

**Omidyar Network Fund, Inc.**  
**Financial Statements**  
**December 31, 2011 and 2010**

**Omidyar Network Fund, Inc.**  
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**December 31, 2011 and 2010**

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## 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, 2011 and 2010, 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 audit 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

June 21, 2012

**Omidyar Network Fund, Inc.**  
**Statements of Financial Position**  
**December 31, 2011 and 2010**

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	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 14,835,349	\$ 20,863,867
Receivable for investments sold	13,000,000	-
Interest and dividends receivable	865,564	532,966
Prepaid federal excise tax	273,289	50,099
Investments	222,974,197	230,817,708
Program and mission related investments	21,050,435	19,339,266
Total assets	<u>\$ 272,998,834</u>	<u>\$ 271,603,906</u>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 69,549	\$ 75,913
Grants payable	4,951,633	6,199,758
Deferred federal excise tax liability	734,040	760,094
Total liabilities	<u>5,755,222</u>	<u>7,035,765</u>
Unrestricted net assets	<u>267,243,612</u>	<u>264,568,141</u>
Total liabilities and unrestricted net assets	<u>\$ 272,998,834</u>	<u>\$ 271,603,906</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, 2011 and 2010**

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	2011	2010
<b>Revenues and support</b>		
Contributions	\$ 37,448,322	\$ 19,136,250
Contributed services and in-kind gifts	14,226,189	10,868,458
Interest and dividends, net	2,225,574	1,759,440
Net realized gains on investments	4,675,011	4,217,443
Net unrealized gains (losses) on investments	<u>(6,473,855)</u>	<u>20,031,976</u>
Total revenues and support	<u>52,101,241</u>	<u>56,013,567</u>
<b>Expenses and losses</b>		
Program expenses		
Grants	34,794,368	23,416,480
Other program expenses	<u>7,346,196</u>	<u>5,491,150</u>
Total program expenses	42,140,564	28,907,630
Administrative expenses	6,715,171	5,264,893
Federal excise tax expense	<u>570,035</u>	<u>639,211</u>
Total expenses	<u>49,425,770</u>	<u>34,811,734</u>
Increase in unrestricted net assets	2,675,471	21,201,833
<b>Unrestricted net assets</b>		
Beginning of year	<u>264,568,141</u>	<u>243,366,308</u>
End of year	<u>\$ 267,243,612</u>	<u>\$ 264,568,141</u>

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

**Omidyar Network Fund, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2011 and 2010**

	2011	2010
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 2,675,471	\$ 21,201,833
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities		
Net unrealized losses (gains) on investments	6,473,855	(20,031,976)
Net realized gains on investments	(4,675,011)	(4,217,443)
Noncash contributions received	(37,448,322)	(19,136,250)
Amortization of premium on bond investments	819,982	425,731
Changes in operating assets and liabilities		
Interest and dividends receivable	(332,598)	(267,344)
Prepaid federal excise tax	(223,190)	57,606
Accounts payable and accrued liabilities	(6,364)	34,574
Grants payable	(1,248,125)	2,800,498
Deferred federal excise tax liability	(26,054)	580,364
Net cash used in operating activities	<u>(33,990,356)</u>	<u>(18,552,407)</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(81,125,541)	(115,231,861)
Distributions from investments	2,425,248	5,618,221
Proceeds from sale of investments	<u>106,662,131</u>	<u>76,361,561</u>
Net cash (used in) provided by investing activities	<u>27,961,838</u>	<u>(33,252,079)</u>
Net change in cash and cash equivalents	(6,028,518)	(51,804,486)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>20,863,867</u>	<u>72,668,353</u>
End of year	<u>\$ 14,835,349</u>	<u>\$ 20,863,867</u>
<b>Supplemental schedule of noncash activities</b>		
Receivable for investments sold	\$ 13,000,000	\$ -
Contributed services and in-kind gifts	\$ 14,226,189	\$ 10,868,458

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

# **Omidyar Network Fund, Inc.**

## **Notes to Financial Statements**

### **December 31, 2011 and 2010**

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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 organizations that employ market-based approaches to create opportunities for people to improve their lives, thereby catalyzing 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 of America 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**

The Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value due to short-term maturities of the instruments. The Foundation deposits cash and cash equivalents with high credit quality financial institutions. At times, such amounts may exceed federally insured limits.

##### **Investments**

Investments, including program and mission related 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 or mission related investments when they have a direct link to the Foundation's strategic purpose.

**Omidyar Network Fund, Inc.**  
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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. 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.

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.

