



# **Omidyar Network Fund, Inc.**

**Report on Audits of Financial Statements  
December 31, 2008 and 2007**

**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, 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. 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 30, 2009

**Omidyar Network Fund, Inc.**  
**Statements of Financial Position**  
**December 31, 2008 and 2007**

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	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 67,218,523	\$ 62,190,603
Receivable for investments sold	442,874	4,532,965
Interest and dividends receivable	236,504	255,522
Prepaid federal excise tax	1,578,516	285,733
Investments	159,842,022	272,517,074
Program related investments	13,145,895	3,253,498
Total assets	<u>\$ 242,464,334</u>	<u>\$ 343,035,395</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 31,370	\$ 38,715
Grants payable	3,345,042	3,041,251
Deferred federal excise tax liability	-	2,109,621
Total liabilities	<u>3,376,412</u>	<u>5,189,587</u>
Unrestricted net assets	<u>239,087,922</u>	<u>337,845,808</u>
Total liabilities and unrestricted net assets	<u>\$ 242,464,334</u>	<u>\$ 343,035,395</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, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Revenues and support</b>		
Interest and dividends, net	\$ 4,018,855	\$ 7,015,393
Net realized gains (losses) on investments	(15,272,736)	1,911,639
Net unrealized gains (losses) on investments	<u>(38,256,836)</u>	<u>7,161,918</u>
Total revenues and support	<u>(49,510,717)</u>	<u>16,088,950</u>
<b>Expenses and losses</b>		
Program expenses		
Grants	<u>50,756,149</u>	<u>34,545,905</u>
Total program expenses	50,756,149	34,545,905
Federal excise tax expense (benefit)	<u>(1,508,980)</u>	<u>1,842,020</u>
Total expenses	<u>49,247,169</u>	<u>36,387,925</u>
Deficit of revenues and support over expenses and losses before contributed investments and services	(98,757,886)	(20,298,975)
Contributed investments	<u>-</u>	<u>75,803,000</u>
Increase (decrease) in unrestricted net assets before contributed services	<u>(98,757,886)</u>	<u>55,504,025</u>
<b>Contributed services and in-kind gifts from Omidyar Network Services LLC and affiliated entities</b>		
Contributed services and in-kind gifts	6,096,000	4,627,000
Related expenses	<u>(6,096,000)</u>	<u>(4,627,000)</u>
Increase (decrease) in unrestricted net assets	<u>(98,757,886)</u>	<u>55,504,025</u>
Unrestricted net assets at beginning of year	<u>337,845,808</u>	<u>282,341,783</u>
Unrestricted net assets at end of year	<u>\$ 239,087,922</u>	<u>\$ 337,845,808</u>

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

**Omidyar Network Fund, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (98,757,886)	\$ 55,504,025
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities		
Contributed investments	-	(75,803,000)
Net unrealized (gains) losses on investments	38,256,836	(7,161,918)
Net realized (gains) losses on investments	15,272,736	(1,911,639)
Changes in assets and liabilities		
Interest and dividends receivable	19,018	9,317
Prepaid federal excise tax	(1,292,783)	(285,733)
Prepaid expenses	-	8,000
Accounts payable and accrued liabilities	(7,345)	8,387
Grants payable	303,791	2,325,291
Current excise tax liability	-	(633,260)
Deferred federal excise tax liability	(2,109,621)	1,614,621
Net cash used in operating activities	<u>(48,315,254)</u>	<u>(26,325,909)</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(38,388,810)	(69,982,382)
Distributions from investments	942,005	10,206,506
Proceeds from sale of investments	90,789,979	23,642,251
Net cash provided by (used in) investing activities	<u>53,343,174</u>	<u>(36,133,625)</u>
Net change in cash and cash equivalents	<u>5,027,920</u>	<u>(62,459,534)</u>
<b>Cash and cash equivalents</b>		
Cash and cash equivalents at beginning of year	<u>62,190,603</u>	<u>124,650,137</u>
Cash and cash equivalents at end of year	<u>\$ 67,218,523</u>	<u>\$ 62,190,603</u>
<b>Supplemental disclosure of cash flow information</b>		
Federal excise taxes paid	\$ 1,895,388	\$ 1,146,392
<b>Supplemental schedule of noncash activities</b>		
Contributed investments	\$ -	\$ 75,803,000
Receivable for investments sold	442,874	4,532,966

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

# Omidyar Network Fund, Inc.

## Notes to Financial Statements

### December 31, 2008 and 2007

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#### 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 opportunity for people to improve their lives by employing market-based efforts that catalyze economic, social and political change.

