of credit risk - Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents, investments, and investment related receivables. The Foundation maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments and money market funds. At times, such amounts exceed Federal Deposit Insurance Corporation (“FDIC”) limits. The Foundation’s investments and investment related receivables have been placed with established financial institutions. The Foundation monitors these investments and has not any experienced significant credit losses.

The credit risk associated with the related party program-related investment loan receivable is mitigated by the fact that the loan is made to an organization which the Foundation monitors closely. It is the Foundation’s opinion that it is not exposed to any significant credit risks.

Reclassification - Certain 2007 balances have been reclassified to conform to the 2008 financial statement presentation. These reclassifications have no effect on previously reported change in net assets.

Accounting for uncertainty in taxes - In June 2006, the FASB issued FASB Interpretation Number (“FIN”) 48, *Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109*, which prescribes a comprehensive model for how a foundation should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the foundation has taken or expects to take on a tax return. FIN 48 is effective for fiscal periods beginning on or after December 15, 2008. The Foundation evaluates its tax provisions for any potential uncertain tax positions. If applicable, the Foundation accrues for those positions identified which are not deemed more likely than not to be sustained if challenged. The Foundation has elected to defer application of FIN 48 in accordance with FASB Staff Position (“FSP”) FIN 48-3 until the year ending December 31, 2009.

The fair value option - In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115*, (effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007). This Statement requires entities, upon adoption, to measure many financial instruments and certain other items at fair value. The Foundation opted not to adopt SFAS No. 159 for the current year and will evaluate what effect, if any, the adoption of SFAS No. 159 will have on the Foundation’s Financial Statements for future years.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 2 - Summary of significant accounting policies (continued):

Recent accounting pronouncements -

Mergers and acquisitions - In April 2009, the FASB issued SFAS No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, (effective for reporting periods beginning after December 15, 2009). This new standard provides guidance on accounting for a combination of not-for-profit entities, which is a transaction or other event that results in a not-for-profit entity initially recognizing another not-for-profit entity, a business, or a nonprofit activity in its financial statements. This statement applies to a combination that meets the definition of either a merger of not-for profit entities or an acquisition by a not-for-profit entity.

Subsequent events - In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS 165"). SFAS No. 165 requires an entity to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position. For nonrecognized subsequent events that must be disclosed, an entity is required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. In addition, SFAS No. 165 requires an entity to disclose the date through which subsequent events have been evaluated. SFAS No. 165 is effective for periods ending after June 15, 2009. The Foundation has evaluated subsequent events through the date that the financial statements were available to be issued which is the date of the auditors' report.

GAAP hierarchy - In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards CodificationTM (Codification or the ASC) and the Hierarchy of Generally Accepted Accounting Principles (GAAP), a replacement of FASB Statement No. 162*. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The objective of SFAS No. 168 is to replace SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP.

Other accounting standards that have been issued or proposed by FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Foundation's consolidated financial statements upon adoption.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 3 - Investments:

At December 31, 2008, portfolio investments recorded at fair value have been measured in accordance with SFAS No. 157. The estimated fair value of the Foundation's investments is as follows at December 31:

	2008	2007
Stocks	\$ 34,465,356	\$ 99,738,761
Fixed income/bonds	31,200,368	44,594,419
Mutual funds	28,767,487	58,745,612
Partnerships	13,294,118	5,127,122
Fund of funds	7,067,956	6,233,568
Total	\$ 114,795,285	\$ 214,439,482

An investment's classification within a level in the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. The categorization of the investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the Foundation's perceived risk of that investment. The following are the major categories of investments measured at fair value on a recurring basis during the year ended December 31, 2008, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 3: Significant Unobservable Inputs	Total
Stocks	\$ 34,465,356	\$ -	\$ 34,465,356
Fixed income/ bonds	31,200,368	-	31,200,368
Mutual funds	28,767,487	-	28,767,487
Partnerships	-	13,294,118	13,294,118
Fund of funds	-	7,067,956	7,067,956
Total	\$ 94,433,211	\$ 20,362,074	\$ 114,795,285

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 3 - Investments (continued):

The following is a reconciliation of the beginning and ending balances for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2008:

