The Schmidt Family Foundation and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2012 and 2011

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Contents

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Independent Auditor's Report

To the Board of Directors of
The Schmidt Family Foundation and Subsidiaries
Palo Alto, California

We have audited the accompanying consolidated financial statements of The Schmidt Family Foundation and its subsidiaries (collectively referred to as the "Foundation"), a California non-profit public benefit corporation, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Schmidt Family Foundation and its subsidiaries as of December 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

September 27, 2013

Consolidated Financial Statements

The Schmidt Family Foundation and Subsidiaries

Consolidated Statements of Financial Position

December 31,		**2012**		2011
Assets				
Cash and cash equivalents	**$**	**36,914,392**	$	7,561,523
Investments		**259,523,671**		159,869,382
Investment Related Receivables		**4,005,255**		83,142
Program-related investments, net		**2,901,305**		2,300,422
Prepaid excise tax, expenses and deposits		**859,751**		302,470
Property and equipment, net		**7,985,506**		7,901,054
Total Assets	**$**	**312,189,880**	$	178,017,993
Liabilities and Net Assets				
Accounts payable and other liabilities	**$**	**1,802,046**	$	846,099
Grants payable		**6,608,400**		2,242,455
Total Liabilities		**8,410,446**		3,088,554
Commitments				
Net assets - unrestricted		**303,779,434**		174,929,439
Total Liabilities and Net Assets	**$**	**312,189,880**	$	178,017,993

See accompanying notes to the consolidated financial statements.

The Schmidt Family Foundation and Subsidiaries

Consolidated Statements of Activities and Changes in Net Assets

Year Ended December 31,	**2012**	2011
Revenues and Other Support:		
Contributions	**$ 143,260,275**	$ 21,660,363
Net realized and unrealized gains (losses) on investments	**11,269,152**	(664,699)
	1,751,103	2,765,734
Rental and other income	**8,928**	20,689
Investment related expenses	**(504,493)**	(285,621)
Federal excise and income taxes	**(944,075)**	(130,337)
Net Revenue and Other Support	**154,840,890**	23,366,129
Expenses:		
Program services - grants awarded	**21,874,773**	11,990,041
Program services - direct charitable	**3,746,394**	4,717,990
Management and general	**369,728**	280,528
Total Expenses	**25,990,895**	16,988,559
Change in net assets	**128,849,995**	6,377,570
Net assets, unrestricted, beginning of period	**174,929,439**	168,551,869
Net Assets, Unrestricted, End of Period	**$ 303,779,434**	$ 174,929,439

See accompanying notes to the consolidated financial statements.

The Schmidt Family Foundation and Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,		**2012**		2011
Cash Flows from Operating Activities:				
Change in net assets	**$**	**128,849,995**	$	6,377,570
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Net realized and unrealized (gains) losses on investments		**(11,269,152)**		664,699
Contributed investments		**(143,260,275)**		(21,660,363)
Program-related investments impairment		**-**		1,699,997
Depreciation and amortization		**110,017**		95,310
Loss on sale of fixed assets		**-**		1,777
Changes in operating assets and liabilities:				
Investment related receivables		**(3,922,113)**		28,452
Prepaid excise tax, expenses and deposits		**(557,281)**		(85,273)
Accounts payable and other liabilities		**955,947**		55,322
Grants payable		**4,365,945**		(112,188)
Net Cash Used by Operating Activities		**(24,726,917)**		(12,934,697)
Cash Flows from Investing Activities:				
Program-related investments, net		**(600,882)**		(315,488)
Acquisition and sales of property and equipment		**(194,470)**		(98,711)
Purchases of investments		**(12,213,824)**		(12,453,738)
Distributions from investments		**1,970,520**		2,302,245
Proceeds from sale of investments		**65,118,442**		27,828,921
Net Cash Provided by Investing Activities		**54,079,786**		17,263,229
Increase in Cash and Cash Equivalents		**29,352,869**		4,328,532
Cash and Cash Equivalents at Beginning of Year		**7,561,523**		3,232,991
Cash and Cash Equivalents at End of Year	**$**	**36,914,392**	$	7,561,523

See accompanying notes to the consolidated financial statements.

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 investment returns.

Greenhound, LLC ("Greenhound"), a wholly owned subsidiary of the Foundation, was formed to further the Foundation's mission by working with the town of Nantucket, Massachusetts and the regional transit authority in developing a zero-emission transit operation 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. The Greenhound facilities include a plot of land with a building, and is used by various governmental and non-profit organizations as a public transit bus depot, adult community school and food pantry.

