

Omidyar Network Fund, Inc.

Report on Audit of Financial Statements

December 31, 2007 and 2006

Report of Independent Auditors

To the Board of Trustees of
Omidyar Network Fund, Inc.

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and of cash flows present fairly, in all material respects, the financial position of Omidyar Network Fund, Inc. (the "Foundation") at December 31, 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. 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 of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

June 9, 2008

Omidyar Network Fund, Inc.
Statements of Financial Position
December 31, 2007 and 2006

	2007	2006
Assets		
Cash and cash equivalents	\$ 62,190,603	\$ 124,650,137
Receivable for investments sold	4,532,965	10,130,136
Interest and dividends receivable	255,522	264,839
Federal excise tax receivable	285,733	-
Prepaid expenses	-	8,000
Investments	272,517,074	148,507,639
Program related investment	3,253,498	655,580
Total assets	<u>\$ 343,035,395</u>	<u>\$ 284,216,331</u>
Liabilities and Net Assets		
Accrued liabilities	\$ 38,715	\$ 30,328
Grants payable	3,041,251	715,960
Current excise tax liability	-	633,260
Deferred federal excise tax liability	2,109,621	495,000
Total liabilities	5,189,587	1,874,548
Unrestricted net assets	<u>337,845,808</u>	<u>282,341,783</u>
Total liabilities and unrestricted net assets	<u>\$ 343,035,395</u>	<u>\$ 284,216,331</u>

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

Omidyar Network Fund, Inc.
Statements of Activities and Changes in Net Assets
Years Ended December 31, 2007 and 2006

	2007	2006
Revenues and support		
Interest and dividends, net	\$ 7,015,393	\$ 7,001,965
Net realized gains on investments	1,911,639	1,453,791
Net unrealized gains on investments	7,161,918	8,637,081
Total revenues and support	<u>16,088,950</u>	<u>17,092,837</u>
Expenses and losses		
Program expenses		
Grants	34,545,905	18,497,338
Total program expenses	<u>34,545,905</u>	<u>18,497,338</u>
Federal excise tax expense	1,842,020	1,658,495
Total expenses	<u>36,387,925</u>	<u>20,155,833</u>
Deficit of revenues and support over expenses before contributed marketable securities and net assets and services	(20,298,975)	(3,062,996)
Contributed investments	<u>75,803,000</u>	<u>62,703,087</u>
Increase in unrestricted net assets before contributed services	<u>55,504,025</u>	<u>59,640,091</u>
Contributed services and in-kind gifts from Omidyar Network Services LLC		
Contributed services and in-kind gifts	4,627,000	4,925,000
Related expenses	(4,627,000)	(4,925,000)
Increase in unrestricted net assets	<u>55,504,025</u>	<u>59,640,091</u>
Unrestricted net assets at beginning of year	<u>282,341,783</u>	<u>222,701,692</u>
Unrestricted net assets at end of year	<u>\$ 337,845,808</u>	<u>\$ 282,341,783</u>

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

Omidyar Network Fund, Inc.
Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Change in net assets	\$ 55,504,025	\$ 59,640,091
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Contributed investments	(75,803,000)	(62,703,087)
Net unrealized gains on investments	(7,161,918)	(8,637,081)
Net realized gains on investments	(1,911,639)	(1,453,791)
Changes in assets and liabilities		
Interest and dividends receivable	9,317	(30,733)
Federal excise tax receivable	(285,733)	183,603
Prepaid expenses	8,000	72,000
Accrued liabilities	8,387	6,328
Grants payable	2,325,291	696,174
Current excise tax liability	(633,260)	633,260
Deferred federal excise tax liability	1,614,621	180,000
Net cash used in operating activities	<u>(26,325,909)</u>	<u>(11,413,236)</u>
Cash flows from investing activities		
Purchase of investments	(69,982,382)	(38,416,673)
Proceeds from sale of investments	33,848,757	79,568,137
Net cash (used in) provided by investing activities	<u>(36,133,625)</u>	<u>41,151,464</u>
Net change in cash and cash equivalents	<u>(62,459,534)</u>	<u>29,738,228</u>
Cash and cash equivalents		
Cash and cash equivalents at beginning of year	<u>124,650,137</u>	<u>94,911,909</u>
Cash and cash equivalents at end of year	<u>\$ 62,190,603</u>	<u>\$ 124,650,137</u>
Supplemental disclosures of cash flow information		
Federal excise taxes paid	\$ 1,146,392	\$ 600,000
Supplemental schedule of noncash activities		
Contributed investments	\$ 75,803,000	\$ 62,703,087
Receivable for investments sold	<u>4,532,966</u>	<u>10,130,136</u>
	<u>\$ 80,335,966</u>	<u>\$ 72,833,223</u>

