

THE SAMUELI FOUNDATION
(A CALIFORNIA NONPROFIT
PUBLIC BENEFIT CORPORATION)
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2007

THE SAMUELI FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)

DECEMBER 31, 2007

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HOLTHOUSE
CARLIN &
VAN TRIGT LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
The Samueli Foundation:

We have audited the accompanying statement of financial position of The Samueli Foundation (the "Foundation"), a California nonprofit public benefit corporation, as of December 31, 2007 and the related statements of activities, statement of changes in net assets (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Samueli Foundation as of December 31, 2007 and the changes in its net assets (deficit) and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Holthouse Carlin & Van Trigt LLP

Long Beach, California
June 6, 2008

THE SAMUELI FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007

ASSETS

Current assets:	
Cash and cash equivalents	\$ 195,825
Prepaid expenses	34,798
Due from related party	1,755
Short term contributions receivable (note 3)	<u>15,182,305</u>
Total current assets	15,414,683
Property and equipment (note 5)	14,700
Long term contributions receivable (note 3)	<u>7,186,061</u>
Total assets	<u>\$ 22,615,444</u>

LIABILITIES AND NET DEFICIT

Current liabilities:	
Accounts payable and accrued liabilities	\$ 8,578
Short term promises to give (note 2)	<u>16,119,884</u>
Total current liabilities	16,128,462
Long term promises to give (note 2)	<u>7,446,526</u>
Total liabilities	23,574,988
Net deficit - unrestricted	<u>(959,544)</u>
Total liabilities and net deficit	<u>\$ 22,615,444</u>

See accompanying notes and independent auditors' report.

THE SAMUELI FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Revenues and support:	
Contributions - unrestricted	\$ 21,839,147
Investment loss	(41,444)
Interest income	<u>18,820</u>
Total revenues and support	<u>21,816,523</u>
Expenses:	
Program services:	
Arts	1,240,131
Education	8,950,965
Health/Medical	7,998,160
Religious	1,403,101
Social services	<u>1,208,746</u>
Total program services	<u>20,801,103</u>
Supportive services:	
Management and general	339,017
Excise tax	<u>131,282</u>
Total supportive services	<u>470,299</u>
Total expenses	<u>21,271,402</u>
Change in unrestricted net assets	545,121
Net deficit at beginning of year	<u>(1,504,665)</u>
Net deficit at end of year	<u>\$ (959,544)</u>

See accompanying notes and independent auditors' report.

THE SAMUELI FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

Reconciliation of changes in unrestricted net assets to net cash used in operating activities:	
Changes in net assets	\$ 545,121
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Amortization of discount	2,750
Loss on sale of investments	41,444
Changes in operating assets and liabilities:	
Prepaid expenses and deposits	(28,344)
Contribution receivable	(3,687,698)
Related party receivables	23,863
Accounts payable and accrued expenses	(175,514)
Unconditional promises to give	<u>(2,404,862)</u>
Net cash used in operating activities	<u>(5,683,240)</u>
Cash flows from investing activities:	
Purchases of property and equipment	(14,700)
Proceeds from sales of investments	<u>6,718,351</u>
Net cash provided by investing activities	<u>6,703,651</u>
Cash flows from financing activities:	
Net repayments to related parties	<u>(1,050,000)</u>
Cash used in financing activities	<u>(1,050,000)</u>
Net change in cash and cash equivalents	(29,589)
Cash and cash equivalents at beginning of year	<u>225,414</u>
Cash and cash equivalents at end of year	<u>\$ 195,825</u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for excise taxes	\$ <u>186,000</u>
Noncash contributions from related parties (note 1)	\$ <u>6,759,795</u>
Contributions paid directly from related entities on behalf of the Foundation (note 3)	\$ <u>8,854,300</u>

See accompanying notes and independent auditors' report.

THE SAMUELI FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Samuelli Foundation (the Foundation) strives to create societal value by investing in innovative, entrepreneurial, and sustainable ideas. The Foundation supports endeavors that embody the following objectives: promote scholastic, technical and creative exploration and achievement; build a community of sharing, acceptance and altruism; increase awareness, knowledge and opportunities; and enhance the quality of life of the underserved.

Funding for the Foundation is provided by several entities created by the Co-Chairmen of the Foundation (see note 3 and 4).

Classification and Reporting of Funds

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-For-Profit Organizations*, the Foundation presents its net assets under three separate classifications: unrestricted, temporarily restricted and permanently restricted. Temporarily restricted and permanently restricted funds are those funds that may be used only in accordance with the purposes established by the donor and are distinguished from unrestricted funds in which the Foundation retains full control with respect to the use thereof. There are no temporarily restricted and permanently restricted assets as of December 31, 2007.

In addition, SFAS No. 117 requires the Foundation to report all of its expenses in the unrestricted fund, regardless of the source of the funds for the expenditures. A transfer of expenses from the unrestricted fund to the restricted fund will be reported, if applicable, to match the restricted revenue with the restricted expenses.

Concentrations of Business and Credit Risk

The Foundation's cash and cash equivalents are maintained in various bank accounts. The Foundation has exposure to credit risk to the extent that its cash and cash equivalents exceed amounts covered by federal deposit insurance. The Foundation believes that its credit risk is not significant.

The Foundation received all of its contributions from one donor at December 31, 2007.

Contribution Income/Expense Recognition

Contribution income and expense is recognized at the date of a formal, unconditional promise to give, discounted over the period such contributions are to be made.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of the state code. Therefore, no provision for income tax has been recorded in the accompanying financial statements. However, the Foundation is subject to federal excise tax based on taxable investment income.