ReMain Nantucket, LLC (“ReMain”) is a wholly owned subsidiary of the Foundation. ReMain is an island-based philanthropic organization established and dedicated to strengthening the lasting economic, environmental and social vitality of downtown Nantucket, Massachusetts.

ReMain 54, LLC (“ReMain 54”) is a wholly owned subsidiary of the Foundation. ReMain 54 owns real property currently being held as an investment rental property.

The 11th Hour Project, the Foundation's main direct charitable program, 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.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiaries, Greenhound, LLC, ReMain Nantucket, LLC and ReMain 54, 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") for not-for-profit entities. 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, 2012 and 2011, all of the Foundation's net assets were classified as unrestricted net assets.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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. Significant estimates include accruals and the valuation of investments.

Cash and Cash Equivalents

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

Cash and cash equivalents are maintained at financial institutions. Under a federal program in effect from December 31, 2010 through December 31, 2012, there is no limit to the amount of insurance for eligible non-interest bearing accounts. Beginning in 2013, insurance coverage will revert to $250,000 per depositor at each financial institution. Interest bearing amounts in excess of insurance coverage at December 31, 2012 and 2011 approximated $36,794,500 and $7,439,000, respectively. The Foundation has not experienced any losses related to these balances.

Receivables

Receivables include accounts receivable, proceeds from sales in transit due from broker, interest receivable from program related investment loans, and other dividend and interest earnings outstanding at year-end.

Investments

All investments are recorded at fair value in accordance with GAAP.

Publicly Traded Securities

The Foundation invests in marketable securities. All equity securities are carried at quoted market prices as of the last trading date of the year. 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 equity securities, including mutual funds, are based on the trade date and calculated on an adjusted cost basis. The adjusted cost, as a result of reinvested dividends, is the estimated fair value of the equity securities at the beginning of the year or the cost if purchased during the year. Realized gains and losses resulting from the sales of marketable securities are calculated on an actual cost basis. Dividend and interest income are accrued when earned.

Alternative Investments

The Foundation invests in alternative investments, including investments in limited partnerships. To the extent that these partnerships invest in publicly traded securities, the investments 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 pro rata interest in these investment companies. Because of the inherent uncertainty of valuations, however, these estimated fair values may differ from the values that would have been used had a ready market for the securities existed, and the differences could be material.

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 are recorded at fair value at the date of receipt. If donors stipulate how long or for what purpose 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 and amortization is computed on a straight-line basis over the estimated useful lives of the particular assets generally estimated as follows: buildings 39 years, furniture and equipment 3 to 15 years, and building improvements 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 Investments, Net

The Foundation makes loans and investments to advance its charitable purpose. Debt PRIs consist of loans outstanding that bear a below-market interest rate in either a senior or subordinated position. Loans are measured at fair value at inception to determine if a contributions element exists. Loans are recorded on a net basis to reflect a discount on loan receivable (if a contributions element exists) or a reasonable loss reserve. The loss reserve estimate is reviewed on an annual basis and adjusted if collectability risk has significantly changed based on the Foundation’s understanding of the borrower’s financial health and/or payment history.

At December 31, 2012 and 2011, the Foundation's program-related investments totaled $2,901,305 and $2,300,422, respectively. Included in the program related investments are two related party loan receivables at $2,350,002 and $2,000,002 at December 31, 2012 and 2011, respectively. Interest is calculated on the outstanding loan amounts, annually, at an interest rate ranging from 0.19% to 1% and is due at maturity with the principal. The loans are discounted at the federal risk free rate valid for the year the note was made. Management reviewed the collectability of the program-related investment loan receivables and the accrued interest, and decided to write-off $1,599,998 and a reversal of accrued interest of $38,286 on loan receivables due from one related party borrower as of December 31, 2011.

PRI write-offs are recorded in Program services – direct charitable expense in the accompanying Consolidated Statements of Activities and Changes in Net Assets. No write-offs were recorded in 2012.

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.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities include the Foundation's trade accounts payable, other liabilities incurred in the normal course of operations including current and deferred taxes payable, and professional service fees due to a related party of the Foundation.

Grants

Grant expenditures are made in accordance with the Foundation's mission and are recognized in the period the grant is approved and the recipient is notified, 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.

Contributions and Revenue Recognition

Contributions received are recognized as revenue at their fair value in the period the contribution is received. Contributions of public stock are recorded at quoted market prices at the date of donation. The Foundation has been funded through contributions received from the founders. To date, such contributions have been unrestricted.

