

THE NOYCE FOUNDATION
(A California Nonprofit Private Foundation)

FINANCIAL STATEMENTS

Years Ended December 31, 2006 and 2005

THE NOYCE FOUNDATION
(A California Nonprofit Private Foundation)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Noyce Foundation
(A California Nonprofit Private Foundation)
Palo Alto, California

We have audited the accompanying statements of financial position of The Noyce Foundation (a California nonprofit private foundation) as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 audits provide 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 Noyce Foundation as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, certain errors resulting in understatement of previously reported investments as of December 31, 2005, were discovered by management of the Foundation during the current year. Accordingly, the 2005 financial statements have been restated to correct the error.

A handwritten signature in cursive script that reads "Berger/Lewis Accountancy Corporation".

BERGER/LEWIS ACCOUNTANCY CORPORATION
San Jose, California
April 5, 2007

THE NOYCE FOUNDATION
(A California Nonprofit Private Foundation)

STATEMENTS OF FINANCIAL POSITION

December 31, 2006 and 2005

ASSETS

	<u>2006</u>	<u>2005</u>
ASSETS:		
Cash and Cash Equivalents	\$ 3,738,641	\$ 20,906,779
Accrued Interest Receivable	75,351	63,398
Investments	162,993,480	141,408,729
Prepaid Federal Excise Tax	95,516	12,245
Property and Equipment, Net	39,063	37,706
Other Assets	<u>13,370</u>	<u>20,874</u>
TOTAL ASSETS	<u>\$166,955,421</u>	<u>\$162,449,731</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts Payable	\$ 109,923	\$ 147,765
Grants Payable, Net	2,823,462	2,301,514
Accrued Liabilities	51,145	57,340
Deferred Federal Excise Tax	<u>1,090,214</u>	<u>985,583</u>
Total Liabilities	<u>4,074,744</u>	<u>3,492,202</u>
NET ASSETS:		
Unrestricted Net Assets	<u>162,880,677</u>	<u>158,957,529</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$166,955,421</u>	<u>\$162,449,731</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

THE NOYCE FOUNDATION
(A California Nonprofit Private Foundation)

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2006 and 2005

	2006	2005
REVENUES AND GAINS:		
Interest	\$ 1,007,195	\$ 2,304,760
Dividends	896,412	887,751
Net Realized Gain on Sale of Investments	5,331,488	2,489,581
Net Unrealized Gain on Investments	5,570,701	8,134,764
Other Income	156,739	168,707
Total Revenues and Gains	12,962,535	13,985,563
EXPENSES:		
Program Expenses:		
Grants Made:		
Mathematics	2,129,496	1,966,824
Science	2,474,350	1,050,265
Literacy	724,881	985,231
Policy	20,000	830,640
Teacher Development	600,000	-
Tool Development	204,500	-
Family/Trustee	-	18,600
Total Grants Made	6,153,227	4,851,560
Other Program Expenses	1,288,493	1,671,096
Total Program Expenses	7,441,720	6,522,656
Management and General Expenses:		
General and Administrative	900,708	868,604
Investment Advisory Fees	457,166	539,278
Federal Excise Taxes, Including Deferred Federal Excise Taxes of \$104,631 and \$146,197	239,793	249,984
Total Management and General Expenses	1,597,667	1,657,866
Total Expenses	9,039,387	8,180,522
CHANGE IN UNRESTRICTED NET ASSETS	3,923,148	5,805,041
UNRESTRICTED NET ASSETS, Beginning of Year, As Restated	158,957,529	153,152,488
UNRESTRICTED NET ASSETS, End of Year	\$162,880,677	\$158,957,529

The Accompanying Notes are an Integral Part of these Financial Statements.

