The Skillman Foundation

Financial Report
December 31, 2007 and 2006

Contents

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Independent Auditor's Report

To the Board of Trustees
The Skillman Foundation

We have audited the accompanying financial statements of The Skillman Foundation (the "Foundation") as of December 31, 2007 and 2006 and 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. 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. An audit also includes 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 Skillman 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.

Plante & Moran, PLLC

April 28, 2008

The Skillman Foundation

Statement of Financial Position

	December 31, 2007	December 31, 2006 (restated)
Assets		
Cash and cash equivalents	$ 9,480,314	$ 11,273,378
Investments (Note 2)	569,470,828	534,253,563
Unsettled trades receivable	2,249,859	9,502,269
Securities lending collateral (Notes 2 and 8)	20,439,149	20,236,739
Dividend and interest receivable	1,228,474	940,927
Other assets:		
Program-related investment (Note 7)	500,000	500,000
Federal excise tax	458,137	414,823
Other assets	67,426	414,904
Total assets	**$ 603,894,187**	**$ 577,536,603**
Liabilities and Net Assets		
Liabilities		
Accrued liabilities	$ 875,282	$ 960,546
Grants payable	10,494,000	13,400,500
Liabilities under securities lending agreements (Notes 2 and 8)	20,439,149	20,236,739
Deferred excise taxes (Note 3)	1,848,000	2,068,000
Total liabilities	33,656,431	36,665,785
Net Assets - Unrestricted	570,237,756	540,870,818
Total liabilities and net assets	**$ 603,894,187**	**$ 577,536,603**

See Notes to Financial Statements.

The Skillman Foundation

Statement of Income, Expenses, and Changes in Unrestricted Net Assets

	Year Ended December 31, 2007	Year Ended December 31, 2006
Income		
Interest income	$ 17,537,185	$ 5,988,393
Dividend income	10,626,526	6,742,322
Investment management fees	(1,749,808)	(2,109,329)
Net investment income	26,413,903	10,621,386
Grants and Expenses		
Grants and contributions	23,676,234	27,763,885
Administrative expenses	4,690,049	4,231,681
Federal excise and other taxes (Note 3)	546,269	1,012,254
Total grants and expenses	28,912,552	33,007,820
Grants and Expenses in Excess of Income	(2,498,649)	(22,386,434)
Realized Gain on Securities	41,384,203	37,851,882
Change in Unrealized Market Appreciation	(9,518,616)	20,347,622
Increase in Net Assets	29,366,938	35,813,070
Net Assets - Beginning of year	540,870,818	505,057,748
Net Assets - End of year	**$ 570,237,756**	**$ 540,870,818**

See Notes to Financial Statements.

The Skillman Foundation

Statement of Cash Flows

	Year Ended December 31, 2007	Year Ended December 31, 2006
Cash Flows from Operating Activities		
Increase in net assets	$ 29,366,938	$ 35,813,070
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Net realized and unrealized gains on investments	(31,865,587)	(58,199,504)
Changes in operating assets and liabilities that (used) provided cash:		
Dividend and interest receivable	(287,547)	(154,324)
Federal excise tax	(43,314)	17,611
Other assets	347,478	(320,669)
Accrued liabilities	(85,264)	(169,298)
Deferred excise tax payable	(220,000)	86,500
Grants payable	(2,906,500)	3,783,500
Net cash used in operating activities	(5,693,796)	(19,143,114)
Cash Flows from Investing Activities		
Purchases of investments	(345,088,540)	(361,270,672)
Change in net unsettled trades	7,252,410	(10,113,897)
Proceeds from sale of investments	341,736,862	391,477,887
Net cash provided by investing activities	3,900,732	20,093,318
Net (Decrease) Increase in Cash and Cash Equivalents	(1,793,064)	950,204
Cash and Cash Equivalents - Beginning of year	11,273,378	10,323,174
Cash and Cash Equivalents - End of year	**$ 9,480,314**	**$ 11,273,378**
Supplemental Disclosure of Cash Flow Information - Cash paid for taxes	**$ 850,000**	**$ 1,295,213**

Note 1 - Nature of Business and Significant Accounting Policies

Organization Purpose - The Skillman Foundation (the "Foundation") was established in 1960 as a private, nonoperating foundation. The Foundation is committed to providing resources to improve the lives of children in Metropolitan Detroit by improving their homes, schools, and neighborhoods. It distributes funds primarily to not-for-profits in counties that are deemed appropriate in the opinion of the board of trustees.