Functional Expense Allocations

The Foundation's operating costs have been summarized on a functional basis as grants awarded, direct charitable and management and general expenses on the Consolidated Statements of Activities and Changes in Net Assets.

Fair Value of Financial Instruments

Financial instruments included in the Foundation's Consolidated Statements of Financial Position as of December 31, 2012 and 2011 include cash and cash equivalents, investments, investment related receivables, and program-related investments. For cash and cash equivalents and investment related receivables, the carrying amounts approximate fair value due to their short maturity. Investments and program-related investments are reflected in the accompanying Consolidated Statements of Financial Position at their estimated fair values using methodologies described above.

Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents, investments, investment related receivables and program-related investments. The Foundation maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments and money market funds. The Foundation's investments and investment related receivables have been placed with established financial institutions. The Foundation monitors these investments and has not experienced any credit losses.

The credit risk associated with the program-related investment loan receivables is monitored closely through review of financial reports received periodically during the year.

Accounting for Income Taxes

The Foundation is a qualified organization exempt from federal and state tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and applicable state codes. Therefore, no provision for federal or state income tax is reflected in the financial statements. However, to the extent the Foundation carries out investment activities that are subject to the unrelated business income tax, it is subject to income taxation at ordinary corporate rates.

The Foundation follows authoritative accounting guidance which prescribes a threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides for de-recognition of tax benefits, classification on the statement of financial position, interest and penalties, accounting in interim periods, disclosure and transition. The guidance utilizes a two-step approach for evaluating uncertain tax positions. Step one, Recognition, requires the Foundation to determine if the weight of available evidence indicates that a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. If a tax position is not considered “more likely than not” to be sustained then no benefits of the position are to be recognized. Step two, Measurement, is based on the largest amount of benefit, which is more likely than not to be realized on ultimate settlement.

The Foundation evaluated its tax provisions for any potential uncertain tax positions. The Foundation does not believe its consolidated financial statements include any uncertain tax positions which are not deemed more likely than not to be sustained if challenged.

3. Investments

At December 31, 2012 and 2011, portfolio investments are recorded at fair value. The estimated fair value of the Foundation's portfolio investments are as follows:

December 31,	**2012**	2011
Stocks	**$ 120,669,832**	$ 30,742,256
Fixed income / Bonds	**22,463,851**	24,749,979
Exchange-traded funds / Mutual funds	**38,854,471**	35,145,890
Alternative investments	**77,535,517**	69,231,257
Total	**$ 259,523,671**	$ 159,869,382

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The following schedule summarizes the investment returns:

For the Year Ended December 31,	**2012**	2011
Net realized gains	**$ 5,155,461**	$ 1,727,391
Net unrealized gains (losses)	**6,113,691**	(2,392,090)
Net realized and unrealized gains (losses)	**11,269,152**	(664,699)
Dividend income	**1,734,099**	2,545,399
Interest income	**10,754**	(256)
Other investment income	**6,250**	220,591
Total dividend, interest and other investment income	**1,751,103**	2,765,734
Less: investment related expenses	**(504,493)**	(285,621)
Net investment returns	**$ 12,515,762**	$ 1,815,414

At December 31, 2012, the Foundation had investments in the following marketable securities in excess of 10% of the total investment portfolio:

Google Class A Stock	$ 120,669,832	46%

At December 31, 2011, the Foundation had investments in the following marketable securities in excess of 10% of the total investment portfolio:

Google Class A Stock	$ 30,742,256	19%

4. Fair Value Measurements

The fair market value of a financial instrument is defined in authoritative accounting guidance as "the amount at which the instrument could be exchanged in a current transaction between willing parties." The carrying amounts reported in the accompanying Consolidated Statements of Financial Position for cash and cash equivalents and investments approximate fair value given the nature of the financial instruments or are based on a recurring assessment of fair value.

As defined, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Foundation utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Foundation primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Foundation is able to classify fair value balances based on the observability of those inputs.

The Foundation's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels. Also, the time between inception and performance of the contract may affect the fair value. The determination of fair value may, therefore, affect the timing of recognition of revenues and net income.

Authoritative accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 Inputs: Valuation based on quoted prices in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date, and where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Inputs: Valuation based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, that is markets in which there are few transactions, prices are not current, or prices vary substantially over time.

Level 3 Inputs: Valuation based on inputs that are unobservable for an asset or liability and shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. This input therefore reflects the Foundation's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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.

