



Financial Statements and Report of Independent  
Certified Public Accountants

**Skoll Foundation**

June 30, 2008 and 2007

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## 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, 2008 and 2007, 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 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 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 Foundation as of June 30, 2008 and 2007, 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 21, 2008

**Skoll Foundation**

**STATEMENTS OF FINANCIAL POSITION**

**June 30,**

	2008	2007
<b>ASSETS</b>		
Assets		
Cash	\$ 3,757,803	\$ 6,254,590
Prepaid expenses and deposits	70,561	66,493
Investments, at fair value	517,322,620	494,802,223
Investment sales receivable	6,960,821	8,782,831
Interest and dividends receivable	172,673	390,010
Federal excise tax refund receivable	693,274	-
Program related investment	4,360,051	3,561,522
Property and equipment, net	89,492	116,394
Total assets	\$ 533,427,295	\$ 513,974,063
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 159,037	\$ 101,453
Investment purchases payable	171,488	3,721,898
Accrued expenses and other liabilities	329,485	388,666
Grants payable, net	32,748,689	17,758,124
Deferred federal excise tax payable	616,750	808,285
Total liabilities	34,025,449	22,778,426
Net assets - unrestricted	499,401,846	491,195,637
Total liabilities and net assets	\$ 533,427,295	\$ 513,974,063

The accompanying notes are an integral part of the financial statements.

**Skoll Foundation**

**STATEMENTS OF ACTIVITIES**

**June 30,**

	2008	2007
Revenue		
Contributions	\$ 52,994,586	\$ 128,213,381
Investment income, net	7,534,235	66,748,347
Federal excise tax expense	(531,628)	(1,954,344)
Total revenue	59,997,193	193,007,384
Expenses		
Grants	44,377,490	14,003,366
Direct charitable expenses	3,475,695	2,547,658
Program and administrative expenses	3,937,799	3,234,627
Total expenses	51,790,984	19,785,651
Change in net assets	8,206,209	173,221,733
Net assets, beginning of year	491,195,637	317,973,904
Net assets, end of year	\$ 499,401,846	\$ 491,195,637

The accompanying notes are an integral part of the financial statements.

**Skoll Foundation**

**STATEMENTS OF CASH FLOWS**

**June 30,**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets	\$ 8,206,209	\$ 173,221,733
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	59,706	87,100
Net realized and unrealized gain on of investments	(2,188,229)	(62,570,299)
Investment management expenses	335,204	262,983
Noncash contributions	(52,994,586)	(128,213,381)
In-kind expenses	2,476,136	2,029,906
Deferred federal excise tax expense (benefit)	(191,535)	400,399
Changes in operating assets and liabilities:		
Investment sales receivable	2,822,010	(5,542,638)
Interest and dividend receivable	217,337	(72,088)
Prepaid expenses and deposits	(4,068)	(7)
Federal excise tax refund receivable	(693,274)	220,376
Accounts payable	57,584	40,372
Investment purchases payable	(3,550,410)	60,471
Accrued expenses and other liabilities	(59,181)	204,312
Grants payable, net	<u>14,990,565</u>	<u>606,031</u>
Net cash used in operating activities	(30,516,532)	(19,264,730)
 Cash flows from investing activities		
Purchases of property and equipment	(32,804)	(16,670)
Program related investment	(798,529)	(1,329,847)
Purchases of investments	(566,499,349)	(773,104,135)
Proceeds from the sale of investments	<u>595,350,427</u>	<u>799,362,425</u>
Net cash provided by investing activities	<u>28,019,745</u>	<u>24,911,773</u>
 Net increase (decrease) in cash	(2,496,787)	5,647,043
 Cash, beginning of year	<u>6,254,590</u>	<u>607,547</u>
 Cash, end of year	<u>\$ 3,757,803</u>	<u>\$ 6,254,590</u>
 Supplemental data for non-cash activities		
Cash paid for excise taxes	<u>\$ 1,550,000</u>	<u>\$ 1,200,000</u>

The accompanying notes are an integral part of the financial statements.

## Skoll Foundation

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

#### 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.

The Foundation is organized as a non-profit charitable corporation and operates from 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, 2008 and 2007, all activities of the Foundation were classified as unrestricted due to the lack of donor-imposed restrictions.

##### Cash

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

##### Investments

Investments in equity and debt securities with readily determinable fair values are stated at fair value. In such cases, fair value is determined based on quoted market prices. Foreign currency forward contracts which are traded on exchanges are valued at the last reported sale price, or, if they are traded over-the-counter, at the most recent bid price. Investments in partnerships and limited liability companies (LLC’s) 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 June 30 “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.

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, 2008 and 2007

#### 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, 2008 and 2007, include \$3,721,153 and \$2,988,007, respectively, of loans made to organizations and \$638,898 and \$573,515, respectively, invested in a private equity fund. Management has reviewed all program related investments and believes no allowance is necessary as of June 30, 2008.

##### 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

##### 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 as revenues and costs 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 statements of activities, consisting of investment management and facility use services provided by a related party, totaled \$2,476,136 and \$2,029,906 for the years ended June 30, 2008 and 2007, respectively. Contributed investment management services are reflected as contributions revenue and as contributed investment management expenses which are 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 Statements of Activities

The Foundation's operating costs have been allocated between direct charitable and program and administrative expenses in the accompanying statements 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 statements 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.

