The Skillman Foundation

Financial Report
December 31, 2008 and 2007

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, 2008 and 2007 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.

As disclosed in Notes 1 and 2, the 2008 financial statements include investments whose fair values of $201,362,442, or 48 percent of net assets, have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

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, 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.

Plante & Moran, PLLC

May 4, 2009

The Skillman Foundation

Statement of Financial Position

	December 31, 2008	December 31, 2007
Assets		
Cash and cash equivalents	$ 39,409,701	$ 9,480,314
Investments (Note 2)	359,416,487	569,470,828
Unsettled trades receivable	30,821,267	2,249,859
Securities lending collateral (Note 2)	2,398,762	20,439,149
Dividend and interest receivable	1,134,852	1,228,474
Other assets:		
Program-related investment (Note 6)	450,000	500,000
Federal excise tax	662,707	458,137
Other assets	209,503	67,426
Total assets	**$ 434,503,279**	**$ 603,894,187**
Liabilities and Net Assets		
Liabilities		
Accrued liabilities	$ 1,234,728	$ 875,282
Grants payable	9,305,960	10,494,000
Liabilities under securities lending agreements (Note 2)	2,398,762	20,439,149
Deferred excise taxes (Note 3)	-	1,848,000
Total liabilities	12,939,450	33,656,431
Net Assets - Unrestricted	421,563,829	570,237,756
Total liabilities and net assets	**$ 434,503,279**	**$ 603,894,187**

See Notes to Financial Statements.

The Skillman Foundation

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
Income		
Interest income	$ 11,025,307	$ 17,537,185
Dividend income	1,556,906	10,626,526
Investment management fees	(1,211,466)	(1,749,808)
Net investment income	11,370,747	26,413,903
Grants and Expenses		
Grants and contributions	23,050,647	23,676,234
Administrative expenses	5,066,136	4,690,049
Federal excise and other taxes	(1,755,160)	546,269
Total grants and expenses	26,361,623	28,912,552
Excess of Grants and Expenses Over Income	(14,990,876)	(2,498,649)
Realized (Loss) Gain on Securities	(5,642,276)	41,384,203
Change in Unrealized Market Depreciation	(128,040,775)	(9,518,616)
(Decrease) Increase in Net Assets	(148,673,927)	29,366,938
Net Assets - Beginning of year	570,237,756	540,870,818
Net Assets - End of year	**$ 421,563,829**	**$ 570,237,756**

The Skillman Foundation

Statement of Cash Flows

	Year Ended December 31, 2008	Year Ended December 31, 2007
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (148,673,927)	$ 29,366,938
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Net realized and unrealized losses (gains) on investments	133,683,051	(31,865,587)
Changes in operating assets and liabilities that (used) provided cash:		
Dividend and interest receivable	93,622	(287,547)
Program-related investment	50,000	-
Federal excise tax	(204,570)	(43,314)
Other assets	(142,077)	347,478
Accrued liabilities	359,446	(85,264)
Deferred excise tax payable	(1,848,000)	(220,000)
Grants payable	(1,188,040)	(2,906,500)
Net cash used in operating activities	(17,870,495)	(5,693,796)
Cash Flows from Investing Activities		
Purchases of investments	(198,523,728)	(345,088,540)
Change in net unsettled trades	(28,571,408)	7,252,410
Proceeds from sale of investments	274,895,018	341,736,862
Net cash provided by investing activities	47,799,882	3,900,732
Net Increase (Decrease) in Cash and Cash Equivalents	29,929,387	(1,793,064)
Cash and Cash Equivalents - Beginning of year	9,480,314	11,273,378
Cash and Cash Equivalents - End of year	**$ 39,409,701**	**$ 9,480,314**
Supplemental Disclosure of Cash Flow Information - Cash paid for taxes	**$ 350,000**	**$ 850,000**

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 limited partnerships, including natural resources and real estate limited partnerships, are valued based on available partner capital account balances as reported by the partnerships to the Foundation as of December 31. Where limited partnerships do not have readily determinable market values as of December 31, the Foundation uses partner capital account balances 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, real estate, and natural resources of 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, 2008 and 2007, the Foundation had commitments to contribute approximately $102,000,000 and $95,000,000, 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.

Concentration of Credit Risk Arising From Deposit Accounts - The Foundation maintains cash balances at various banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. The Foundation evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

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

In September 2008, the United States Treasury implemented a temporary guarantee program for eligible money market mutual funds held by organizations as of the close of business on September 19, 2008. This program was set to expire on April 30, 2009, but was extended through September 19, 2009. As of September 19, 2008, the Foundation's balance for participating funds was $4,352,869. The Foundation's balance within these funds as of December 31, 2008 was $2,235,484; therefore, the entire balance is guaranteed by the United States Treasury as of December 31, 2008.

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 $466,010 and $571,374 for 2008 and 2007, 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.