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The following are the major categories of investments measured at fair value on a recurring basis during the year ended December 31, 2012, using quoted prices in active markets for identical assets (Level 1) and significant unobservable inputs (Level 3):

December 31, 2012	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 3: Significant Unobservable Inputs	Total
Money market fund*	$ 34,517,400	$ -	$ 34,517,400
Investments:			
Domestic stocks:			
Technology	120,669,832	-	120,669,832
Exchange-traded funds / Mutual funds:			
Large cap equity	6,412,423	-	6,412,423
International equity	32,442,048	-	32,442,048
Fixed income / Bonds	22,463,851	-	22,463,851
Alternative investments:			
Hedge funds	-	20,568,762	20,568,762
Venture capital / Private equity	-	28,329,433	28,329,433
Real estate	-	1,624,728	1,624,728
Fund of funds – private equity	-	10,125,549	10,125,549
Fund of funds – hedge fund	-	16,887,045	16,887,045
Total Investments	$ 181,988,154	$ 77,535,517	$ 259,523,671
Total	$ 216,505,554	$ 77,535,517	$ 294,041,071

*Included in Cash and Cash Equivalents on the Consolidated Statements of Financial Position.

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The following are the major categories of investments measured at fair value on a recurring basis during the year ended December 31, 2011, using quoted prices in active markets for identical assets (Level 1) and significant unobservable inputs (Level 3):

December 31, 2011	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 3: Significant Unobservable Inputs	Total
Money market fund*	$ 4,238,674	$ -	$ 4,238,674
Investments:			
Domestic stocks:			
Technology	30,742,256	-	30,742,256
Exchange-traded funds / Mutual funds:			
Commodities	2,016,110	-	2,016,110
Large cap equity	5,534,830	-	5,534,830
International equity	27,594,950	-	27,594,950
Fixed income/Bonds	24,749,979	-	24,749,979
Alternative investments:			
Hedge funds	-	18,335,744	18,335,744
Venture capital / Private equity	-	27,056,292	27,056,292
Real estate	-	1,005,463	1,005,463
Fund of funds – private equity	-	7,476,672	7,476,672
Fund of funds – hedge fund	-	15,357,086	15,357,086
Total Investments	$ 90,638,125	$ 69,231,257	$ 159,869,382
Total	$ 94,876,799	$ 69,231,257	$ 164,108,056

* Included in Cash and Cash Equivalents on the Consolidated Statements of Financial Position.

During the years ended December 31, 2012 and 2011, there were no transfers in or out of Level 1, Level 2, and Level 3.

The following table presents the Foundation's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2012:

	2012
Beginning balance	**$ 69,231,257**
Contributions to investments	**10,984,227**
Distributions from investments	**(2,698,607)**
Gains/(Losses):	
Realized	**2,903,209**
Unrealized	**(2,884,569)**
Ending balance	**77,535,517**
Unrealized losses related to investments still held at December 31,	**$ (2,884,569)**

Net Asset Value (NAV) Per Share

The Foundation's alternative investments consist of funds for which fair value is not readily determinable and whose fair value is estimated using the net asset value per share or its equivalent.

The following table sets forth a summary of the Foundation's investments with a reported NAV as of December 31, 2012:

December 31, 2012	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Alternative investments:				
Hedge funds*	$ 20,568,762	$ -	Quarterly-Annually	45-90 day
Venture capital / Private equity	28,329,433	2,470,388	None	N/A
Real estate	1,624,728	367,083	None	N/A
Fund of funds – private equity	10,125,549	4,850,000	None	N/A
Fund of funds – hedge fund*	16,887,045	-	Quarterly-Annually	60 day-Annually
Total	$ 77,535,517	$ 7,687,471		

*The Foundation has no remaining unfunded commitments related to hedge funds and fund of funds – hedge fund.

5. Property and Equipment, Net

The Foundation's real estate property is held within the ReMain 54 and Greenhound subsidiaries. Total property and equipment consists of the following:

December 31,	**2012**	2011
Land	**$ 5,723,339**	$ 5,723,339
Building	**1,257,574**	1,257,574
Building improvements	**922,771**	892,636
Furniture and equipment	**453,052**	288,718
Total property and equipment	**8,356,736**	8,162,267
Less: accumulated depreciation	**(371,230)**	(261,213)
Total property and equipment, net	**$ 7,985,506**	$ 7,901,054

Depreciation expense for the years ended December 31, 2012 and December 31, 2011 was $110,017 and $95,310, respectively.