	<u>Partnerships</u>	<u>Fund of Funds</u>	<u>Total</u>
Beginning balance	\$ 5,127,122	\$ 6,233,568	\$ 11,360,690
Net realized and unrealized loss included in change in net assets	(2,956,945)	(1,165,612)	(4,122,557)
Purchases and acquisitions	<u>11,123,941</u>	<u>2,000,000</u>	<u>13,123,941</u>
Ending balance	<u>\$ 13,294,118</u>	<u>\$ 7,067,956</u>	<u>\$ 20,362,074</u>

The following schedule summarizes the investment returns for the years ended December 31:

	<u>2008</u>	<u>2007</u>
Net realized gain (loss)	\$ (19,227,981)	\$ 2,135,586
Net unrealized gain (loss)	<u>(44,473,626)</u>	<u>(751,176)</u>
Net realized and unrealized gains (losses)	<u>(63,701,607)</u>	<u>1,384,410</u>
Dividend income	2,738,647	3,725,381
Interest income	<u>1,441,473</u>	<u>742,127</u>
Total dividend and interest income	<u>4,180,120</u>	<u>4,467,508</u>
Less: investment related expenses	<u>(306,225)</u>	<u>(186,768)</u>
Net investment returns (losses)	<u>\$ (59,827,712)</u>	<u>\$ 5,665,150</u>

The Foundation has commitments under multiple venture limited liability partnership agreements to make additional capital contributions of \$36,370,346 and \$4,000,000 at December 31, 2008 and 2007, respectively.

At December 31, 2008, the Foundation had investments in the following stocks and mutual funds in excess of 10% of the total investment portfolio:

Vanguard Total Stock Market Mutual Fund	\$ 15,245,282	13%
Ishares Barclays Treasury Inflation Protected Securities Fund	\$ 14,323,805	12%

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 3 – Investments (continued):

At December 31, 2007, the Foundation had investments in the following stocks and mutual funds in excess of 10% of the total investment portfolio:

Google Class A Stock	\$	23,957,708	12%
Dodge and Cox International Stock Mutual Fund	\$	26,650,169	13%
Vanguard Total Stock Market Mutual Fund	\$	24,175,646	12%
Ishares Treasury Index Mutual Fund	\$	22,746,083	11%

Note 4 - Property and equipment, net:

Property and equipment consist of the following at December 31:

	2008	2007
Land	\$ 3,063,339	\$ 3,063,339
Building	717,573	707,064
Building improvements	58,326	-
Furniture and equipment	43,267	-
Total property and equipment	3,882,505	3,770,403
Less: accumulated depreciation	(21,905)	-
Total property and equipment, net	\$ 3,860,600	\$ 3,770,403

As of December 31, 2007, there were unsettled acquisition costs for the building which were not placed in service until the year ended December 31, 2008.

Note 5 - Grants payable, net:

For the years ended December 31, 2008 and 2007, the Foundation had various multi-year grants payable in the net amount of \$3,902,693 and \$5,366,275, respectively. Grants payable are recorded after discounting the future cash flows to present value using a discount rate ranging between 2.85% and 4.73%, respective to the year the grant was made.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 5 - Grants payable, net (continued):

The maturities of the Foundation's multi-year grants are expected to be as follows:

Years Ended December 31,	Amount
2009	\$ 1,550,000
2010	1,500,000
2011	1,000,000
	<hr/> 4,050,000
Less: discount for present value	(147,307)
Total	<hr/> <hr/> \$ 3,902,693

Note 6 - Federal excise taxes and distribution requirements:

Distribution requirements - The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute within one year after the end of each fiscal year 5% of the fair value of its investment assets, as defined. The investments includable for the 5% distribution requirement are based on average monthly balances and are exclusive of those investments deemed to be held for charitable activities. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions. For the years ending December 31, 2008 and 2007 the Foundation has complied with the distribution requirements.