THE NOYCE FOUNDATION
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STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 3,923,148	\$ 5,805,041
Adjustments to Reconcile Change in Net Assets to Net Cash		
Used by Operating Activities:		
Net Realized Gain on Sale of Investments	(5,331,488)	(2,489,581)
Net Unrealized Gain on Investments	(5,570,701)	(8,134,764)
Depreciation	12,423	17,465
Deferred Federal Excise Tax	104,631	146,197
(Increase) Decrease in Assets:		
Accrued Interest Receivable	(11,953)	35,624
Prepaid Federal Excise Tax	(83,271)	82,628
Other Assets	7,504	(4,734)
Increase (Decrease) in Liabilities:		
Accounts Payable	(37,842)	50,531
Grants Payable, Net	521,948	666,574
Accrued Liabilities	(6,195)	20
Net Cash Used by Operating Activities	(6,471,796)	(3,824,999)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Equipment	(9,268)	(9,644)
Proceeds from Sale of Investment Securities	114,729,600	70,795,044
Purchase of Investment Securities	(125,416,674)	(48,664,101)
Net Cash Provided (Used) by Investing Activities	(10,696,342)	22,121,299
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Notes Receivable	-	6,402
Net Cash Provided by Financing Activities	-	6,402
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,168,138)	18,302,702
CASH AND CASH EQUIVALENTS, Beginning of Year	20,906,779	2,604,077
CASH AND CASH EQUIVALENTS, End of Year	\$ 3,738,641	\$ 20,906,779
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid for Interest (Paid Through Limited Partnership Investments)	\$ 80,684	\$ 81,354
Cash Paid for Federal Excise Taxes	\$ 215,000	\$ 21,159

The Accompanying Notes are an Integral Part of these Financial Statements.

THE NOYCE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION:

The Noyce Foundation (the "Foundation"), is a private, nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Noyce Foundation was created by the Noyce family in 1990 to honor the memory and legacy of Dr. Robert N. Noyce, inventor of the integrated circuit which fueled the personal computer revolution and gave Silicon Valley its name.

The Foundation's original purpose was to increase the numbers of students at every stage along the K-12 education pipeline who have the fundamental skills, knowledge, and interest to pursue further study leading to a career in science or technology. In later years, the Foundation launched additional work in mathematics and early literacy to give students the fundamental starting tools to acquire knowledge.

In addition to the Foundation's continual push to improve teaching and learning in the content areas of science, math, and literacy, the Foundation works in the education policy arena to support its other work. The Foundation's current policy interests reside mainly in the states of California and Massachusetts. Along with addressing a wide variety of other issues, the Foundation strives to provide policymakers with compelling research-based evidence about the link between professional development and student achievement in order to influence decisions regarding investments in professional development and education. Resources for the Foundation's activities are primarily provided by investment income.

In everything the Foundation undertakes, it is committed to promoting the qualities that Bob Noyce embodied: optimism, creativity, risk taking, and determination.

NOTE 2 - PROGRAMS:

Strengthening Instruction in High-Leverage Content Areas - The Noyce Foundation focuses on strengthening classroom practice as a means to improving student learning. The Foundation works specifically on improving instruction in the areas of mathematics, science and literacy – the content areas that have the greatest potential for impacting a child's future. The Foundation's content area programs are systemic in their reach; in addition to working with teachers, the Foundation targets leadership throughout the educational system to effect change and support teachers. The Foundation's goals are:

- Mathematics: to develop conceptual understanding and high levels of mathematical skills, in all students, kindergarten through algebra
- Science: to develop conceptual understanding, curiosity and scientific literacy, in all students, sixth grade through twelfth grade
- Literacy: to develop competent, creative readers and writers, in all students, kindergarten through sixth grade

THE NOYCE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - PROGRAMS (Continued):

Teacher and Leadership Development - The purpose of all teacher development projects supported by The Noyce Foundation is to improve student achievement. The Foundation provides support for continuing professional training as well as intensive support for teachers who are in their first two years of teaching. The Foundation's goal is to raise the quality and quantity of teachers and administrative leaders in order to improve student achievement.