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:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Stocks	$ 142,238,500	$ 100,773,167	$ 202,802,831	$ 236,465,954
Alternative investments:				
Hedge funds	79,699,034	91,511,684	127,492,052	162,102,078
Real estate	28,971,198	22,484,560	26,443,044	26,288,905
Private equity limited partnerships	62,082,658	66,568,753	33,624,935	53,886,653
Natural resources	28,291,493	20,797,445	14,445,121	18,062,797
Total alternative investments	199,044,383	201,362,442	202,005,152	260,340,433
U.S. Treasury notes	52,279,449	57,280,878	70,768,804	72,664,441
Total	$ 393,562,332	$ 359,416,487	$ 475,576,787	$ 569,470,828

A summary of changes in cash and investments during the years ended December 31, 2008 and 2007 is shown below:

	Cash and Cash Equivalents	Stocks	Alternative Investments	U.S. Treasury Notes
January 1, 2007 - Market value	$ 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
December 31, 2007 - Market value	9,480,314	236,465,954	260,340,433	72,664,441
Add (deduct) changes during the year ended December 31, 2008:				
Purchases	708,453,430	108,847,946	69,481,848	20,193,934
Sales and maturities - At cost	(678,523,150)	(169,412,282)	(72,442,616)	(38,683,289)
Change in unrealized market appreciation	(893)	(75,128,451)	(56,017,223)	3,105,792
December 31, 2008 - Market value	$ 39,409,701	$ 100,773,167	$ 201,362,442	$ 57,280,878

Note 2 - Investments (Continued)

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 $2,398,762 and $20,439,149 at December 31, 2008 and 2007, 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.

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, 2008 and 2007 is comprised of the following:

	2008	2007
Current	$ 100,000	$ 663,000
Deferred	(1,848,000)	(220,000)
Total excise tax expense	$ (1,748,000)	$ 443,000

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

Note 4 - Pension and Other Postretirement Benefit Plans

The Foundation had a noncontributory defined benefit pension plan that covered 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 $156,171 and $200,868 for the years ended December 31, 2008 and 2007, respectively.

During the year ended December 31, 2007, the Foundation applied for termination of the plan, which was approved in January 2009. Based on the most recent actuarial report, the plan is slightly underfunded, meaning plan assets are less than the actual 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 remaining plan liability of $357,000 is recorded as a liability on the financial statements. The accumulated benefit obligation will be paid in May 2009.

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, 2008 and 2007.

Note 5 - 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, 2008 and 2007 totaled $92,605 and $80,616, respectively. The Foundation contributed an additional $200,481 in January 2009 related to 2008 earnings.

Note 6 - 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. The first payment was due on November 1, 2008; however, the Foundation waived the first payment. At December 31, 2008 and 2007, the balance is $450,000 and $500,000, respectively. For accounting purposes, the Foundation inputted interest at a rate of 5 percent, which it determined to be a reasonable rate based on the market. The unamortized interest was $51,180 and $69,243 at December 31, 2008 and 2007, respectively.

Note 7 - Fair Value Measurements

As of January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures for fair value measurements. The standard applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS 157 are effective prospectively for periods beginning January 1, 2008 for financial assets and liabilities and for periods beginning January 1, 2009 for nonfinancial assets and liabilities as a result of the deferral of the effective date of SFAS 157 provided by FSP FAS 157-2. The implementation of the provisions of SFAS 157 for financial assets and liabilities as of January 1, 2008 did not have a material impact on the Foundation's financial statements.

The following tables present information about the Foundation’s assets and liabilities measured at fair value on a recurring basis at December 31, 2008 and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access.

Note 7 - Fair Value Measurements (Continued)

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2008

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2008
Assets				
Money market funds	$ 15,416,447	$ -	$ -	$ 15,416,447
Publicly traded securities	59,535,478	31,966,771	9,270,918	100,773,167
U.S. Treasury notes	-	57,280,878	-	57,280,878
Hedge funds	-	-	91,511,684	91,511,684
Private equity	-	-	66,568,753	66,568,753
Real estate	3,736,088	-	18,748,472	22,484,560
Natural resources	-	-	20,797,445	20,797,445
Securities lending collateral	-	-	2,398,762	2,398,762
Liabilities - Securities lending	$ -	$ -	$ 2,398,762	$ 2,398,762

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Publicly Traded Securities	Hedge Funds	Private Equity	Real Estate	Natural Resources	Securities Lending
Balance at January 1, 2008	$ 38,986,633	$ 162,102,078	$ 53,886,653	$ 20,906,609	$ 18,062,797	$ 20,439,149
Total realized and unrealized (losses) gains included in income	(18,984,345)	(32,633,468)	(13,983,812)	(3,120,955)	(11,118,434)	113,374
Net purchases, sales, calls, and maturities	(10,731,370)	(37,956,926)	26,665,912	962,818	13,853,082	(18,153,761)
Balance at December 31, 2008	$ 9,270,918	$ 91,511,684	$ 66,568,753	$ 18,748,472	$ 20,797,445	$ 2,398,762

Note 7 - Fair Value Measurements (Continued)

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets and liabilities presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

The Foundation's limited partnership, hedge fund, and publicly traded securities, designed to resemble institutional collective fund investments, are categorized as Level 3 investments. The Foundation estimates their fair value based on income information provided by the general partners and fund managers. The Foundation's Level 3 real estate and natural resource funds are either a private equity or hedge fund structure. The Foundation's collateral for securities lending is also classified as a Level 3 investment. The market value for the securities lending collateral is based on fair market value of the underlying securities.