

Financial Statements and  
Report of Independent Certified Public Accountants  
**Skoll Foundation**  
June 30, 2006

**C O N T E N T S**

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	3
FINANCIAL STATEMENTS	
Statement of Financial Position .....	4
Statement of Activities .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements.....	7

**Report of Independent Certified Public Accountants**

Board of Directors  
Skoll Foundation

We have audited the accompanying statement of financial position of Skoll Foundation (“Foundation”) as of June 30, 2006 and the related statements of activities 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 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, 2006 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 2, the financial statements include investments valued at \$229,193,550 (68 percent of total assets) in partnerships and other non-marketable funds, whose fair values have been estimated by management in the absence of readily determinable fair values. Management’s estimates are based on information provided by the fund managers or general partners.

*Grant Thornton LLP*

San Jose, California  
November 21, 2006

Suite 600  
150 Almaden Blvd  
San Jose, CA 95113  
T 408.275.9000  
F 408.275.0582  
W [www.grantthornton.com](http://www.grantthornton.com)

Grant Thornton LLP  
US Member of Grant Thornton International

Skoll Foundation

STATEMENT OF FINANCIAL POSITION

June 30, 2006

ASSETS	
Assets	
Cash	\$ 607,547
Prepaid expenses and deposits	66,486
Investments, at fair value	332,569,722
Investments receivable	3,240,193
Interest and dividend receivable	317,922
Federal excise tax refund receivable	220,376
Program related investment	2,231,675
Property and equipment, net	<u>186,824</u>
Total assets	<u>\$ 339,440,745</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	\$ 61,081
Investment purchases payable	3,661,427
Accrued expenses and other liabilities	184,354
Grants payable, net	17,152,093
Deferred federal excise tax payable	<u>407,886</u>
Total liabilities	21,466,841
Net assets	<u>317,973,904</u>
Total liabilities and net assets	<u>\$ 339,440,745</u>

Skoll Foundation

STATEMENT OF ACTIVITIES

Year ended June 30, 2006

Revenue	
Contributions	\$ 39,954,073
Investment income, net	37,539,097
Federal excise tax expense	<u>(766,376)</u>
Total revenue	76,726,794
Expenses	
Grants	16,255,703
Direct charitable expenses	1,981,936
Program and administrative expenses	<u>2,669,427</u>
Total expenses	<u>20,907,066</u>
Change in net assets	55,819,728
Net assets, at beginning of period	<u>262,154,176</u>
Net assets, at end of period	<u>\$ 317,973,904</u>

**Skoll Foundation**

**STATEMENT OF CASH FLOWS**

**Year ended June 30, 2006**

Cash flows from operating activities	
Change in net assets	\$ 55,819,728
Adjustments to reconcile change in net assets to net cash (used in) operating activities:	
Depreciation and amortization	90,108
Net realized and unrealized gain on investments	(34,308,020)
Investment management expenses	452,789
Noncash contributions	(39,954,073)
In-kind expenses	1,518,073
Deferred excised taxes	239,393
Changes in operating assets and liabilities:	
Investment sales receivable	(348,127)
Interest and dividend receivable	30,694
Prepaid expenses and deposits	(36,438)
Accounts payable	(40,085)
Investment purchases payable	(662,813)
Accrued expenses and other liabilities	(11,405)
Grants payable	8,187,182
Excise tax refund receivable	<u>(123,036)</u>
Net cash (used in) operating activities	(9,146,030)
 Cash flows from investing activities	
Purchase of fixed assets	(12,657)
Program related investment	(1,969,331)
Purchases of investments	(496,185,740)
Proceeds from the sale of investments	<u>506,716,243</u>
Net cash provided by investing activities	8,548,515
 Net decrease in cash	(597,515)
 Cash, at beginning of period	<u>1,205,062</u>
 Cash, at end of period	<u>\$ 607,547</u>
 Supplemental information	
Cash paid for excise taxes	<u>\$ 650,000</u>

The notes are an integral part of the financial statements.

## Skoll Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 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](http://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 year ended June 30, 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.

**Skoll Foundation**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**June 30, 2006**

**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, 2006, include \$1,775,000 of loans made to organizations and \$456,675 invested in a private equity fund. The loans charge 1% per annum interest with principal repayment in five years from drawdown. Management has reviewed all program related investments and believes no allowance is necessary as of June 30, 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 \$1,518,073 for the year ended June 30, 2006. 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, which 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.



**Skoll Foundation**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**June 30, 2006**

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, investment receivables, interest and dividend receivables, 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 quoted market prices as described above unless noted otherwise in these footnotes.

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.

At June 30, 2006, the Foundation's investments consist of the following:

Short-term	\$ 1,901,510
Equities	57,769,601
Fixed income	43,705,061
Limited partnerships and similar interests	<u>229,193,550</u>
	<u>\$ 332,569,722</u>

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.

As of June 30, 2006, the Foundation is committed to additional funding of \$63,600,442 in limited partnerships and similar interests.

**Skoll Foundation**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**June 30, 2006**

**NOTE 3 – INVESTMENTS (continued)**

As of June 30, 2006, the Foundation's Board had approved funding an additional \$768,325 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:

Dividend and interest income	\$ 4,870,403
Net realized and unrealized gain on investments	34,308,020
Investment expenses:	
Contributed investment management expenses	(1,096,537)
Third party investment management expenses	<u>(542,789)</u>
Investment income, net	<u>\$ 37,539,097</u>

**NOTE 4 – 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, 2006 grants payable were discounted using rates ranging from 3.04% to 5.13%. Grants authorized but unpaid at June 30, 2006 are payable as follows:

	<u>Due in 1 Year</u>	<u>Due in 1-5 Years</u>	<u>Total</u>
Grants outstanding	\$ 9,105,947	\$ 8,676,616	\$ 17,782,563
Discount	<u>-</u>	<u>630,470</u>	<u>630,470</u>
Net present value	<u>\$ 9,105,947</u>	<u>\$ 8,046,146</u>	<u>\$ 17,152,093</u>

**NOTE 5 – PROPERTY AND EQUIPMENT**

At June 30, 2006, property and equipment consisted of the following:

Computer and software	\$ 140,416
Furniture and furnishings	<u>218,273</u>
	358,689
Less accumulated depreciation and amortization	<u>(171,865)</u>
Property and equipment, net	<u>\$ 186,824</u>

**Skoll Foundation**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**June 30, 2006**

**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% 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:

Current	\$ 526,983
Deferred	<u>239,393</u>
	<u>\$ 766,376</u>

**NOTE 7 – RELATED PARTY TRANSACTIONS**

During the year ended June 30, 2006, tax and accounting services were provided to the Foundation from a firm, a principal of which is also a Director of the Foundation. The Foundation incurred expenses of \$179,335 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 \$249,505 for the year ended June 30, 2006.

**NOTE 9 – SUBSEQUENT EVENTS**

The Foundation received contributions from its founder valued at \$19,924,980 subsequent to June 30, 2006.