# Financial Statements and

# Report of Independent Certified Public Accountants

# Skoll Foundation

June 30, 2007 and 2006

C O N T E N T S

Grant Thornton

Accountants and Business Advisors

**Report of Independent Certified Public Accountants**

Board of Directors
Skoll Foundation

We have audited the accompanying statements of financial position of Skoll Foundation (the "Foundation") as of June 30, 2007 and 2006, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 presents fairly, in all material respects, the financial position of the Foundation as of June 30, 2007 and 2006, 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.

Grant Thornton LLP

San Jose, California
November 17, 2007

Suite 600
150 Almaden Blvd
San Jose, CA 95113
T 408.275.9000
F 408.275.0582
W www.grantthornton.com

Grant Thornton LLP
US Member of Grant Thornton International

**Skoll Foundation**

**STATEMENTS OF FINANCIAL POSITION**

**June 30,**

| ASSETS | 2007 | 2006 |
|---|---|---|
| Assets | | |
| Cash | $ 6,254,590 | $ 607,547 |
| Prepaid expenses and deposits | 66,493 | 66,486 |
| Investments, at fair value | 494,802,223 | 332,569,722 |
| Investment sales receivable | 8,782,831 | 3,240,193 |
| Interest and dividend receivable | 390,010 | 317,922 |
| Federal excise tax refund receivable | - | 220,376 |
| Program related investment | 3,561,522 | 2,231,675 |
| Property and equipment, net | 116,394 | 186,824 |
| Total assets | $ 513,974,063 | $ 339,440,745 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | $ 101,453 | $ 61,081 |
| Investment purchases payable | 3,721,898 | 3,661,427 |
| Accrued expenses and other liabilities | 388,666 | 184,354 |
| Grants payable, net | 17,758,124 | 17,152,093 |
| Deferred federal excise tax payable | 808,285 | 407,886 |
| Total liabilities | 22,778,426 | 21,466,841 |
| Net assets | 491,195,637 | 317,973,904 |
| Total liabilities and net assets | $ 513,974,063 | $ 339,440,745 |

These notes are an integral part of the financial statements.

**Skoll Foundation**

**STATEMENTS OF ACTIVITIES**

**June 30,**

| | 2007 | 2006 |
|---|---|---|
| Revenue | | |
| Contributions | $ 128,213,381 | $ 39,954,073 |
| Investment income, net | 66,748,347 | 37,539,097 |
| Federal excise tax expense | (1,954,344) | (766,376) |
| Total revenue | 193,007,384 | 76,726,794 |
| Expenses | | |
| Grants | 14,003,366 | 16,255,703 |
| Direct charitable expenses | 2,547,658 | 1,981,935 |
| Program and administrative expenses | 3,234,627 | 2,669,427 |
| Total expenses | 19,785,651 | 20,907,066 |
| Change in net assets | 173,221,733 | 55,819,728 |
| Net assets, beginning of period | 317,973,904 | 262,154,176 |
| Net assets, end of period | $ 491,195,637 | $ 317,973,904 |

These notes are an integral part of the financial statements.

**Skoll Foundation**

**STATEMENTS OF CASH FLOWS**

**June 30,**

| | 2007 | 2006 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ 173,221,733 | $ 55,819,728 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 87,100 | 90,108 |
| Net realized and unrealized gain on sale of investments | (62,570,299) | (34,308,020) |
| Investment management expenses | 262,983 | 452,789 |
| Noncash contributions | (128,213,381) | (39,954,073) |
| In-kind expenses | 2,029,906 | 1,518,073 |
| Deferred federal excise tax expense | 400,399 | 239,393 |
| Changes in operating assets and liabilities: | | |
| Investment sales receivable | (5,542,638) | (348,127) |
| Interest and dividend receivable | (72,088) | 30,694 |
| Prepaid expenses and deposits | (7) | (36,438) |
| Federal excise tax refund receivable | 220,376 | (123,036) |
| Accounts payable | 40,372 | (40,085) |
| Investment purchases payable | 60,471 | (662,813) |
| Accrued expenses and other liabilities | 204,312 | (11,405) |
| Grants payable, net | 606,031 | 8,187,182 |
| Net cash (used in) operating activities | (19,264,730) | (9,146,030) |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (16,670) | (12,657) |
| Program related investment | (1,329,847) | (1,969,331) |
| Purchases of investments | (773,104,135) | (496,185,740) |
| Proceeds from the sale of investments | 799,362,425 | 506,716,243 |
| Net cash provided by investing activities | 24,911,773 | 8,548,515 |
| Net increase (decrease) in cash | 5,647,043 | (597,515) |
| Cash, beginning of period | 607,547 | 1,205,062 |
| Cash, end of period | $ 6,254,590 | $ 607,547 |
| Supplemental data for non-cash activities | | |
| Cash paid for excise taxes | $ 1,200,000 | $ 650,000 |

These notes are an integral part of the financial statements.

