# The Skillman Foundation

## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Report Letter</td>
<td>1</td>
</tr>
<tr>
<td><strong>Financial Statements</strong></td>
<td></td>
</tr>
<tr>
<td>Statement of Financial Position</td>
<td>2</td>
</tr>
<tr>
<td>Statement of Income, Expenses, and Changes in Unrestricted Net Assets</td>
<td>3</td>
</tr>
<tr>
<td>Statement of Cash Flows</td>
<td>4</td>
</tr>
<tr>
<td>Notes to Financial Statements</td>
<td>5-9</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2007</th>
<th>December 31, 2006 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 9,480,314</td>
<td>$ 11,273,378</td>
</tr>
<tr>
<td>Investments (Note 2)</td>
<td>569,470,828</td>
<td>534,253,563</td>
</tr>
<tr>
<td>Unsettled trades receivable</td>
<td>2,249,859</td>
<td>9,502,269</td>
</tr>
<tr>
<td>Securities lending collateral (Notes 2 and 8)</td>
<td>20,439,149</td>
<td>20,236,739</td>
</tr>
<tr>
<td>Dividend and interest receivable</td>
<td>1,228,474</td>
<td>940,927</td>
</tr>
<tr>
<td>Other assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program-related investment (Note 7)</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Federal excise tax</td>
<td>458,137</td>
<td>414,823</td>
</tr>
<tr>
<td>Other assets</td>
<td>67,426</td>
<td>414,904</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 603,894,187</td>
<td>$ 577,536,603</td>
</tr>
</tbody>
</table>

| **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

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

See Notes to Financial Statements.
### The Skillman Foundation

#### Statement of Cash Flows

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>December 31, 2007</th>
<th>December 31, 2006</th>
</tr>
</thead>
</table>

#### 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

---

See Notes to Financial Statements.
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:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Stocks</td>
<td>$ 202,802,831</td>
<td>$ 236,465,954</td>
</tr>
<tr>
<td>Alternative investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hedge funds</td>
<td>127,492,052</td>
<td>162,102,078</td>
</tr>
<tr>
<td>Real estate</td>
<td>26,443,044</td>
<td>26,288,905</td>
</tr>
<tr>
<td>Private equity limited partnerships</td>
<td>33,624,935</td>
<td>53,886,653</td>
</tr>
<tr>
<td>Natural resources</td>
<td>14,445,121</td>
<td>18,062,797</td>
</tr>
<tr>
<td>Total alternative investments</td>
<td>202,005,152</td>
<td>260,340,433</td>
</tr>
<tr>
<td>Bonds and notes</td>
<td>70,768,804</td>
<td>72,664,441</td>
</tr>
<tr>
<td>Total</td>
<td>$ 475,576,787</td>
<td>$ 569,470,828</td>
</tr>
</tbody>
</table>
### Note 2 - Investments (Continued)

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

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

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.
The Skillman Foundation

Notes to Financial Statements
December 31, 2007 and 2006

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:

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$663,000</td>
<td>$462,000</td>
</tr>
<tr>
<td>Deferred</td>
<td>(220,000)</td>
<td>474,000</td>
</tr>
<tr>
<td>Total excise tax expense</td>
<td>$443,000</td>
<td>$936,000</td>
</tr>
</tbody>
</table>

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 nonqualified 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.