Policy - As a natural outgrowth of the Foundation's focus on student achievement and systemic improvement of teacher practice, The Noyce Foundation has developed a formal active interest in impacting the policy arena. The Noyce Foundation Trustees have served leadership roles in policy advising groups in both California and Massachusetts. The Foundation's work in policy aligns closely with its values and allows the Foundation to act quickly when a salient opportunity arises. The Foundation's goal is to forge a centrist and activist voice on a small number of policy issues that directly impact the Foundation's other goals.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - The financial statements of The Noyce Foundation have been prepared on the accrual basis of accounting.

Basis of Presentation - Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*.

Use of Estimates - The preparation of 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 financial statements and the reported amounts of revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less. The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Investments - Investments are carried at fair value, which is primarily based upon quoted market prices. Realized gains or losses on the sales of investments are determined based upon the specific costs of securities sold. Unrealized appreciation or depreciation in the value of investments is recognized in the statement of activities as the change in the difference between the cost and market value between periods.

THE NOYCE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property and Equipment - Property and equipment are recorded at cost. Equipment purchases over \$500 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 5 to 7 years.

Grants Payable - Grants payable represents all unconditional grants that have been authorized prior to year end, but remain unpaid as of December 31, 2006 and 2005. Conditional grants are expensed and considered payable in the period the conditions are substantially satisfied. There were no conditional grants at December 31, 2006 and 2005, respectively.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of December 31, 2006 and 2005 and is included in "accrued liabilities" in the statement of financial position. The accrued vacation balance as of December 31, 2006 and 2005 was \$43,445 and \$52,762, respectively.

Taxes - The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes. However, the Foundation is subject to a federal excise tax.

The Foundation follows the policy of providing for federal excise taxes on net appreciation (both realized and unrealized) on investments. The deferred provision for federal excise tax represents taxes provided on net unrealized appreciation (depreciation) on investments.

NOTE 4 - INVESTMENTS:

Investments held at December 31, consisted of the following:

	<u>2006</u>	
	<u>Fair Value</u>	<u>Cost</u>
U.S. Government Obligations	\$ 12,565,731	\$ 12,756,052
Marketable Equity Securities	49,791,519	18,455,090
Managed Funds	100,347,761	76,967,657
Limited Partnerships and Trust	<u>288,469</u>	<u>303,990</u>
Total Investments	<u>\$ 162,993,480</u>	<u>\$ 108,482,789</u>

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - INVESTMENTS (Continued):

	2005	
	Fair Value	Cost
U.S. Government Obligations	\$ 9,701,738	\$ 9,877,838
Marketable Debt Securities	4,429,788	4,425,128
Marketable Equity Securities	49,128,628	17,338,672
Managed Funds	77,751,430	59,981,106
Limited Partnerships and Trust	397,145	506,811
Total Investments	\$141,408,729	\$ 92,129,555

NOTE 5 - PROPERTY AND EQUIPMENT:

The cost and related accumulated depreciation of the property and equipment at December 31, consisted of the following:

	2006	2005
Equipment and Computers	\$ 103,970	\$ 105,758
Furniture and Fixtures	39,207	38,876
	143,177	144,634
Less: Accumulated Depreciation	(104,114)	(106,928)
Property and Equipment, Net	\$ 39,063	\$ 37,706

Depreciation expense for the years ended December 31, 2006 and 2005 was \$12,423 and \$17,465, respectively.

NOTE 6 - GRANTS PAYABLE:

Grants payable in more than one year are discounted to their present value at the time the grants are made using risk-free interest rates. Grants payable at December 31, consisted of the following:

	2006	2005
Payable in Less Than One Year	\$ 2,614,950	\$ 1,968,598
Payable in One to Five Years	219,000	346,000
	2,833,950	2,314,598
Less: Discount on Long-Term Grants Payable	(10,488)	(13,084)
Grants Payable, Net	\$ 2,823,462	\$ 2,301,514

THE NOYCE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - GRANTS PAYABLE (Continued):

Grants payable at December 31, are payable to organizations in the following categories:

