mohler, nixon + williams

CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

Google Foundation

Financial Statements

December 31, 2008 and 2007

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Google Foundation

We have audited the accompanying statements of financial position of Google Foundation (the Foundation) as of December 31, 2008 and 2007, and the related statements of activities and changes in net assets and cash flows 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 Foundation as of December 31, 2008 and 2007, and the related statements of activities and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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GOOGLE FOUNDATION

Statements of financial position as of December 31,

	2008	2007
Assets		
Cash and cash equivalents	$ 72,797,040	$ 73,332,648
Prepaid expenses and other current assets	32,000	
Investments	9,042,026	10,924,153
Total assets	$ 81,871,066	$ 84,256,801
Liabilities and net assets		
Accounts payable and accrued expenses	$ 223,148	$ 225,896
Grants payable	1,825,000	525,000
Total liabilities	2,048,148	750,896
Unrestricted net assets	79,822,918	83,505,905
Total liabilities and net assets	$ 81,871,066	$ 84,256,801

See notes to financial statements.

GOOGLE FOUNDATION

Statements of activities and changes in net assets for the years ended December 31,

	2008	2007
Revenue:		
Interest income and dividends	$ 1,625,222	$ 4,071,618
Total other revenue	1,625,222	4,071,618
Expenses and losses:		
Grants approved	2,200,000	6,910,000
Investment expense	201,682	190,285
Administrative expenses	136	12,896
Net realized and unrealized losses on investments	2,876,391	
Total expenses before provision for federal excise tax	5,278,209	7,113,181
Provision for federal excise tax expense	30,000	89,000
Total expenses	5,308,209	7,202,181
Decrease in unrestricted net assets	(3,682,987)	(3,130,563)
Unrestricted net assets, beginning of year	83,505,905	86,636,468
Unrestricted net assets, end of year	$ 79,822,918	$ 83,505,905

See notes to financial statements.

GOOGLE FOUNDATION

Statements of cash flows for the years ended December 31,

		2008		2007
Cash flows from operating activities:				
Decrease in unrestricted net assets	$	(3,682,987)	$	(3,130,563)
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:				
Net realized and unrealized losses on investments		2,876,391		
Changes in assets and liabilities:				
Interest receivable				1,825
Prepaid expenses		(32,000)		
Grant payable		1,300,000		375,000
Accounts payable and accrued expenses		(2,748)		147,896
Net cash provided (used) by operating activities		458,656		(2,605,842)
Cash flows from investing activities:				
Proceeds from investments				200,000
Purchase of investments		(994,264)		(10,924,153)
Net cash used by investing activities		(994,264)		(10,724,153)
Net decrease in cash		(535,608)		(13,329,995)
Cash and cash equivalents, beginning of year		73,332,648		86,662,643
Cash and cash equivalents, end of year	$	72,797,040	$	73,332,648
Supplemental cash flow information:				
Excise taxes paid during the year	$	64,000	$	83,000

See notes to financial statements.

GOOGLE FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 1 - THE FOUNDATION AND ITS SIGNIFICANT ACCOUNTING POLICIES

Google Foundation (the Foundation) is a non-profit organization established in 2004 by Google, Inc. The Foundation is evaluating needs for selection of specific programs. The Foundation plans to make grants to traditional recognized charitable organizations in the United States and abroad, and to other organizations exclusively for their charitable activities.

Basis of presentation **-** The financial statements are presented on the accrual basis of accounting under one class of unrestricted net assets. At December 31, 2008 and 2007, the Foundation had no temporarily or permanently restricted net assets.

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 equivalents **-** The Foundation considers all highly liquid investments with an original maturity from the date of purchase of three months or less to be cash equivalents. As of December 31, 2008 and 2007, cash and cash equivalents consist of cash deposited with a bank and a money market mutual fund. The recorded carrying amount of cash equivalents approximates their fair value. The Foundation places its cash equivalents with high credit-quality financial institutions.

Investments and fair value disclosures **-** The Foundation's investments consist of amounts invested in a limited partnership investment fund and a limited liability company investing in equity securities. These other investments or alternative investments are accounted for at the lower of cost or estimated fair value.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. Effective January 1, 2008, the Foundation adopted SFAS No. 157. The Foundation's investments are stated at fair value. Fair value is defined in SFAS No. 157 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 2 for discussion of the investments and fair value measurements.

Effective January 1, 2008, the Foundation adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115*. SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement of certain financial assets and liabilities under an instrument-by-instrument election. Subsequent measurements for the financial assets and liabilities an entity elects to fair value will be recognized in the results of operations. SFAS No. 159 also establishes additional disclosure requirements. The Foundation did not elect the fair value option under SFAS No. 159 for any of its financial assets or liabilities upon adoption. As a result, the adoption of SFAS No. 159 did not have a material impact on the Foundation's results of operations or financial position.

***Concentration of credit risk* -** Financial instruments that potentially subject the Foundation to concentration of credit risk consist principally of cash and cash equivalents and investments. The Foundation often has cash on deposit with a bank in excess of Federal Deposit Insurance Corporation (FDIC) limits and the money invested in the money market mutual fund is not insured by the FDIC or any other government agency. Risk factors affecting investments include risks of investing in concentrated markets such as clean energy and environmental sectors and the volatility of security exchanges of investments in companies in foreign markets. These risk factors could have a material effect on the ultimate realizable value of the Foundations' investments. The Foundation has adopted policies and procedures to closely monitor these investments to reduce risk.