Investments in limited partnerships, which include private equity funds, venture capital funds and hedge funds 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 on the basis of the latest available valuations of the Foundation's pro-rata interest in the net assets of the partnership as determined in good faith by the general partner of each partnership.

The Foundation follows the authoritative guidance for estimating the fair value of investments in investment companies, including limited partnerships that have calculated net asset value in accordance with the specialized accounting guidance for investment companies. Accordingly, in circumstances in which the fair value of an investment in a limited partnership is not readily determinable, the Foundation estimates the fair value of an investment in a limited partnership using the net asset value of the investment without further adjustment, if the net asset value per share of the investment is determined in accordance with the specialized accounting guidance for investment companies as of the reporting entity's measurement date.

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.

**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 \$456,456 and \$433,000 for 2011 and 2010, respectively.

**Grants**

Grants expense includes unconditional grants. Unconditional grants are expensed when grant agreements are executed. 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.



**Omidyar Network Fund, Inc.**  
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**Recent Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board issued accounting update No. 2010-06, *Improving Disclosures about Fair Value Measurements (ASU 2010-06)*. This amends the accounting standard on fair value measurements to require additional disclosures including disclosure over significant transfers of assets into and out of Levels 1 and 2 of the fair value hierarchy and the reasons for those transfers. This portion of the accounting update was effective on January 1, 2010. In addition, the accounting update also requires separate presentation of purchases and sales in the Level 3 asset reconciliation, which is effective on January 1, 2011. The adoption of ASU 2010-06 did not have a material impact on the Foundation's financial statement disclosures.

**3. Investments**

Investments held at December 31:

	<b>2011</b>	<b>2010</b>
Convertible securities	\$ 25,042,136	\$ 24,942,186
Public equity securities	46,248,253	51,321,421
Fixed income securities	43,575,381	30,839,830
Private equity, venture capital and hedge funds	<u>108,108,427</u>	<u>123,714,271</u>
Total investments	<u>\$ 222,974,197</u>	<u>\$ 230,817,708</u>

At December 31, 2011 and 2010, the Foundation had unfunded commitments of \$3,132,300 and \$5,710,900, respectively, related to certain private equity, venture capital and hedge funds. The unfunded portion of these commitments can be called at any time at the request of each general partner.

**4. Program and Mission Related Investments**

Program and mission related investments ("PRI" and "MRI") held at December 31:

	<b>2011</b>	<b>2010</b>
Private equity investments	\$ 12,954,505	\$ 10,068,135
Venture capital and private equity funds	6,095,930	9,271,131
Debt investments	<u>2,000,000</u>	<u>-</u>
Total investments	<u>\$ 21,050,435</u>	<u>\$ 19,339,266</u>

At December 31, 2011 and 2010, the Foundation had unfunded commitments of \$8,308,359 and \$10,039,580, respectively, related to investments in limited partnerships. The unfunded commitments to private equity and venture capital funds can be called at any time at the request of the general partners and are not accrued until called.

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**5. Investment Valuation**

The accounting standard over fair value measurements established 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 or 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 input that is significant to the fair value measurement.

**Omidyar Network Fund, Inc.**  
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The following table presents the investments carried at fair value on the Statement of Financial Position as of December 31, 2011 (as described above):

<b>Assets at Fair Value as of December 31, 2011</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Convertible securities	\$ -	\$ 25,042,136	\$ -	\$ 25,042,136
Public equity securities	46,248,253	-	-	46,248,253
Fixed income securities	-	43,575,381	-	43,575,381
Private equity, venture capital and hedge funds	-	83,553,549	24,554,878	108,108,427
PRI and MRI - private equity	-	-	12,954,505	12,954,505
PRI and MRI - private equity and venture capital funds	-	-	6,095,930	6,095,930
PRI and MRI - debt	-	-	2,000,000	2,000,000
	<u>\$ 46,248,253</u>	<u>\$ 152,171,066</u>	<u>\$ 45,605,313</u>	<u>\$ 244,024,632</u>

There were no transfers of assets into and out of Level 1 and 2 of the fair value hierarchy in 2011.

The following table presents the investments carried at fair value on the Statement of Financial Position as of December 31, 2010 (as described above):

<b>Assets at Fair Value as of December 31, 2010</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Convertible securities	\$ -	\$ 24,942,186	\$ -	\$ 24,942,186
Public equity securities	51,321,421	-	-	51,321,421
Fixed income securities	-	30,839,830	-	30,839,830
Private equity, venture capital and hedge funds	-	101,813,792	21,900,479	123,714,271
PRI and MRI - private equity	-	-	10,068,135	10,068,135
PRI and MRI - private equity and venture capital funds	-	-	9,271,131	9,271,131
	<u>\$ 51,321,421</u>	<u>\$ 157,595,808</u>	<u>\$ 41,239,745</u>	<u>\$ 250,156,974</u>

There were no transfers of assets into and out of Level 1 and 2 of the fair value hierarchy in 2010.