Federal excise taxes - In accordance with the applicable provisions of the Internal Revenue Code, the Foundation is a private foundation and qualifies as a tax exempt organization. Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the Internal Revenue Code are met) on net investment income, excluding unrealized gains, as defined. Excise tax (overpaid) for the years ending December 31, 2008 and 2007 were \$(260,938) and \$1,486,811, respectively. For the years ending December 31, 2008 and 2007 the Foundation qualified for the 1% rate.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 7 - Management and general expenses:

Management and general expenses consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>
Management service fees	\$ 221,479	\$ -
Office rent, net of sublease	215,654	-
Contributed services	16,571	22,500
Contributed facilities	2,000	24,325
Other	<u>187,876</u>	<u>50,841</u>
Total management and general expenses	\$ <u>643,580</u>	\$ <u>97,666</u>

Note 8 - Commitments:

During February 2008, the Foundation entered into an operating lease agreement to lease its facilities. Rent expense for the Foundation under this agreement for the ten months ended December 31, 2008 was \$215,654. During the first two months of 2008 and the year ended December 31, 2007, contributed facilities were provided by related parties.

Future minimum annual lease payments required under this agreement is as follows:

<u>Year Ended</u> <u>December 31,</u>	
2009	\$ 245,520
2010	255,424
2011	265,824
2012	276,307
2013	<u>46,342</u>
	\$ <u><u>1,089,417</u></u>

The Foundation entered into a one year sublease agreement with a 501(c)(3) tax exempt organization in October 2008 for two private office spaces within the property being leased, as noted above. The President of the Foundation is a member of the subleasee's Board of Directors. Rental income under this agreement received in 2008 was \$2,146, which has been netted against the Foundation's rent expense.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 9 - Related party transactions:

The Foundation is being funded by stock donations from the founders of the Foundation. For the years ended December 31, 2008 and 2007, publicly traded stock valued at \$35,936 and \$143,469,165 was donated by the founders. In addition, for the year ended December 31, 2008 and 2007, contributed facilities and travel related expenses of \$41,900 and \$60,494 were contributed to the Foundation by the founders.

During 2007, the Foundation entered into a one-year agreement for professional services with an organization where one of the Foundation's Board of Directors has an ownership interest. During 2008, the Foundation renewed this agreement for another one-year term. For the years ended December 31, 2008 and 2007, the Foundation made payments to this related organization of \$467,662 and \$188,590, respectively, for charitable program management, accounting, investment, human resources and information technology services.

During 2006, the Foundation made a five-year grant to an organization, where the President of the Foundation is also a board member of the grantee organization. The Foundation has agreed to pay this grant in annual amounts of \$1,000,000 through 2011. The Foundation did not make any additional multi-year grants to related party organizations during the years ended December 31, 2008 and 2007. The related organization grant payable for the years ended December 31, 2008 and 2007 is \$3,000,000 and \$4,000,000, respectively.

The Foundation has made a program-related investment loan to an organization where one of the Foundation's Board of Directors is a board member of this recipient organization. The Foundation's Board member recused herself from the Board's discussion and vote on such loan.

For the year ended December 31 2007, the Foundation made a grant of \$4,500,000 to a donor advised fund, which was created by the Foundation founders. The Foundation did not make a contribution to this fund during the year ending December 31, 2008.

Note 10 - Subsequent events:

Donation of Interests in Limited Liability Companies

In 2009, the founders of the Foundation donated their interests in two limited liability companies, located in Nantucket, Massachusetts to the Foundation in furtherance of their support of the Foundation's missions. One of the LLCs owns a building, which will be used as an investment, generating rental income. The other LLC dedicates its time and efforts towards strengthening the lasting economic, environmental and social vitality of downtown Nantucket. The LLC donations, totaling approximately \$4,067,000, were recorded at their estimated fair value on the dates of the donations.

THE SCHMIDT FAMILY FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2008

Note 10 - Subsequent events (continued):

Program Related Investments

In 2009, the Foundation made two program related investment loans, totaling \$1,600,000, to an organization where the President of the Foundation is also a board member of the grantee organization. The terms of the loans are the same. The interest rate is 1% per annum, payable in 3 years from the date of the loan.

In 2009, the Foundation also entered into a profit-sharing agreement with a film production company that is producing a documentary film on the oceans aimed to heighten public awareness about environmental protection. The investment was for \$1,000,000.