Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

Skoll Foundation

December 31, 2012

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Grant Thornton

Report of Independent Certified Public Accountants

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Board of Directors
Skoll Foundation

We have audited the accompanying consolidated financial statements of Skoll Foundation, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, and cash flows for the year 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 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 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 entity'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 entity'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 Skoll Foundation as of December 31, 2012, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

San Jose, California
September 16, 2013

Skoll Foundation

December 31, 2012

Consolidated statement of financial position

Assets		
Cash	$	2,481,290
Prepaid expenses and deposits		118,817
Federal excise tax refund receivable		656,037
Investments, at fair value		501,875,249
Investment sales receivable		7,124,088
Interest and dividend receivable		383,874
Program related investments		9,212,891
Property and equipment, net		249,451
Total assets	$	522,101,697
Liabilities		
Accounts payable	$	273,504
Investment purchases payable		23,345
Accrued expenses and other liabilities		1,230,696
Grants payable, net		7,227,262
Deferred federal excise tax payable		1,199,549
Total liabilities		9,954,356
Net assets		
Unrestricted		510,545,485
Temporarily restricted		1,601,856
Total net assets		512,147,341
Total liabilities and net assets	$	522,101,697

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

Consolidated statement of activities

	Unrestricted	Temporarily Restricted	Total
Revenue			
Contributions	$ 42,832,580	$ 2,000,000	$ 44,832,580
Investments gain, net	38,369,557	-	38,369,557
Earned revenue	905,834	-	905,834
Net assets released from restriction	398,144	(398,144)	-
Total net revenue	82,506,115	1,601,856	84,107,971
Expenses			
Grants	8,608,003	-	8,608,003
Direct charitable expenses	2,974,126	-	2,974,126
Program and administrative expenses	13,473,602	-	13,473,602
Federal excise tax expense	730,008	-	730,008
Total expenses	25,785,739	-	25,785,739
Change in net assets	56,720,376	1,601,856	58,322,232
Net assets, beginning of year	453,825,109	-	453,825,109
Net assets, end of year	$ 510,545,485	$ 1,601,856	$ 512,147,341

Skoll Foundation

Year ended December 31, 2012

Consolidated statement of cash flows

Cash flows from operating activities	
Change in net assets	$ 58,322,232
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:	
Depreciation and amortization	91,483
Net realized and unrealized gain on investments	(38,968,142)
Net realized and unrealized loss on program related investments	154,955
Contributions of investment securities	(40,139,184)
Investment management expenses	2,402,725
Deferred excise taxes	915,309
Change in operating assets and liabilities	
Investment sales receivable	774,969
Interest and dividend receivable	(354,437)
Prepaid expenses and deposits	11,289
Federal excise tax refund receivable	(435,301)
Accounts payable	(210,217)
Investment purchases and other liabilities	(4,006,747)
Accrued expenses and other liabilities	(29,519)
Grants payable, net	(5,556,375)
Net cash used in operating activities	(27,026,960)
Cash flows from investing activities	
Purchase of property and equipment	(93,547)
Purchases of program related investments	(673,905)
Proceeds from program related investments	593,009
Purchases of investments	(156,759,229)
Proceeds from the sale of investments	183,024,878
Net cash provided by investing activities	26,091,206
Net decrease in cash	(935,754)
Cash, at beginning of year	3,417,044
Cash, end of year	$ 2,481,290
Supplemental data	
Cash paid for excise taxes	$ 250,000

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

Notes to consolidated financial statements

Note 1 – The Organization

Skoll Foundation (the "Foundation") is a private foundation established by Jeffrey Skoll in 2002. The Foundation's mission is to drive large-scale change by investing in, connecting and celebrating social entrepreneurs and the innovators who help them solve the world's most pressing problems.

The Foundation is organized as a non-profit charitable corporation and operates from its office in Palo Alto, California. The Foundation is the sole member of the Skoll Global Threats Fund, a private foundation and membership organization established by Jeffrey Skoll in 2009. The mission of the Skoll Global Threats Fund is to confront global threats imperiling humanity by seeking solutions, strengthening alliances, and spurring the actions needed to safeguard the future. The Skoll Global Threats Fund is consolidated with the Foundation for financial statement purposes. All significant inter-entity transactions have been eliminated in consolidation.