**Omidyar Network Fund, Inc.**  
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**Fair Value Measurements Using Level 3 Inputs**

The following table includes a roll-forward of the amounts in the Statement of Financial Position for the year ended December 31, 2011 (including the change in fair value) for investments classified within Level 3 of the fair value hierarchy.

	Private Equity, Venture Capital and Hedge Funds	PRI and MRI - Private Equity	PRI and MRI - Private Debt	PRI and MRI - Private Equity and Venture Capital Funds	Total
<b>Balance at December 31, 2010</b>	\$ 21,900,479	\$ 10,068,135	\$ -	\$ 9,271,131	\$ 41,239,745
Purchases	2,676,721	425,770	2,000,000	1,698,425	6,800,916
Sales and distributions	(1,651,323)	-	-	(773,925)	(2,425,248)
Gains/(Losses)					
Realized	1,053,816	-	-	-	1,053,816
Unrealized	575,185	2,460,600	-	(4,099,701)	(1,063,916)
Transfers in (out) of Level 3	-	-	-	-	-
<b>Balance at December 31, 2011</b>	<u>\$ 24,554,878</u>	<u>\$ 12,954,505</u>	<u>\$ 2,000,000</u>	<u>\$ 6,095,930</u>	<u>\$ 45,605,313</u>

The following table includes a roll-forward of the amounts in the Statement of Financial Position for the year ended December 31, 2010 (including the change in fair value) for investments classified within Level 3 of the fair value hierarchy.

	Private Equity, Venture Capital and Hedge Funds	PRI and MRI - Private Equity	PRI and MRI - Private Equity and Venture Capital Funds	Total
<b>Balance at December 31, 2009</b>	\$ 18,654,593	\$ 8,958,298	\$ 5,976,379	\$ 33,589,270
Net payments, purchases and sales	179,214	1,064,281	(2,082,807)	(839,312)
Gains/(Losses)				
Realized	1,121,881	-	859,269	1,981,150
Unrealized	1,944,791	45,556	4,518,290	6,508,637
Transfers in (out) of Level 3	-	-	-	-
<b>Balance at December 31, 2010</b>	<u>\$ 21,900,479</u>	<u>\$ 10,068,135</u>	<u>\$ 9,271,131</u>	<u>\$ 41,239,745</u>

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

**Omidyar Network Fund, Inc.**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

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The Foundation uses net asset value (NAV) to determine the fair value of its investments in limited partnerships. The following table lists such investments by major category at December 31, 2011:

	<b>Number of funds</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Terms</b>	<b>Redemption Restrictions in Place at Year End</b>
(a) Hedge funds - equity strategies	4	\$ 29,825,781	\$ -	Ranges from monthly redemption with 35 days' notice to annual redemption with 90 days' notice	None
(b) Hedge funds - diversified	4	39,749,441	-	Ranges from monthly redemption with 45 days' notice to semiannual redemption with 90 days' notice	None
(c) Private equity and venture capital funds - U.S.	6	24,554,878	\$ 3,132,300	Not redeemable	N/A
(d) Hedge funds - debt strategies	2	13,978,327	-	Range from monthly redemption with 45 days' notice to annual redemption with 90 days' notice	None
(e) PRI and MRI - Private equity funds - non U.S.	3	\$ 6,095,931	\$ 8,308,359	Not redeemable	N/A
	<u>19</u>	<u>\$ 114,204,358</u>	<u>\$ 11,440,659</u>		

**Omidyar Network Fund, Inc.**  
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The following table lists such investments by major category at December 31, 2010:

	Number of funds	Fair Value	Unfunded Commitments	Redemption Terms	Redemption Restrictions in Place at Year End
(a) Hedge funds - equity strategies	4	\$ 30,137,342	\$ -	Ranges from monthly redemption with 35 days' notice to annual redemption with 90 days' notice	None
(b) Hedge funds - diversified	4	54,412,622	-	Ranges from monthly redemption with 45 days' notice to semiannual redemption with 90 days' notice	None
(c) Private equity and venture capital funds - U.S.	6	21,900,479	5,710,900	Not redeemable	N/A
(d) Hedge funds - debt strategies	2	17,263,828	-	Range from monthly redemption with 45 days' notice to annual redemption with 90 days' notice	None
(e) PRI and MRI - Private equity funds - non U.S.	3	9,271,131	10,039,580	Not redeemable	N/A
	<u>19</u>	<u>\$ 132,985,402</u>	<u>\$ 15,750,480</u>		