Basis of Accounting - The financial statements have been prepared on the accrual basis of accounting, which includes recognition of dividends, interest, and expenses as earned and incurred. Investment transactions are reported on a trade date basis.

Cash Equivalents - The Foundation considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Investments - Investments in marketable securities including hedge funds are carried at quoted fair market value whenever available. Private equity and natural resource limited partnerships which do not have readily determinable market values as of December 31 are valued based on available partner capital account balances as reported by the partnerships to the Foundation as of September 30, adjusted for capital contributions and distributions during the period from October 1 through December 31. The partnership valuations necessarily involve assumptions and methods that are reviewed by the Foundation. Because of the inherent uncertainty of valuations in the absence of a highly liquid market, private equity and natural resources limited partnerships' estimated values may differ materially from the values that would have been used if a ready market for the securities existed.

At December 31, 2007 and 2006, the Foundation had commitments to contribute approximately $95,000,000 and $86,000,000, respectively, in additional capital under the terms of various agreements covering private equity and limited partnership agreements.

Realized and unrealized gains and losses in investments represent the difference between the original cost of the investments and sales proceeds (realized) or the fair market value at the end of the year (unrealized). Cost is determined on a first-in, first-out basis.

Grants - Grants are recognized as an expense at the time of formal approval by the board of trustees. Conditional grants, if any, are expensed when such conditions are substantially met.

The Foundation's total net grants include grantmaking expenses of $571,374 and $423,097 for 2007 and 2006, respectively, that support the Foundation's major initiatives and grantmaking goals. These expenses include grant and program evaluations as well as communication, community meetings, and roundtables.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The Foundation matches gifts of cash and securities made by current and retired employees and trustees of up to $15,000 annually per person on a three-to-one basis up to a maximum match of $45,000. Matching grants are made only to public-supported charities as listed in IRS Publication 78, *Cumulative List of Organizations*.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Note 2 - Investments

Investments consisted of the following at December 31:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Stocks	$ 202,802,831	$ 236,465,954	$ 197,915,448	$ 249,778,909
Alternative investments:				
Hedge funds	127,492,052	162,102,078	119,430,646	153,470,442
Real estate	26,443,044	26,288,905	24,809,767	30,858,624
Private equity limited partnerships	33,624,935	53,886,653	24,030,896	33,063,572
Natural resources	14,445,121	18,062,797	16,060,851	18,718,540
Total alternative investments	202,005,152	260,340,433	184,332,160	236,111,178
Bonds and notes	70,768,804	72,664,441	48,593,739	48,363,476
Total	$ 475,576,787	$ 569,470,828	$ 430,841,347	$ 534,253,563

Note 2 - Investments (Continued)

A summary of changes in cash and investments during the years ended December 31, 2007 and 2006 is shown below:

	Cash and Cash Equivalents	Stocks	Alternative Investments	Bonds and Notes
At January 1, 2006 - At market	$ 10,323,174	$ 230,642,119	$ 225,548,480	$ 50,070,675
Add (deduct) - Changes during the year ended December 31, 2006:				
Purchases	740,862,116	202,356,974	129,630,693	29,283,005
Sales and maturities - At cost	(739,912,886)	(188,526,261)	(134,062,443)	(31,036,327)
Change in unrealized market appreciation	974	5,306,077	14,994,448	46,123
At December 31, 2006 - At market	11,273,378	249,778,909	236,111,178	48,363,476
Add (deduct) - Changes during the year ended December 31, 2007:				
Purchases	842,089,832	220,457,734	89,113,070	35,517,736
Sales and maturities - At cost	(843,882,915)	(215,569,892)	(71,440,078)	(13,342,670)
Change in unrealized market appreciation	19	(18,200,797)	6,556,263	2,125,899
At December 31, 2007	$ 9,480,314	$ 236,465,954	$ 260,340,433	$ 72,664,441