Note 2 – Significant accounting policies

Basis of presentation

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

Net assets and changes therein are classified as follows:

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Foundation and/or the passage of time.

Cash

Cash consists of demand deposits maintained at a major commercial bank.

Revenue

Contributions are recorded as revenue when verifiable, measureable, and all applicable conditions have been met. Contributions subject to donor restriction are reflected as temporarily restricted revenue. When a donor restriction expires, that is, a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restriction.

Note 2 – Significant accounting policies (continued)

Investments

Investments are recorded at fair value, determined in accordance with the provisions of Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*. ASC 820 establishes a fair value hierarchal disclosure framework which prioritizes and ranks the level of market price observable inputs used in measuring investments at fair value.

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 unobservable inputs (Level 3 measurements). A financial instrument's categorization in the hierarchy is based upon the lowest level input that is significant to the fair value measurement based on quoted market prices. The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs based on quoted market prices for identical assets or liabilities in an active market. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data. Price inputs are quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value drivers are observable in active markets.

Level 3 – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. These inputs into the determination of fair value require significant management judgment or estimation. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally include private fund investment structures and limited interests.

Investments in equity and debt securities with readily determinable prices are stated at fair value. Private investments that do not carry publicly observable prices are valued utilizing a variety of valuation methodologies.

Securities are classified within Level 3 when there is limited activity or less transparency around inputs to the valuation, such as when there is a lack of information related to equity securities held in nonpublic companies.

Equity securities classified in Level 3 include non-publicly held companies. These private investments most usually represent direct ownership in a formed entity or corporation and are likewise assigned a value according to the overall determination of value of the formed entity or corporation. The most common methodologies of valuation which are applied include, but are not limited to, liquidation of stockholders equity (accounting value), observable pricing, and external qualified opinions of valuation.

Note 2 – Significant accounting policies (continued)

Investments (continued)

Inputs that are used in internal valuation will vary according to investment characteristics, but most common forms of input include, but are not limited to, audited financial statements, ownership capitalization tables, purchase and sales agreements, limited liability company agreements, debt covenant agreements, and public comparables. Additionally, unobservable inputs learned through confidential and insider relationships with invested entities or corporations factors may be employed in valuation.

If quoted market prices are not available or accessible for debt securities, then fair values are estimated using pricing models or matrix pricing. The pricing models or matrices used in internal valuation of private debt investments most generally compare the relevant characteristic of an observed comparable to the valued investment, and will apply a relationship between the comparable and valued investment over a time period, or at a certain period in time to derive estimates of value. Various factors considered in comparison evaluation, include, but are not limited to, the following: market price activity, yield (spread) momentum, callability features, and capital structure amendments. The fair values of corporate debt securities estimated using pricing models or matrix pricing include observable prices of corporate debt securities that do not trade in active markets and are generally classified within Level 2 of the fair value hierarchy. Such securities are classified within Level 3 when there is limited activity or less transparency around inputs to the valuation.

Financial derivative instruments are recorded at fair value based on the last reported sale price or, if they are traded over-the-counter, at the most recent bid price in the accompanying consolidated statement of financial position with changes in the fair value reflected in the accompanying consolidated statement of activities.

Investments in partnerships and limited liability companies that do not have readily available market values are stated at fair value as reported by the general partner. These investments include a diverse range of vehicles, including private equity, absolute return funds, real estate and commodity funds. The valuation of these investments is based on the most recent value provided by the general partner, usually with a December 31 "as of" date. To evaluate the overall reasonableness of the valuation carrying value, management obtains and considers the audited financial statements of such investments. 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. These investments are classified within Level 3 with the exception of those that can be redeemed within ninety days of December 31, 2012, which are classified as Level 2. 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.

Note 2 – Significant accounting policies (continued)

Investments (continued)

Cash equivalents categorized as investments are comprised of money market mutual funds.