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

Omidyar Network Fund, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

1. Organization

Omidyar Network Fund, Inc. (the "Foundation") is a 501(c)(3) entity incorporated in the State of Delaware. The purpose of the Foundation is to support nonprofit organizations that create opportunities for people to improve their own lives and make powerful, lasting contributions to their communities.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States applicable to nonprofit organizations.

Revenues, gains or losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expenses are reported as decreases in unrestricted net assets.

Contributions are recognized at fair value in the period received. The Foundation has been funded through contributions received from the Pierre M. Omidyar Trust, a related party. To date, such contributions have been unrestricted.

Unrestricted Net Assets

Unrestricted net assets represent resources that are not subject to donor-imposed restrictions and are available to support the Foundation's activities.

Uses of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of short-term, highly liquid investments purchased with a remaining maturity of three months or less. The Foundation deposits cash and cash equivalents with high credit quality financial institutions. At times, such amounts may exceed federally insured limits.

Investments

Investments in readily marketable debt and equity securities are reported at fair value on the basis of quoted market values. Fair value is determined using daily closing last trade prices, where available, for all readily marketable instruments. Securities purchases and sales are recorded on a trade-date basis.

Alternative investments are primarily made under agreements to participate in limited partnerships and are generally subject to certain withdrawal restrictions. These investments are valued on the basis of the Foundation's pro rata interest in the net assets of the partnership. Because no readily ascertainable market value exists for these investments, the values are based on the latest available valuations as determined in good faith by the general partner of each partnership. Management believes that this method provides a reasonable estimate of fair value. Due to the inherent uncertainty of valuations, however, these amounts may differ materially from values that would be determined if the investments were publicly traded.

Omidyar Network Fund, Inc.
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Program Related Investment

Investments are classified as program related investments when they have a direct link to the Foundation's strategic purpose. Program related investment at December 31, 2007 and 2006 represents the fair market value of an investment in a private equity fund. The investment is valued on the basis of the Foundation's pro rata interest in the net assets of the partnership, as determined in good faith by the general partner. Management believes that this method provides a reasonable estimate of fair value.

Investment Income

Dividends and interest are accrued as earned.

Grants

Grants expense includes unconditional grants. Unconditional grants are expensed when they are approved. Certain grants may be subject to the grantee fulfilling specific conditions. Such conditional grants are considered commitments and are not recorded as expense until the conditions of the grant are met.

Taxes

The Foundation has received determination letters from the Internal Revenue Service indicating that the Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and the Revenue and Taxation Code of the State of California, respectively. Accordingly, no provision for income taxes has been made in the accompanying financial statements. However, the Foundation is subject to a federal excise tax. The Foundation follows the policy of providing for federal excise tax on the net appreciation (both realized and unrealized) of investments.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 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 recognized in an enterprise's financial statements in accordance with SFAS 109 and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for non-public entities for annual periods beginning after December 15, 2007. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to net assets as of the beginning of the period of adoption. FIN 48 applies to the Foundation because its alternative investments may be subject to unearned business income tax. The Foundation has evaluated the effect of the standard and determined that the adoption of FIN 48 will have no significant impact on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("FAS 157"). This Statement clarifies how to measure fair value as permitted under other accounting pronouncements but does not require any new fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Foundation has evaluated the impact of FAS 157 and has determined the adoption of the standard would have no material impact on the Foundation's financial position or results of operations.