**Skoll Foundation**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2007 and 2006**

## NOTE 1 - THE ORGANIZATION

Skoll Foundation (the "Foundation") is a private foundation established by Jeffery Skoll in 2002. The Foundation's mission is to advance systemic change to benefit communities around the world by investing in, connecting and celebrating social entrepreneurs. More information regarding the Foundation can be obtained from the Foundation's website at www.skollfoundation.org.

The Foundation is organized as a non-profit charitable corporation and operates its office in Palo Alto, California.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America.

The Foundation recognizes contributions as revenue in the period received. For the years ended June 30, 2007 and 2006, all activities of the Foundation were classified as unrestricted due to the lack of donor-imposed restrictions.

Cash and Cash Equivalents

Cash consists of demand deposits maintained at a major commercial bank. Cash equivalents consist of money market funds and other short-term, highly liquid investments held for investment purposes. The Foundation considers all highly liquid instruments with maturities of three months or less at the time of purchase to be cash equivalents. Cash equivalents are recorded as investments in the statement of financial position.

Investments

Investments in equity and debt securities with readily determinable fair values are stated at fair value. Fair value is determined based on quoted market prices. Investments in partnerships are stated at fair value as reported by the general partner. Partnership investments include a diverse range of vehicles, including private equity, absolute return funds, real estate and commodity funds. The June 30 valuation of these investments is based on the most recent value provided by the partner, generally June 30. Management obtains and considers the audited financial statements of such investments when evaluating the overall reasonableness of carrying value. Management believes this method provides a reasonable estimate of fair value. However, the recorded value may differ from the market value had a readily available market existed for such investments, and those differences could be material.

Investment transactions are recorded on trade date which results in both investment receivables and payables on unsettled investment trades. Gains and losses on investments resulting from market fluctuations are recorded in the statement of activities in the period that such fluctuations occur. Realized gains or losses on sales of investments are calculated on an adjusted cost basis. Dividend and interest income are accrued when earned.

The Foundation's basis in contributions of appreciated property equals fair value on the date of contribution. The fair value of contributed stock is established as the average of the market high and low transaction prices on the date the gift is received. However, for tax purposes, the Foundation's basis is equal to that of the donor. This difference in the basis of contributions for financial statements and tax purposes results in larger net realized gains on investments for tax purposes, which increases taxable investment income correspondingly.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Program Related Investments

The Foundation makes investments which advance its charitable mission and qualify as charitable distributions by the Internal Revenue Service. Such investments earn below risk-adjusted market rates of return. Program related investments at June 30, 2007 and 2006, include $2,988,007 and $1,775,000, respectively of loans made to organizations and $573,515 and $456,675, respectively, invested in a private equity fund. Management has reviewed all program related investments and believes no allowance is necessary as of June 30, 2007 and 2006.

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over the estimated lives of the respective assets, as follows:

| | |
|---|---|
| Computer and software: | 3 years |
| Furniture and fixtures: | 5 years |

Grants

Grants expenditures are recognized in the period the grant is approved provided the grant is not subject to future contingencies. 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.

Contributed Services

Contributed services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The fair value of contributed services recorded in the accompanying statement of activities, consisting of investment management and facility use services provided by a related party, totaled $2,029,906 and $1,518,073 for the years ended June 30, 2007 and 2006, respectively. Contributed investment management services are reflected as contributions revenue and as investment management services expense which is netted against investment income. Contributed facility use services are reflected in contributions revenue and in direct charitable and program and administrative expenses.

Presentation of Expenses on the Statement of Activities

The Foundation's operating costs have been allocated between direct charitable and program and administrative expenses in the accompanying statement of activities based on management's estimates. Direct charitable expenses are charitable costs incurred by the Foundation largely for the benefit of others, where the Foundation initiates and conducts the activity in part or in whole. Direct charitable expenses reported in the accompanying statement of activities represent the contribution of services, such as grantmaking and program coordination, to the Skoll Fund. The Skoll Fund is a supporting organization affiliated with the Community Foundation Silicon Valley, and its successor organization the Silicon Valley Community Foundation. The Silicon Valley Community Foundation appoints the majority of the Skoll Fund's Directors. Together with Skoll Foundation, the Skoll Fund advances systemic change to benefit communities around the world by investing in, connecting and celebrating social entrepreneurs.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, investment sales receivable and purchases payable, interest and dividend receivable, accounts payable, accrued expenses and other liabilities, and grants payable approximate fair value because of the short maturity of these items. Investments are carried at estimated fair value based on either quoted market prices or as reported by the general partner as described above.

Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to credit risk consist primarily of cash, cash equivalents, investments, and program related investments. The Foundation maintains cash and cash equivalents primarily with major financial institutions. Such amounts may exceed FDIC limits. The Foundation monitors its investments and has not experienced any credit losses.

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, liabilities, revenue, expenses and the disclosure of commitments at the date of the financial statements. Actual results could differ from those estimates.