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 made in the form of loans and deposits are valued at cost while those made through private equity funds are recorded at fair value. Program related investments at December 31, 2012 include $6,524,198 of loans made directly to individual businesses and investment funds; $1,625,779 invested in private equity funds; and $1,062,914 in a pledged deposit to collateralize a loan in the same amount to fund a fleet of health care service vehicles in Gambia.

Management has reviewed all program related investments held at cost and believes no impairment allowance is necessary as of December 31, 2012. All program related loans are current and on an active accrual status. Based on the performance of matured and active program related loans, the Foundation has not created an allowance for credit losses. The Foundation periodically reviews the valuation of program related loans and adjusts their carrying value based on various factors including exchange rates, fund manager valuations, and interest and principal payment performance.

Program related investments measured at fair value are valued based on Level 3 inputs per the fair value hierarchy. The following is a rollforward of activity for these program related investments.

Ending balance at December 31, 2011	Realized losses	Change in unrealized losses	Net purchases	Sales and settlement	Ending balance at December 31, 2012
$ 1,743,961	$ -	$ (355,749)	$ 330,395	$ (92,827)	$ 1,625,779

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:

Computers and software:	3 years
Furniture and fixtures:	5 years
Leasehold improvements:	5 years

Note 2 – Significant accounting policies (continued)

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.

As of December 31, 2012, the Foundation awarded conditional grants totaling $1,860,852, $1,054,817 of which was recorded as contribution expense in 2012, pursuant to the terms of the grants. The remaining balance of $806,035 will be recorded as an expense upon the grantees satisfying the conditions of the grant, based on the specified payment schedules and achievement of milestones as outlined by the Foundation.

Contributed services

Contributed services are recognized as revenues and expenses 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 consolidated statement of activities, consisting of investment management and facility use services provided by a related party, totaled $2,693,396 for the year ended December 31, 2012.

Contributed investment management services are reflected as contribution revenue and as contributed investment management expense which are netted against investment income. Contributed facility use services are reflected in contribution revenue and in direct charitable and program and administrative expense.

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. 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 consolidated statement of activities represent the contribution of services, such as grantmaking and program coordination, to the Skoll Fund. The Skoll Fund awarded $32,615,415 (unaudited) of grants during the twelve month period ended December 31, 2012. The Skoll Fund is a supporting organization affiliated with 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 seeks to drive large-scale change by investing in, connecting and celebrating social entrepreneurs and other innovators dedicated to solving the world's most pressing problems.

Note 2 – Significant accounting policies (continued)

Presentation of expenses on the statement of activities (continued)

The allocation between direct charitable and program and administrative expenses are based on the assignment of payroll, employment taxes and benefits based on staff estimates of the time spent on the relevant programs; direct assignment of non-payroll expenses to the relevant activities; and an allocation of remaining expenses based on the value and number of grants awarded and paid by the Skoll Fund and Skoll Foundation during the reporting period.

Fair value of financial instruments

The carrying amounts of cash, investment sales receivable and purchases payable, interest and dividends receivable, program related investments, 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 as described above.

Concentrations of credit risk

Financial instruments which potentially subject the Foundation to credit risk consist primarily of cash, investments, and program related investments. The Foundation maintains cash primarily with one major financial institution. Such cash amounts may exceed Federal Deposit Insurance Corporation limits. The Foundation monitors its investments and has not experienced any significant 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 consolidated financial statements. Actual results could differ from those estimates.

Foreign currencies

Foreign currency amounts are translated into U.S. Dollars based on exchange rates as of December 31, 2012. Transactions in foreign currencies are translated into U.S. Dollars at the exchange rate prevailing on the transaction date.

Income taxes

ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an entity's consolidated financial statements and provides guidance on the recognition, re-recognition and measurement of benefits related to an entity's uncertain tax positions, if any. The Foundation adopted ASC 740-10-25 on July 1, 2009 and the adoption of this standard had no material effect on the Foundation's consolidated financial statements as of adoption, or at December 31, 2012. As such, the Foundation does not have a deferred tax asset on the consolidated statement of financial position and there have been no related tax penalties or interest which would be classified as tax expense in the consolidated statement of activities.