6. Grants Payable

As of December 31, 2012 and 2011, the Foundation had various multi-year grants payable in the amounts of $6,608,400 and $2,242,455, respectively.

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

Years Ended December 31,	Amount
2013	$ 4,351,900
2014	1,618,250
2015	210,000
2016	215,000
Thereafter	220,000
Total	6,615,150
Less discount to reflect grants payable at present value	(6,750)
Grants Payable, net	$ 6,608,400

7. 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 ended December 31, 2012 and 2011, the Foundation has complied with the distribution requirements.

Federal Excise and Income 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.

Deferred taxes arise due to temporary differences between reported amounts of investments and their tax basis. Deferred taxes also arise for the difference between the cash basis used for tax purposes and the accrual basis used for financial statement purposes for investment activities. Deferred federal excise taxes on unrealized depreciation or appreciation is calculated using the 2% tax rate since the qualification for the 1% tax is not determinable until the year in which losses or gains are realized.

Deferred federal excise tax liability at December 31, 2012 and 2011 was $500,000 and $360,000, respectively, and is included in accrued and other liabilities in the accompanying Consolidated Statements of Financial Position.

In addition, income from certain investments is subject to unrelated business income tax.

The expense provision for excise and income taxes consists of the following:

December 31,	**2012**	2011
Excise tax		
Current	**$ 789,075**	$ 188,985
Deferred (benefit)	**140,000**	(45,000)
Unrelated business income tax (benefit)	**15,000**	(13,648)
Total excise and income taxes	**$ 944,075**	$ 130,337

8. Management and General Expenses

Management and general expenses consisted of the following:

December 31,	**2012**	2011
Management service fees	**$ 49,479**	$ 42,994
Professional fees	**75,569**	52,603
Office rent	**31,318**	30,141
Other	**213,362**	154,790
Total management and general expenses	**$ 369,728**	$ 280,528

The management service fees noted above are for services provided by a related party. See Note 10.

9. Commitments

The Foundation has entered into operating lease agreements in California, Massachusetts and Rhode Island to lease its facilities. Rent expense for the Foundation under these agreements for the years ended December 31, 2012 and 2011 was $351,830 and $314,685, respectively.

Future minimum annual lease payments required under these agreements are as follows:

Year Ended December 31,	Amount
2013	$ 377,592
2014	300,053
2015	294,272
Thereafter	24,582
Total	$ 996,499

10. Related Party Transactions

Publicly traded stock, valued at approximately $143,260,000 and $21,660,000, was donated by the founders in 2012 and 2011, respectively. The Foundation's sales of donated publicly traded stock were made during the Foundation's open window period in which the Foundation was permitted to trade in pursuant to trading plans intended to comply with the provisions of Rule 10b5-1 under the Securities Exchange Act of 1934.

The Foundation subleased private office spaces within its leased property to a 501(c)(3) tax-exempt organization of which the President of the Foundation is a member of the sublessee's Board of Directors. The sublease originated in 2008 and ends in 2013. Rental income received was $9,350 and $13,620 in 2012 and 2011, respectively.

The Foundation has an agreement for professional services with an organization where one of the members of the Foundation's Board of Directors has an ownership interest. For the years ended December 31, 2012 and 2011, the Foundation incurred expense to this related organization of $427,585 and $191,776, respectively, for charitable program management, accounting, investment, human resources and information technology services of which $137,429 and $19,282 is included in accounts payable at December 31, 2012 and 2011, respectively. $49,479 and $42,994 of the expense was allocated to management and general expenses for the years ended December 31, 2012 and 2011, respectively. See Note 8.

In 2012, the Foundation awarded grants totaling $5,770,000 to various related party organizations, of which $2,750,000 were multi-year grants. No multi-year grants were made to related party organizations in 2011.

The Foundation has program-related investment loans outstanding to two related party organizations, where one of the Foundation's board members is a board member of both organizations. The Foundation's Board member recused herself from the Board's discussion and vote on these loans. Based on their financial condition and other economic factors, the carrying value of the one of the loans was reduced in 2011 to a nominal value.

11. Subsequent Events

In 2013, through the issuance date of the financial statements, the Foundation paid grants totaling $3,500,000 to various related party organizations.

In 2013, through the issuance date of the financial statements, the founders have made additional contributions of publicly-traded common stock valued at approximately $51,617,000.

The Foundation has evaluated subsequent events through September 27, 2013, the date that the financial statements were available to be issued, and did not note any events that would require adjustment to or disclosure in these financial statements.