## NOTE 3 - INVESTMENTS

The investment goals of the Foundation include inflation adjusted preservation of capital and providing funds for pursuing the Foundation's charitable mission. The Foundation diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies. As a general practice, all financial assets of the Foundation are managed by external investment management firms.

The Foundation's investments consist of the following:

| | Year Ended June 30, | |
|---|---|---|
| | 2007 | 2006 |
| Cash equivalents | $ 24,675,932 | $ 1,901,510 |
| Equities | 70,354,289 | 57,769,601 |
| Fixed income | 63,902,410 | 43,705,061 |
| Limited partnerships and similar interests | 335,869,592 | 229,193,550 |
| | $ 494,802,223 | $ 332,569,722 |

Cash equivalents consist of money market funds and other short-term, highly liquid investments held for investment purposes. Equities consist of publicly traded stock and fixed income consists of publicly traded bonds, notes and other interest bearing securities. Limited partnerships and similar interests, such as limited liability companies, consist of shares of investment entities invested in public and private equity securities, debt instruments, absolute return and other diversified strategies.

All financial assets of the Foundation are held in custody by a major financial services firm, except for assets invested with partnerships and commingled funds, which have separate arrangements related to their legal structure.

## NOTE 3 - INVESTMENTS (continued)

As of June 30, 2007, the Foundation is committed to additional funding of $77,082,800 in limited partnerships and similar interests.

As of June 30, 2007, the Foundation's Board had approved funding an additional $1,938,478 in program related investments in the form of loans and other investments.

Investment income reported on the Statement of Activities was comprised of the following:

| | Year Ended June 30, 2007 | Year Ended June 30, 2006 |
|---|---|---|
| Dividend and interest income | $ 6,096,401 | $ 4,870,403 |
| Net realized and unrealized gain on investments | 62,570,299 | 34,308,020 |
| Investment expenses: | | |
| Contributed investment management expenses | (1,608,370) | (1,096,537) |
| Third party investment management expenses | (309,983) | (542,789) |
| Investment income, net | $ 66,748,347 | $ 37,539,097 |

## NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | Year Ended June 30, 2007 | Year Ended June 30, 2006 |
|---|---|---|
| Computer and software | $ 157,085 | $ 140,416 |
| Furniture and furnishings | 218,273 | 218,273 |
| | 375,358 | 358,689 |
| Less accumulated depreciation and amortization | (258,964) | (171,865) |
| Property and equipment, net | $ 116,394 | $ 186,824 |

## NOTE 5 - GRANTS PAYABLE

Grants are recorded as grants payable when they are approved. Some of the grants are payable in installments, generally over a three-year period. At June 30, 2007 grants payable were discounted using rates ranging from 3.04% to 5.13%. Grants authorized but unpaid at June 30, 2007 are payable as follows:

| | Due in 1 Year | Due in 1-5 Years | Total |
|---|---|---|---|
| Grants outstanding | $ 13,997,916 | $ 4,103,330 | $ 18,101,246 |
| Discount | - | 343,122 | 343,122 |
| Net present value | $ 13,997,916 | $ 3,760,208 | $ 17,758,124 |

## NOTE 6 - FEDERAL EXCISE TAX

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and from California franchise and/or income tax under section 23701(d) of the Revenue and Taxation code. The Foundation is subject to federal excise tax imposed on private foundations at 2% or at 1% on net investment income if certain conditions are met. The excise tax is imposed on net investment income, as defined by federal regulations. The Foundation qualified for a 1% excise tax rate for the period of the financial statements. The Foundation provides for deferred federal excise tax on unrealized gains on investments at a rate of 1%, which is an estimate of the effective rate expected to be paid. The components of the Foundation's federal excise tax expense in the Statement of Activities are as follows:

| | Year Ended June 30, | |
|---|---|---|
| | 2007 | 2006 |
| Current | $ 1,553,945 | $ 526,983 |
| Deferred | 400,399 | 239,393 |
| | $ 1,954,344 | $ 766,376 |

## NOTE 7 - RELATED PARTY TRANSACTIONS

During the years ended June 30, 2007 and 2006, the Foundation purchased tax and accounting services from a firm, a principal of which is also a Director of the Foundation. The Foundation paid expenses of $43,480 and $179,335, respectively, for these services. In addition, investment management and facility services were contributed by a firm, as discussed in Note 2, a principal of which is also an Officer of the Foundation.

## NOTE 8 - RETIREMENT PLAN

The Foundation sponsors a defined contribution plan under Internal Revenue Code Section 403(b). The plan covers all employees who meet eligibility requirements. Employer contributions to the 403(b) plan are made monthly and vest immediately. Total expenses related to the plan were approximately $325,038 and $249,505 for the years ended June 30, 2007 and 2006, respectively.

## NOTE 9 - SUBSEQUENT EVENTS

The Foundation received contributions from its founder valued at $32,175,100 subsequent to June 30, 2007.