Note 2 – Significant accounting policies (continued)

Income taxes (continued)

The Foundation is subject to income taxes in the United States and California on unrelated business income. The Foundation's federal returns are currently open under the statute of limitations for the years ended after June 30, 2009 and subsequent years and California returns are open for the years ended June 30, 2008 and subsequent years.

The Foundation does not anticipate that there will be any material changes in the unrecognized tax positions over the next twelve months.

Recently adopted accounting pronouncements

In May of 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The guidance requires entities to disclose additional information about fair value measurements. The Foundation has adopted this guidance as of January 1, 2012 and it did not have a material impact on the Foundation's consolidated financial statements, although it did impact disclosures.

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 consisted of the following at December 31, 2012:

Cash equivalents	$ 21,196,961
Credit strategies	47,296,647
Derivatives	564,207
Fixed income	59,086,637
Global equities	161,102,062
Hedge fund strategies	35,306,054
Private equity	133,684,452
Real assets	43,638,229
	$ 501,875,249

Credit strategies are investments in debt-related instruments or in funds that are actively purchasing and selling debt-related instruments on an opportunistic basis. Investments may include bank loans, high yield debt, real estate debt, mezzanine and second lien debt, distressed debt, emerging market debt, preferred stock and similar securities. Derivative instruments consist of investments in U.S. Treasury swaps, and put and call options and forward contracts on commodities. Fixed income consists of investments that provide a return in the form of fixed periodic payments and the eventual return of principal at maturity. Most of the investments in this category are U.S. Treasury securities.

Note 3 – Investments (continued)

Global equities consist of investments in funds or made directly that focus in equity securities listed in or with exposure to: United States, Europe, Asia and other developing and emerging markets around the world. Hedge fund strategies are investments in funds that are expected to be multi-disciplinary and with managers that have the expertise to engage in both event-driven and hedged positions. Private equity includes investments in funds that make investments directly in private companies; some of which are made through underlying funds while others are made directly in the company. Real assets consist of investments in funds or made directly that focus on real estate, energy, commodities, renewable resources and hard tradable assets.

The following table presents the assets that are measured at fair value on the statement of financial position by level within the valuation hierarchy at December 31, 2012:

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 21,196,961	$ -	$ -	$ 21,196,961
Credit strategies	9,866,116	4,580,721	32,849,810	47,296,647
Derivatives	-	564,207	-	564,207
Fixed income	59,086,637	-	-	59,086,637
Global equities	63,230,706	50,865,995	47,005,361	161,102,062
Hedge fund strategies	-	10,997,400	24,308,654	35,306,054
Private equity	10,385	-	133,674,067	133,684,452
Real assets	-	14,799,539	28,838,690	43,638,229
Total investments	$ 153,390,805	$ 81,807,862	$ 266,676,582	$ 501,875,249

The following table includes a roll-forward of the amounts for the year ended December 31, 2012 for investments classified within Level 3:

	Ending balance at December 31, 2011	Realized gains (losses)	Change in unrealized gains (losses)	Net purchases	Sales and settlements	Net transfers in (out) Level 3	Ending balance at December 31, 2012
Credit strategies	$ 40,193,335	$ 593,039	$ 3,810,074	$ 1,320,958	$ (13,067,596)	$ -	$ 32,849,810
Global equities	40,265,510	2,860,752	7,678,155	64,624	(6,441,359)	2,577,679	47,005,361
Hedge fund strategies	24,761,936	487,159	8,785,364	9,000,000	(18,725,805)	-	24,308,654
Private equity	132,794,987	2,379,301	4,473,404	17,934,603	(24,300,711)	392,483	133,674,067
Real assets	26,166,787	1,997,413	2,427,800	3,571,734	(5,325,044)	-	28,838,690
Total funds	$ 264,182,555	$ 8,317,664	$ 27,174,797	$ 31,891,919	$ (67,860,515)	$ 2,970,162	$ 266,676,582

Note 3 – Investments (continued)

The amount included in the consolidated statement of activities for the year attributable to the change in unrealized gains related to Level 3 assets still held at the reporting date was $19,907,106. Transfers between levels in the fair value hierarchy are recognized at the end of the reporting period. Transfers for the year ended December 31, 2013 result from a change in valuation technique, the addition of a holdback, and a transfer out of level 3 due to purchase of the investee by a public company, resulting in valuation based on an observable market price.