The Foundation participates in a board-authorized securities lending program whereby Foundation securities are contractually loaned to approved borrowers against a pledge of collateral which is invested. The Foundation had loaned securities with a market value of $20,439,149 and $20,236,739 at December 31, 2007 and 2006, respectively. One of the Foundation's custodians is an agent in lending the Foundation's domestic and international securities for cash collateral of at least 102 percent. At December 31, 2007 and 2006, the Foundation had no credit risk exposure to borrowers because the amounts the Foundation owed the borrowers exceed the amounts the borrowers owed the Foundation. The contract with the lending agent requires it to indemnify the Foundation if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent). All securities loans can be terminated on demand by either the Foundation or the borrower. As a means of managing the Foundation's interest rate risk, the securities lending agreement limits the difference between the average weighted maturity of securities loans and the average weighted maturity of the cash collateral investment portfolio to a maximum of 90 days. At December 31, 2007 and 2006, the difference was less than 90 days.

Note 3 - Excise Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. As a private foundation, the Foundation is subject to an excise tax on net investment income, including realized gains as defined in the Tax Reform Act of 1969.

The Foundation's excise tax expense as of December 31, 2007 and 2006 is comprised of the following:

	2007	2006
Current	$ 663,000	$ 462,000
Deferred	(220,000)	474,000
Total excise tax expense	$ 443,000	$ 936,000

The deferred excise tax represents the tax on unrealized gains on investment securities.

Note 4 - Debt Guarantee

The Foundation entered into an agreement with Communities in Schools (CIS) in May 2003, in which it guaranteed a line of credit with Comerica Bank in the amount of $300,000 to relieve the cash flow restraints of CIS. As of December 31, 2007, the line of credit between CIS and the Bank was closed, thus terminating the Foundation's guarantee.

Note 5 - Pension and Other Postretirement Benefits Plans

The Foundation has a noncontributory defined benefit pension plan that covers substantially all of its current and former full-time employees along with an unfunded nonqualifed plan for restoration of pension benefits lost due to statutory limitations imposed upon qualified plans. Net periodic pension expense was $200,868 and $226,887 for the years ended December 31, 2007 and 2006, respectively. During the year ended December 31, 2007, the Foundation applied for termination of the plan, which should be approved during 2008. Based on the most recent actuarial report, the plan is slightly overfunded, meaning plan assets exceed the expected termination liabilities of the plan. At the time of termination and distribution, management expects any potential liability or additional contribution to the plan to be minimal.

The Foundation also provides healthcare benefits for retired employees. The Foundation's employees may become eligible for these postretirement employee benefits. Net periodic postretirement healthcare cost was $46,616 for the years ended December 31, 2007 and 2006.

Note 6 - Defined Contribution Plan

The Foundation sponsors a defined contribution 401(k) plan for all eligible full-time employees, as defined. The employees may make elective contributions to the 401(k) plan in accordance with IRS regulations. The Foundation makes contributions to the 401(k) plan based upon eligible compensation.

Contributions to the plan for the years ended December 31, 2007 and 2006 totaled $80,616 and $43,397, respectively.

Note 7 - Program-related Investment

At its September 15, 2004 meeting, the board of trustees approved a program-related investment loan in the amount of $500,000 to Junior Achievement of Southeastern Michigan. The proceeds of this loan are to be used to create Finance Park, a six-week financial literacy program for 8th grade students. The note bears no interest and will mature on November 1, 2011, with the first payment due on November 1, 2008. For accounting purposes, the Foundation inputed interest at a rate of 5 percent, which it determined to be a reasonable rate based on the market. The unamortized interest was $69,243 and $68,850 at December 31, 2007 and 2006, respectively.

Note 8 - Prior Period Adjustment

The accompanying statement of financial position for 2006 has been restated to properly account for securities lending activity entered into between State Street Bank and the Foundation's investment managers. Assets and liabilities have been increased by $20,236,739 to properly account for securities lending collateral and liabilities under securities lending agreements at December 31, 2006.