#### 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 (“the 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. At times, such amounts may exceed federally insured limits.

##### **Investments and Program Related Investments**

Investments are reported at fair value. Fair value is defined as the amount at which an asset could be exchanged between unrelated willing market participants, in an orderly transaction at the measurement date (i.e. the exit price). Investments are classified as program related investments when they have a direct link to the Foundation’s strategic purpose.

Securities listed on a securities exchange are valued at the last quoted sale price from the principal market on which the security is traded. Investments in open-end mutual funds are valued at the closing net asset value. Securities that trade in over-the-counter markets, including most debt and convertible securities, are valued within the range of the most recent quoted bid and ask prices or if such quotes are not available may be valued using evaluated prices determined by the Foundation’s pricing services.

**Omidyar Network Fund, Inc.**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

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The Foundation's pricing services may use valuation models which consider information with respect to comparable bond and note transactions, quotations from bond dealers, conversion premiums, interest rate spreads and yield curves to determine current value.

Investments in private equity, venture capital and hedge funds ("Alternative Investments") are made under agreements to participate in limited partnerships and are generally subject to certain withdrawal restrictions. Because no readily ascertainable market value exists for these investments, the estimated fair values are determined in good faith by the Foundation's management primarily on the basis of the latest available valuations as determined in good faith by the general partner of each partnership. Management may determine to adjust the valuations after consideration of relevant factors that market participants would consider in a transaction for an interest in the partnership, including redemption restrictions.

Private equity investments are not registered for public sale and are carried at estimated fair value as determined in good faith by the Foundation's management after consideration of available relevant financial, operational, and economic data. Significant factors considered in the estimation of fair value include but are not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment. 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.

Statement of Financial Accounting Standards No. 157 ("FAS 157") defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability other than quoted prices, either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement. The inputs into the determination of fair value require significant management judgment.

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

**Omidyar Network Fund, Inc.**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

The following table presents the investments carried at fair value on the Statement of Financial Position as of December 31, 2008 by FAS 157 valuation hierarchy (as described above):

	<b>Assets at Fair Value as of December 31, 2008</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Fixed income securities	\$ 37,907,595	\$ 1,096,588	\$ -	\$ 39,004,183
Convertible securities	-	19,360,716	-	19,360,716
Public equity securities	15,336,084	-	-	15,336,084
Private equity, venture capital and hedge funds	-	-	86,141,039	86,141,039
Program Related Investments	-	-	13,145,895	13,145,895
<b>Total</b>	<b>\$ 53,243,679</b>	<b>\$ 20,457,304</b>	<b>\$ 99,286,934</b>	<b>\$ 172,987,917</b>

The following table includes a roll-forward of the amounts in the Statement of Financial Position for the year ended December 31, 2008 (including the change in fair value) for investments classified within level 3 of the fair value hierarchy.

**Fair Value Measurements Using Level 3 Inputs**

<b>Balance at January 1, 2008</b>	\$ 111,946,964
Net payments, purchases and sales	12,413,958
Gains/(Losses)	
Realized	340,525
Unrealized	(25,414,513)
Transfers in (out) of Level 3	-
<b>Balance at December 31, 2008</b>	<b>\$ 99,286,934</b>

All net realized and unrealized losses are included within revenue in the Statement of Activities and Changes in Net Assets.

**Investment Income**

Dividends and interest are accrued as earned and are presented on the Statement of Activities and Changes in Net Assets net of investment expenses of \$160,675 and \$157,938 for 2008 and 2007, respectively.