Omidyar Network Fund, Inc.
Notes to Financial Statements
December 31, 2007 and 2006

3. Investments

Investments held at December 31:

	2007	2006
Fixed income securities	\$ 38,155,034	\$ 34,644,931
Convertible debt securities	28,018,572	24,180,477
Public equity securities	97,650,002	23,537,244
Alternative investments	<u>108,693,466</u>	<u>66,144,987</u>
Total investments	<u>\$ 272,517,074</u>	<u>\$ 148,507,639</u>

At December 31, 2007 and 2006, the Foundation had unfunded commitments of \$23,917,800 and \$20,763,989, respectively, related to certain alternative investments. The unfunded portion of these commitments can be called at the request of each general partner.

4. Program Related Investment

At December 31, 2007 and 2006, the Foundation had unfunded commitments of \$2,360,744 and \$4,000,000, respectively, related to a program related investment. The unfunded portion of this commitment can be called at the request of the general partner.

5. Related Party Transactions

Marketable securities contributed in 2007 and 2006 were donated by the Pierre M. Omidyar Trust. In addition, the Trust pays for investment management services performed by Comprehensive Financial Management for the Foundation.

During 2007 and 2006, Omidyar Network Services LLC, a subsidiary of Omidyar Network LLC, and an affiliated entity, provided program and general and administrative support to and paid for professional legal costs on behalf of the Foundation. Contributed services and in-kind gifts are allocated to the Foundation based on the percentage of the Foundation's annual grant and program related investment commitments to the total annual commitments of both the Foundation and Omidyar Network LLC. The amount of contributed services from Omidyar Network Services LLC is recognized as support and the related expense for the years ended December 31, 2007 and 2006 totaled \$4,627,000 and \$4,925,000, respectively.

6. Grants

Grant expenses for December 31, are as follows:

	2007	2006
Grant payments	\$ 32,220,614	\$ 17,801,164
Less: amounts committed in previous years and paid	(715,960)	(19,786)
Future payments committed on unconditional grants	<u>3,041,251</u>	<u>715,960</u>
Grant expenses	<u>\$ 34,545,905</u>	<u>\$ 18,497,338</u>

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All grants payable are due within two years and are recorded at face value.

As of December 31, 2007 and 2006, the Foundation has conditional grants totaling \$9,356,000 and \$14,125,000, respectively, that are payable over the next year. Future installments are payable upon the satisfaction of certain conditions and therefore, will not be accrued until such conditions have been met.

7. Federal Excise Tax

The Internal Revenue Code (the "Code") imposes an excise tax on private foundations equal to 2% of net investment income (principally interest, dividends, and net realized capital gains, less expenses incurred in the production of investment income). This tax may be reduced to 1% for foundations that meet certain distribution requirements under Section 4940(e) of the Code. The Foundation was subject to the 1% rate for 2007 and the 2% rate for 2006. A deferred excise tax provision of 2% is recognized on current net unrealized gains on investments.

The amount of excise taxes paid in 2007 and 2006 were \$1,146,392 and \$600,000, respectively. The expense for federal excise tax is as follows:

	2007	2006
Current	\$ 227,399	\$ 1,478,495
Deferred	<u>1,614,621</u>	<u>180,000</u>
Federal excise tax expense	<u>\$ 1,842,020</u>	<u>\$ 1,658,495</u>

8. Beneficial Interest in Ho'omaka Remainder Trust

On February 1, 1999, Pierre M. Omidyar created The Ho'omaka Trust (the "Trust"). Under the agreement, the Trust makes quarterly payments based on the net fair value of its assets to Mr. Omidyar for the rest of his life. Upon Mr. Omidyar's death, assets in the Trust will be distributed to an organization if one is appointed by Mr. Omidyar's will, and remaining unassigned assets, if any, will be distributed to the Foundation. The present value of the estimated remaining unassigned assets at December 31, 2007 and 2006 was \$8,218,717 and \$5,594,927, respectively. This amount is not included in the accompanying financial statements as it is not certain that the Foundation will ultimately receive the unassigned assets.