The Foundation uses Net Asset Value ("NAV") to determine the fair value of all underlying investments which (a) do not have a readily determinable fair value and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists the attributes of investments valued using NAV.

Fund	Fair value	Number of funds	Remaining life	Unfunded commitments	Timing to drawdown commitments	Redemption frequency (if currently eligible)	Redemption restrictions in place at year-end
Credit strategies	$ 32,599,152	14	1-6 years	$ 4,924,641	0-2 years	Monthly, quarterly, annually, multi-annually or not redeemable.	Notification days ranging from 0-120 days subject to lock-up conditions where applicable.
Global equities	$ 97,871,356	14	0-6 years	$ 16,277	0-1 year	Monthly, quarterly, annually, semi-annually, multi-annually.	Notification days ranging from 7-120 days subject to lock-up conditions where applicable, or not redeemable.
Hedge fund strategies	$ 35,306,054	12	2-10 years	$ -	N/A	Monthly, quarterly, annually, semi-annually, multi-annually.	Notification days ranging from 5-100 days subject to lock-up conditions where applicable, or not redeemable.
Private equity	$113,126,539	47	2-10 years	$ 13,276,240	0-5 years	Not redeemable.	Not redeemable.
Real assets	$ 25,326,078	12	2-5 years	$ 3,426,040	0-1 year	Multi-annually or not redeemable.	Notification days of 30 days or not redeemable.
Total	$304,229,179	99		$ 21,643,198			

Note 3 – Investments (continued)

Level 3 fair value measurements other than those based on observed transaction prices or valued using the net asset value, the below table provides a description of the valuation techniques and the inputs used in those measurements at December 31, 2012.

Industry	Fair Value	Valuation technique(s)	Unobservable inputs	Range
Energy	$ 617,397	Probability Weighted Expected Return Method	Probability of Outcome	15-45%
		Market approach/public comparable companies	Short-term EBITDA growth rate	-51%
		Income Approach/discounted cash flows	Weighted-average Cost of Capita	17%
		Cost Approach	Recent Round of Financing	N/A
		Loan recovery analysis conducted by 3rd party	All appraisal inputs	N/A
		Investment directed valuation	All appraisal inputs	N/A
Consumer Discretionary	7,440,501	Income Approach/discounted cash flows	Weighted-average cost of capital	35%
			Exit EBITDA Multiple	13.5
		Market approach/public comparable companies	Revenue multiple	2.5-4.5
		Investment directed valuation	All appraisal inputs	N/A
		Cost Approach	Recent Round of Financing	N/A
Industrials	2,081,585	Income Approach/discounted cash flows	Long-term growth rate of cash flows	3%
			Discount Rate	15%
		Market approach/public comparable companies	Market Multiple	6.5-10
Materials	1,510,310	Real Estate comparables and discounted cash flows	Comparable Real Estate sales data	N/A
			Long-term revenue growth	-23%
Total	**$ 11,649,793**			

Note 3 – Investments (continued)

The Foundation has authorized its investment manager to use derivatives in the active management of the investment portfolio. In the opinion of the Foundation's management, the use of financial derivative instruments in its investment program is appropriate and customary for the investment strategy employed. Using such instruments reduces certain investment risks and may add value to the portfolio. Financial derivative instruments are recorded at fair value in the accompanying consolidated statement of financial position along with other investments and changes in the fair value are reflected in the accompanying consolidated statement of activities within investment gain, net.

The following table lists the fair value of derivatives by contract type as included in the consolidated statement of financial position at December 31, 2012. This table excludes exposures relating to derivatives held indirectly through comingled funds. The derivative instruments are not designated as hedging instruments under ASC 815.