**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 and the Franchise Tax Board 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 exempt from state income taxes under Section 23701d of 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.



**Omidyar Network Fund, Inc.**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

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The Foundation has adopted FASB Interpretation No. 48 *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 applies to the Foundation because its alternative investments may be subject to unrelated business income tax. The Foundation has reviewed the tax positions taken on federal income tax returns, for each of the three open tax years and as of December 31, 2008, and has determined that no provision for income tax is required in the Foundation's financial statements.

**3. Investments**

Investments held at December 31:

	<b>2008</b>	<b>2007</b>
Fixed income securities	\$ 39,004,183	\$ 38,155,034
Convertible debt securities	19,360,716	28,018,572
Public equity securities	15,336,084	97,650,002
Private equity, venture capital and hedge funds	<u>86,141,039</u>	<u>108,693,466</u>
Total investments	<u>\$ 159,842,022</u>	<u>\$ 272,517,074</u>

At December 31, 2008 and 2007, the Foundation had unfunded commitments of \$9,205,800 and \$23,917,800, respectively, related to certain private equity, venture capital and hedge funds. The unfunded portion of these commitments can be called at the request of each general partner.

**4. Program Related Investments**

Program related investments held at December 31:

	<b>2008</b>	<b>2007</b>
Private equity and venture capital funds	\$ 7,845,895	\$ 3,253,498
Private equity	<u>5,300,000</u>	<u>-</u>
Total investments	<u>\$ 13,145,895</u>	<u>\$ 3,253,498</u>

At December 31, 2008 and 2007, the Foundation had unfunded commitments of \$7,275,453 and \$2,360,744, respectively, related to investments in limited partnerships and \$4,000,000 and \$0 respectively, related to a private equity investment. The unfunded commitments to private equity and venture capital funds can be called at the request of the general partners and are not accrued until called. The unfunded commitment to the private equity investment is payable upon the satisfaction of certain conditions and therefore, will not be accrued until such conditions have been met.

**Omidyar Network Fund, Inc.**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

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**5. Related Party Transactions**

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

During 2008 and 2007, 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. The related expense for the years ended December 31, 2008 and 2007 totaled \$5,940,000 and \$4,627,000, respectively. In addition, another affiliated entity provided in-kind services of \$156,000 during 2008, to the Foundation.

**6. Grants**

Grant expenses for December 31, are as follows:

	<b>2008</b>	<b>2007</b>
Grant payments	\$ 50,452,358	\$ 32,220,614
Less: amounts committed in previous years and paid	(2,791,251)	(715,960)
Future payments committed in the current year on unconditional grants	<u>3,095,042</u>	<u>3,041,251</u>
Grant expenses	<u>\$ 50,756,149</u>	<u>\$ 34,545,905</u>

All grants payable are due over the next four years and are recorded at face value, which, as of December 31, 2008 and December 31, 2007 was immaterially different from present value.

As of December 31, 2008 and 2007, the Foundation has conditional grants totaling \$10,200,000 and \$9,356,000, respectively. 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 2008 and 2007. A deferred excise tax provision of 2% is recognized on current net unrealized gains on investments. At December 31, 2008, the Foundation held a deferred excise tax asset resulting from net unrealized losses on investments. As the Foundation is unlikely to benefit from the deferred tax asset, a full valuation allowance of \$278,967 was recorded against the deferred excise tax asset.

The amount of excise taxes paid in 2008 and 2007 was \$1,895,388 and \$1,146,392, respectively.

**Omidyar Network Fund, Inc.**  
**Notes to Financial Statements**  
**December 31, 2008 and 2007**

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The expense (benefit) for federal excise tax is as follows:

	<b>2008</b>	<b>2007</b>
Current	\$ 600,641	\$ 227,399
Deferred	<u>(2,109,621)</u>	<u>1,614,621</u>
Federal excise tax expense (benefit)	<u>\$ (1,508,980)</u>	<u>\$ 1,842,020</u>