	<u>2006</u>	<u>2005</u>
Mathematics	\$ 863,000	\$ 821,053
Policy	336,011	636,916
Science	1,107,000	486,950
Literacy	217,451	356,595
Teacher Development	<u>300,000</u>	<u>-</u>
Grants Payable, Net	<u>\$ 2,823,462</u>	<u>\$ 2,301,514</u>

NOTE 7 - TAX-DEFERRED RETIREMENT PLAN:

The Foundation sponsors a 401(k) plan for Foundation employees. Under the provisions of the plan, participating employees may make voluntary contributions through salary deductions up to the maximum amount allowed by law. In addition, the Foundation makes a 3% Safe Harbor contribution and may make an employer elective contribution as determined by the trustees. The percentage amount of the employer elective contribution can be changed at their discretion. For the years ended December 31, 2006 and 2005 the Foundation contributed an amount equal to 10% (3% Safe Harbor contribution and 7% employer elective contribution) of the employee's gross salary to the plan. Foundation contributions and expenses for the years ended December 31, 2006 and 2005 related to the plan totaled \$51,092 and \$59,665, respectively.

NOTE 8 - PROVISION FOR FEDERAL EXCISE TAX:

The Internal Revenue Code imposes an excise tax on private foundations equal to 2% percent of net investment income, which is defined as interest, dividends and net realized gains less operating and capital losses on partnership investments and expenses incurred in the production of income. The tax is reduced to 1% percent for foundations that meet certain distribution requirements. During the years ended December 31, 2006 and 2005, the Foundation paid excise taxes at the rate of 2%. The provision for federal excise tax (based on a 2% rate) consists of a current provision on net investment income. A deferred excise tax provision is recognized on current net unrealized gains on investments.

For the years ended December 31, 2006 and 2005 federal excise tax expense consisted of the following:

	<u>2006</u>	<u>2005</u>
Current Federal Excise Tax	\$ 135,162	\$ 103,787
Deferred Federal Excise Tax	<u>104,631</u>	<u>146,197</u>
Total Federal Excise Tax Expense	<u>\$ 239,793</u>	<u>\$ 249,984</u>

THE NOYCE FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 9 - OPERATING LEASE COMMITMENTS:

The Foundation rents 4,089 square feet of office space at the rate of \$8,423 per month under a non-cancelable operating lease commencing on September 1, 2004 and ending on February 10, 2012. On January 1, 2007 and on each anniversary thereafter, the monthly rent due under this lease shall increase by 3% per year.

Also, the Foundation rents 620 square feet of office space at the rate of \$1,240 per month under a non-cancelable operating lease commencing on August 1, 1998 and ending on October 31, 2007.

Rental expense for the years ended December 31, 2006 and 2005 was \$125,271 and \$143,724, respectively.

Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2007	\$ 117,762
2008	107,232
2009	110,448
2010	113,760
2011	117,180
Thereafter	<u>14,648</u>
Total Future Minimum Lease Payments	<u>\$ 581,030</u>

NOTE 10 - PRIOR PERIOD ADJUSTMENT:

During the year ended December 31, 2006, the Organization discovered that an offshore investment with Argus Healthcare was partially sold as of December 31, 2005. During fiscal year 2005, the Foundation assumed that 100% of the Argus Healthcare investment was sold and took it off the books completely. As a result, Argus Healthcare was not recorded on the Foundation's Statement of Financial Position as of December 31, 2005. However, during fiscal year 2006 the Foundation became aware that 90% of the investment was sold as of December 31, 2005 and the remaining 10% of Argus Healthcare security should have been recorded at fair market value as of December 31, 2005, therefore requiring a prior period adjustment. This is shown as follows:

	<u>Unrestricted</u>
Net Assets - December 31, 2005, as Previously Reported	\$158,457,529
Fair Market Value of Argus Health Care Investment as of December 31, 2005	<u>500,000</u>
Net Assets - December 31, 2005, as Restated	<u>\$158,957,529</u>