	Notional value	Fair value
Commodity hedges	$ 5,086,329	$ (1,906)
Interest rate swaps	549,500,000	34,525
Public equity hedges	4,386,659	531,588
Total derivatives	$ 558,972,989	$ 564,207

The realized loss recognized for derivative instruments for the year ended December 31, 2012 was $1,539,937 and is included in investment gain, net in the consolidated statement of activities.

The Foundation may enter into hedge contracts to manage exposure to changes in the prices of U.S. Treasury debt securities noted as interest rate swaps above. The Foundation may enter into put and call contracts and forward contracts to manage exposure to change in the price of gold noted as commodity hedges above. The Foundation may enter into equity swaps and futures contracts to manage exposure to certain global equity markets referred to as public equity hedge above. The Foundation has additional exposure to derivatives through commingled funds. Individual derivative contracts involve, to varying degrees, risk of loss arising from the possible inability of counterparties to meet the terms of the contracts. However, the Foundation minimizes such risk exposure by limiting counterparties to major financial institutions. The Foundation does not expect to record any losses as a result of counterparty default.

The investment 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)

The Foundation holds a variety of investments, the underlying securities of which are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investment securities would occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

As of December 31, 2012, the Foundation had executed and signed an agreement to sell non-marketable securities for proceeds totaling $3,315,483. The Foundation used this negotiated sales price to value these securities as of December 31, 2012. The sale was finalized and completed at this sales price within 60 days of December 31, 2012.

As of December 31, 2012, the Foundation is committed to invest additional funding of $23,470,548 in limited partnerships and similar interests.

As of December 31, 2012, the Foundation's Board had approved funding an additional $7,819,868 in program related investments in the form of loans and other investments.

Investment gain reported in the consolidated statement of activities was comprised of the following for the year ended December 31, 2012:

Dividend and interest income	$	4,025,861
Net realized and unrealized gains on investments		38,968,142
Investment expenses:		
Contributed investment management expenses		(1,905,496)
Third party investment management expenses		(2,532,828)
Program related investments and other expenses		(186,122)
Investment gain, net	$	38,369,557

Note 4 – Property and equipment

Property and equipment consisted of the following at December 31, 2012:

Computers and software	$	390,397
Furniture and fixtures		290,842
Leasehold improvements		209,906
		891,145
Less accumulated depreciation and amortization		(641,694)
Property and equipment, net	$	249,451

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 December 31, 2012, grants payable were $7,227,262. The value of future payments was not discounted for the time value of money because such discount was deemed to be immaterial.

Note 6 – Federal excise tax

The Internal Revenue Service has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and the California Franchise Tax Board has determined that the Foundation is exempt 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% if certain conditions are met. The excise tax is imposed on net investment income, as defined by federal regulations. The Foundation qualified for a 2% excise tax rate for fiscal 2012. The Foundation provides for deferred federal excise tax on unrealized gains on investments at a rate of 2%, which is an estimate of the effective rate expected to be paid. The components of the Foundation's federal excise tax expense (benefit) in the consolidated statement of activities are as follows:

Current	$	(185,301)
Deferred		915,309
Federal excise tax expense	$	730,008

Note 7 – Related party transactions

During the year ended December 31, 2012, the Foundation purchased tax and accounting services from a firm, a principal of which is also a Director of the Foundation. The Foundation paid an immaterial amount 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 a Director of the Foundation. The Foundation's contribution of services to the Skoll Fund is also discussed in Note 2. Certain board members of the Skoll Fund also sit on the board of the Foundation.

Note 8 – Retirement plan

The Foundation sponsors a defined contribution plan (the "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 $770,848 for the year ended December 31, 2012.

Note 9 – Temporarily restricted net assets

Temporarily restricted net assets were available for the purpose of designing and developing a collaboration environment for social entrepreneurs. Net assets of $398,144 for the year ended December 31, 2012 were released from restriction by incurring expenses satisfying the restricted purpose by the donor.

Note 10 – Subsequent events

The Foundation has evaluated subsequent events through September 16, 2013, the date the consolidated financial statements were issued. The Foundation received contributions from its founder valued at $9,962,931 subsequent to December 31, 2012.