THE SAMUELI FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of these financial statements in conformity with the accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates.

Statement of Cash Flows

For purposes of the statement of cash flows, the Foundation considers all highly liquid unrestricted investments with an original maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are recorded at cost and depreciated using a depreciation method based on federal income tax laws, which is substantially the same as accounting principles generally accepted in the United States of America. Property and equipment are depreciated over the estimated useful lives of the respective assets as follows:

Computers and office equipment	5 Years
Computer software	3 Years

Marketable Securities

The Foundation accounts for marketable securities under SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. In accordance with SFAS No. 124, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with realized and unrealized gains and losses included in the statement of activities. Funding from the donors is primarily in the form of marketable securities which the Foundation sells upon receipt. As of December 31, 2007, marketable securities donated during the year were sold and the Foundation recognized a loss of \$41,444.

NOTE 2. PROMISES TO GIVE

As of December 31, 2007, the Foundation has made unconditional promises to provide funding to various charitable organizations. Long-term unconditional promises to give are recorded as a liability at a discount in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. The discount rates used by the Foundation range from 4 to 9 percent. The amortization of the discount of approximately \$445,599 for the year ended December 31, 2007 has been recorded as a contribution expense.

THE SAMUELI FOUNDATION
(A CALIFORNIA NONPROFIT PUBLIC BENEFIT CORPORATION)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2. PROMISES TO GIVE (continued)

At December 31, 2007, unconditional promises to give consist of the following:

Education	\$ 10,320,594
Health/Medical	8,310,765
Religious	541,371
Social services	5,913,000
Less: discount	<u>(1,519,320)</u>
Net unconditional promises to give	<u>\$ 23,566,410</u>

Unconditional promises to give:	
Less than one year	\$ 16,119,884
One to five years, net of discount	<u>7,446,526</u>
Total	<u>\$ 23,566,410</u>

NOTE 3. CONTRIBUTIONS RECEIVABLE

The Foundation had been funded primarily by the different entities (donors) created by the Co-Chairmen of the Foundation. As the Foundation makes commitments for future pledges, the Foundation records income and an offsetting receivable from the donors. As the commitments become due, the donors fund the Foundation. As of December 2007, it had been determined that all future funding, including the commitment of \$22,368,366 as of December 31, 2007, would be contributed by one related entity. During January and March 2008, two other related entities paid \$4,126,053 and \$2,994,453, respectively, of the commitment as of December 31, 2007 to charitable organizations that were promises of the Foundation (see note 7).

Funding from the donors is primarily in the form of marketable securities which the Foundation sells upon receipt. From time to time, donors contribute securities and cash directly to the charitable organization designated by the Foundation. During 2007, securities of \$8,854,300 were contributed directly to charitable organizations to fund the Foundation's commitments.

In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions receivable are recorded at fair value. Amounts due more than one year later are recorded at the present value of the estimated future cash flows, discounted at rates ranging from 4 percent to 9 percent. The amortization of the discount of approximately \$442,849 for the year ended December 31, 2007 has been recorded as contribution income in the accompanying statement of activities. As of December 31, 2007, the Foundation had \$15,182,305 of contributions receivable due within one year and \$7,186,061, net of discount, of contributions receivable due in one to four years.

NOTE 4. RELATED PARTY TRANSACTIONS

Each of the Foundation's Board members serve on certain Board of Director's of charitable organizations to which the Foundation contributes.

THE SAMUELI FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 4. RELATED PARTY TRANSACTIONS (continued)

The Foundation pays a management fee to a related party that provides accounting and administrative services to the Foundation. The related party is owned primarily by the Co-Chairmen of the Foundation. Management fees for 2007 were \$12,000 and are included in management and general expenses in the accompanying statement of activities.

For the year ended December 31, 2007, the Foundation pledged \$7,302,105 to the Samuelli Institute for Information Biology ("SIIB"), a related entity, to be funded in 2008 (see note 3). SIIB is a not for profit organization founded by the Co-Chairmen of the Foundation. In addition, a related entity funded SIIB \$4,581,340 in 2007 through the transfer of securities against the Foundation's \$5,000,000 promise from 2006.

The Foundation borrows money as needed from a related party to fund its gifts and operational expenses. The Foundation repays the amounts as funds become available based on the receipt of marketable securities from the related entities. During the year ended December 31, 2007 the Foundation borrowed \$800,000 and made repayments of \$1,850,000. As of December 31, 2007, there was no balance due.

NOTE 5. PROPERTY AND EQUIPMENT

At December 31, 2007 property and equipment consist of the following:

Computers	\$ 24,600
Office equipment	53,445
Software	6,442
	84,487
Less: accumulated depreciation	(69,787)
	\$ 14,700

NOTE 6. COMMITMENTS

The Foundation entered into a Participation Agreement with H&S Ventures LLC (a related party) to adopt its 401(k) profit sharing plan. Each participant may elect to defer a portion of compensation up to the maximum allowable as determined by the Internal Revenue Service. As of January 1, 2006, the plan was revised to a safe harbor plan which provides for matching 100% of the participant's contribution up to 3%, plus 50% of the participant's contributions that exceed 3% but do not exceed 5%.

Foundation contributions for the year ended December 31, 2007 were \$3,476.

NOTE 7. SUBSEQUENT EVENTS (UNAUDITED)

During January and March 2008, two related entities paid \$4,126,053 and \$2,994,453, respectively, to charitable organizations that were promises of the Foundation as of December 31, 2007 (see note 3).