**Skoll Foundation**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**June 30, 2008 and 2007**

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

Fair Value of Financial Instruments

The carrying amounts of cash, investment sales receivable and purchases payable, interest and dividends 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 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 FDIC 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 financial statements. Actual results could differ from those estimates.

New Accounting Pronouncement

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurement* ("SFAS 157") in September 2006. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to reporting periods beginning after November 15, 2007. The adoption of SFAS 157 is not expected to have a material impact on the Foundation's financial statements.

In June 2006, the FASB issued FASB Interpretation No. ("FIN") 48, *Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by creating a framework for how organizations should recognize, measure, present, and disclose in their financial statements uncertain tax positions that they have taken or expect to take in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2007 for non-public organizations and is required to be adopted by the Foundation beginning in fiscal year 2009. However, the FASB issued a proposed staff position ("FSP") that would amend FIN 48 to defer the effective date of that Interpretation to fiscal years beginning after December 15, 2008, for nonpublic enterprises, including nonpublic not-for-profit organizations. Although the Foundation will continue to evaluate the application of FIN 48, management does not currently believe adoption will have a material impact on the Foundation's financial condition.

## Skoll Foundation

### NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

#### 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:

	<u>June 30</u>	
	<u>2008</u>	<u>2007</u>
Short-term marketable securities	\$ 14,819,013	\$ 24,675,932
Equities	46,420,138	70,354,289
Fixed income investments	30,793,442	63,902,410
Limited partnerships and similar interests	<u>425,290,027</u>	<u>35,869,592</u>
	<u>\$517,322,620</u>	<u>\$494,802,223</u>

Short-term marketable securities 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 investments consist of publicly traded bonds, notes and other interest bearing securities. Limited partnerships and similar interests, consist of investments in entities that are invested in public and private equity securities, debt instruments, absolute return, commodities, foreign exchange, and other diversified instruments.

The investment manager retained by the Foundation has been authorized to use certain financial derivative instruments in a manner set forth by either the Foundation's written investment policy or partnership/fund agreement documents. Financial derivative instruments are recorded at fair value in the accompanying statements of financial position with changes in the fair value reflected in the accompanying statements of activities. The only such derivatives held by the Foundation were foreign currency forward contracts, the fair value of which was \$4,943,080 and \$431,605 at June 30, 2008 and 2007, respectively. These amounts exclude investments in derivatives held indirectly through commingled funds.

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.

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 financial statements.

As of June 30, 2008, the Foundation is committed to invest additional funding of \$110,911,000 in limited partnerships and similar interests.

As of June 30, 2008, the Foundation's Board had approved funding an additional \$7,624,949 in program related investments in the form of loans and other investments.

**Skoll Foundation**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**June 30, 2008 and 2007**

**NOTE 3 – INVESTMENTS (continued)**

Investment income reported in the statements of activities was comprised of the following:

	Year Ended June 30,	
	2008	2007
Dividend and interest income	\$ 7,761,810	\$ 6,096,401
Net realized and unrealized gain on investments	2,188,229	62,570,299
Investment expenses:		
Contributed investment management expenses	(1,958,600)	(1,608,370)
Third party investment management expenses	(457,204)	(309,983)
Investment income, net	\$ 7,534,235	\$ 66,748,347

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

	Year Ended June 30,	
	2008	2007
Computers and software	\$ 189,890	\$ 157,085
Furniture and furnishings	218,273	218,273
	408,163	375,358
Less accumulated depreciation and amortization	(318,671)	(258,964)
Property and equipment, net	\$ 89,492	\$ 116,394

**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, 2008, grants payable were discounted using rates ranging from 3.04% to 5.13%. Grants authorized but unpaid at June 30, 2008 are payable as follows:

	Due in 1 Year	Due in 1-5 Years	Total
Grants outstanding	\$ 19,233,454	\$ 13,971,142	\$ 33,204,596
Discount	-	455,908	455,908
Net present value	\$ 19,233,454	\$ 13,515,234	\$ 32,748,688

**Skoll Foundation**

**NOTES TO FINANCIAL STATEMENTS (continued)**

**June 30, 2008 and 2007**

**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 statements of activities are as follows:

	<u>2008</u>	<u>2007</u>
Current	\$ 723,163	\$ 1,553,945
Deferred	<u>(191,535)</u>	<u>400,399</u>
	<u>\$ 531,628</u>	<u>\$ 1,954,344</u>

**NOTE 7 - RELATED PARTY TRANSACTIONS**

During the years ended June 30, 2008 and 2007, 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 \$75,015 and \$43,480, 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 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 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 \$400,030 and \$325,038 for the years ended June 30, 2008 and 2007, respectively.

**NOTE 9 - SUBSEQUENT EVENTS**

The Foundation received contributions from its founder valued at \$41,736,300 subsequent to June 30, 2008.

**NOTE 10 - SUBSEQUENT EVENTS (UNAUDITED)**

The Foundation's investment portfolio recorded unrealized losses of approximately 13% in the first quarter of its fiscal year ending June 30, 2009 as global financial markets experienced significant markdowns.