***Grants* -** Grants are recognized when the promise to give is approved by the Foundation's Board of Directors and all conditions are removed.

***Tax exempt status* -** The Foundation is a private foundation and is exempt from federal income taxes under Sections 501(c)(3) of the Internal Revenue Code and from California franchise and/or income taxes under section 23701(d) of the Revenue and Taxation Code (Note 4).

NOTE 2 - FAIR VALUE MEASUREMENTS AND INVESTMENTS

The framework established by SFAS No. 157 provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the standard are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The investments of the Foundation are considered to be level 3 as determined by management based upon review of the financial information underlying the investment, discussions with fund managers and review of related data. The adoption of SFAS 157 did not have a material effect on the statement of financial position or statement of activities and changes in net assets.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

During March 2007, the Board of Directors of the Foundation approved an investment commitment of $5,000,000 as a limited partner in MissionPoint Capital Partners Fund I, L.P. (MissionPoint), a limited partnership investment fund. The objective of MissionPoint is to generate attractive, long-term, risk adjusted returns by making private equity investments in the clean energy and environmental finance sectors. The focus of the investments will be on North American and European-based companies.

The investment in MissionPoint is a long-term commitment, with no certainty of return. Although investments are generally expected to generate cash flow, there may be little or no near-term cash flow available to the Foundation. Since MissionPoint may only make a limited number of investments and since many of the investments may involve a high degree of risk, poor performance by a few of the investments could severely affect the total return to the Foundation.

The carrying value of the investment in MissionPoint as of December 31, 2008 is approximately $1,880,000 which is at fair value. The cost as of December 31, 2008 is approximately $1,918,000. The carrying value of the investment as of December 31, 2007 is approximately $924,000 which is at cost. The fair value at December 31, 2007 is estimated to be approximately $1,440,000. The Foundation incurred approximately $103,000 and $134,000 in investment expenses during 2008 and 2007, respectively, in connection with this investment.

The Foundation had a remaining capital commitment of approximately $2,830,000 subject to the terms of the limited partnership agreement at December 31, 2008. The Foundation made an additional investment of approximately $193,000 during 2009 in connection with their capital commitment at December 31, 2008.

During June 2007, the Board of Directors of the Foundation approved an investment of $10,000,000 as a member in Generation IM Global Equity Fund LLC (Generation). Generation is a Delaware limited liability company that has an investment objective to generate long-term capital appreciation by investing in a long-only concentrated portfolio of global equity securities. Generation's investment strategy will integrate sustainability research within a rigorous fundamental equity analysis framework. The focus of the investments will be in securities of U.S. and foreign issuers with an expectation to hold between 30 and 50 stocks at any time.

The investment in Generation entails certain significant risks. There can be no assurance that Generation's investment objective will be achieved or that its investment program will be successful. The concentrated portfolio may, in certain circumstances, result in significant losses to the Foundation.

The carrying value of the investment in Generation as of December 31, 2008 is approximately $7,162,000 which is at fair value. The cost as of December 31, 2008 is approximately $10,000,000. The carrying value of the investment as of December 31, 2007 is $10,000,000 which is at cost. The fair value at December 31, 2007 is estimated to be approximately $10,550,000. The Foundation incurred approximately $99,000 in investment expenses in connection with this investment in 2008. During 2007 the Foundation incurred approximately $56,000 in investment expenses in connection with this investment.

NOTE 3 - GRANTS

Grants totaling approximately $1,825,000 and $525,000 were awarded but unpaid at December 31, 2008 and 2007, respectively. Grants payable at December 31, 2008 are payable in the following periods:

Years ending December 31:	
2009	$ 750,000
2010	775,000
2011	300,000
	$1,825,000

As of December 31, 2008 and 2007, there were grants for approximately $1,966,000 and $1,800,000, respectively, that had been approved by the Foundation's Board of Directors but for which grant agreements had not been signed by the grantee. As such, these grants were not considered awarded at December 31, 2008 and 2007, and, therefore, the Foundation did not record a payable for these grants at December 31, 2008 and 2007. Subsequently, the grant of $1,900,000 was declined due to change in direction.

NOTE 4 - FEDERAL EXCISE TAXES

In accordance with the applicable provisions of the Internal Revenue Code, the Foundation is a private foundation and qualifies as a tax-exempt organization. Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the Internal Revenue Code are met) on net investment income, excluding unrealized gains. The Foundation has a provision for approximately $30,000 and $89,000 in excise taxes for the years ended December 31, 2008 and 2007, respectively. Deferred excise taxes are not recognized in the accompanying financial statements as the amounts are considered immaterial.

NOTE 5 - RELATED PARTY TRANSACTIONS

The Foundation is supported by, and economically dependent on, Google, Inc., which provides personnel to operate the Foundation and pays certain costs on behalf of the Foundation. The members of the Board of Directors of the Foundation are employees of Google, Inc. The salaries on the services contributed by the employees are deemed immaterial and have not been reflected in the accompanying financial statements. In addition the Foundation has recorded a liability for taxes paid by Google, Inc. that will be reimbursed by the Foundation in the amount of $68,000.