- (a) This category includes investments in hedge funds that primarily pursue equity value strategies that provide superior risk-adjusted returns.
- (b) This category includes investments in a hedge fund that pursues multiple strategies to diversify risks and reduce volatility including U.S. equity value and growth opportunities, distressed debt, arbitrage and emerging market equities.
- (c) This category includes several private equity and venture capital funds that invest primarily in U.S. private companies. Distributions from these funds will be received as the underlying investments of the funds are liquidated.
- (d) This category includes investments in hedge funds that primarily invest in multi-credit debt strategies that include investments in distressed debt.
- (e) This category includes investments in private equity funds that invest primarily in microfinance institutions in emerging economies and small to medium enterprises within India. Distributions from these funds will be received as the underlying investments of the funds are liquidated.

**Omidyar Network Fund, Inc.**  
**Notes to Financial Statements**  
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**6. Related Party Transactions**

The Trust donated marketable securities with total fair value of \$37,448,322 to the Foundation in 2011.

During 2011 and 2010, Omidyar Network Services LLC, a subsidiary of Omidyar Network LLC, and an affiliated entity of the Foundation, 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 and mission related investment transactions to the total annual transactions of both the Foundation and Omidyar Network LLC. The allocated amount may fluctuate significantly as the transaction mix changes from year to year. The amount of contributed services and in-kind gifts from Omidyar Network Services LLC is recognized as support. The support and related expense for the years ended December 31, 2011 and 2010 totaled \$13,907,820 and \$10,756,043, respectively. In addition, other affiliated entities and related parties provided in-kind services related to investment management and travel of \$318,369 during 2011 and \$112,415 during 2010, to the Foundation.

**7. Grants**

Grant expenses for December 31, are as follows:

	<b>2011</b>	<b>2010</b>
Grant payments	\$ 36,042,494	\$ 20,615,982
Less: amounts committed in previous years and paid	(3,854,758)	(1,399,260)
Future payments committed in the current year on unconditional grants	<u>2,606,632</u>	<u>4,199,758</u>
Grant expenses	<u>\$ 34,794,368</u>	<u>\$ 23,416,480</u>

Payables related to unconditional grants are due as follows: \$3,461,633 due in 2012; \$1,390,000 due in 2013; and \$100,000 due in 2014. All grants payable are recorded at face value, which, as of December 31, 2011 and December 31, 2010 was immaterially different from present value.

As of December 31, 2011 and 2010, the Foundation had unfunded commitments of \$29,736,386 and \$37,779,591, respectively, related to conditional grants. Future installments are payable upon the satisfaction of certain conditions and therefore, will not be accrued until such conditions have been met.

**Omidyar Network Fund, Inc.**  
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**8. Taxes**

Omidyar Network Fund, Inc. is a private foundation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and from state income taxes under Section 23701(d) of the Revenue and Taxation Code of the State of California, respectively. Private foundations are subject to a federal excise tax on net investment income and may reduce their federal excise tax rate from 2% to 1% if the foundation's charitable expenditures exceed a specified minimum amount based on the foundation's average expenditures over the preceding five years. The Foundation was subject to 1% and 2% excise rate for 2011 and 2010, respectively. At December 31, 2011 and 2010, deferred excise tax liabilities of 2% were recognized on net unrealized gains on investments. Certain investments provide unrelated business income, which is subject to unrelated business income tax. For the years ended December 31, 2011 and 2010, the unrelated business income provided by investments was immaterial.

The expenses for federal excise tax are as follows:

	<b>2011</b>	<b>2010</b>
Current	\$ 596,088	\$ 58,847
Deferred	<u>(26,053)</u>	<u>580,364</u>
Federal excise tax expense	<u>\$ 570,035</u>	<u>\$ 639,211</u>

The Foundation believes that it has appropriate support for the excise tax positions taken and, as such, does not have any uncertain tax positions that result in a material impact on the Foundation's financial position or changes in net assets.

**9. Subsequent Events**

The Foundation has evaluated subsequent events for the period from December 31, 2011 through June 21, 2012, the date the financial statements were available to be issued. During this period, the Foundation did not have any material subsequent events.