

MOSSES ADAMS

**SILICON VALLEY  
COMMUNITY FOUNDATION**

**INDEPENDENT AUDITOR'S REPORT  
AND  
CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Silicon Valley Community Foundation

We have audited the accompanying consolidated statement of financial position of the Silicon Valley Community Foundation (a California public benefit corporation) and its supporting foundations (the "Foundation") as of December 31, 2007, and the related consolidated statements of activities and of cash flows for the year 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 audit.

We conducted our audit in accordance with the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Foundation at December 31, 2007, and the results of their activities and changes in net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



San Francisco, California  
July 23, 2008

## CONSOLIDATED FINANCIAL STATEMENTS

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**SILICON VALLEY COMMUNITY FOUNDATION**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2007**  
**(in thousands)**

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ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	51,327
Investments, at market value		1,842,879
Contributions and grants receivable		11,524
Notes and other receivables		7,110
Contributions receivable from charitable trusts		6,443
Property and equipment, net		22,137
Other assets		1,467
Total assets	\$	<u>1,942,887</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Grants payable	\$	34,035
Accounts payable and accrued liabilities		2,365
Liability to beneficiaries from split interest agreements		44,635
Deposits held for others		32,271
Total liabilities		<u>113,306</u>

NET ASSETS

Unrestricted		1,784,627
Temporarily restricted		14,885
Permanently restricted		30,069
Total net assets		<u>1,829,581</u>
Total liabilities and net assets	\$	<u>1,942,887</u>

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*See accompanying notes.*

**SILICON VALLEY COMMUNITY FOUNDATION**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2007**  
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND SUPPORT</b>				
Contributions	\$ 289,409	\$ 2,715	\$ -	\$ 292,124
Investment income, net of investment fees of \$5,934	39,277	-	-	39,277
Net realized and unrealized (losses) gains on investments	123,365	-	-	123,365
Change in value of split interest agreements	596	(829)	(246)	(479)
Other income	4,681	-	-	4,681
Net assets released from restrictions	9,717	(9,697)	(20)	-
<b>TOTAL REVENUES AND SUPPORT</b>	<b>467,045</b>	<b>(7,811)</b>	<b>(266)</b>	<b>458,968</b>
<b>EXPENSES</b>				
Grants awarded	242,476	-	-	242,476
Operating expenses:				
Programs	14,917	-	-	14,917
General and administrative	11,306	-	-	11,306
Development	2,380	-	-	2,380
<b>TOTAL EXPENSES</b>	<b>271,079</b>	<b>-</b>	<b>-</b>	<b>271,079</b>
<b>CHANGE IN NET ASSETS</b>	<b>195,966</b>	<b>(7,811)</b>	<b>(266)</b>	<b>187,889</b>
NET ASSETS, January 1, 2007	1,588,661	22,696	30,335	1,641,692
NET ASSETS, at the end of period	<u>\$ 1,784,627</u>	<u>\$ 14,885</u>	<u>\$ 30,069</u>	<u>\$ 1,829,581</u>

See accompanying notes.

**SILICON VALLEY COMMUNITY FOUNDATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2007**  
**(in thousands)**

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CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 187,889
Adjustments to reconcile change in net assets to cash flows used by operating activities:	
(Gain) loss on disposal of fixed assets	78
Depreciation	956
Realized and unrealized gains from investments	(123,365)
Contributions of stock, limited partnership and other assets	(182,878)
Changes in assets and liabilities	
Contributions and grants receivable	2,105
Notes receivable	10,475
Grants payable	7,342
Accounts payable and accrued expenses	(16,791)
Other assets	198
Increase in net present value of charitable remainder trusts and related accounts	(536)
Funds held as agency endowments	23,646
Cash flows used by operating activities	<u>(90,881)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales of investments	1,322,606
Purchases of investments	(1,232,962)
Notes receivable from investments	50
Purchases of fixed assets	(3,686)
Cash flows provided by investing activities	<u>86,008</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS

(4,873)

CASH AND CASH EQUIVALENTS, beginning of year

56,200

CASH AND CASH EQUIVALENTS, end of year

\$ 51,327

*See accompanying notes.*

**NOTE 1 – DESCRIPTION OF THE FOUNDATION**

Silicon Valley Community Foundation is a publicly supported, nonprofit public benefit corporation established through the merger of Peninsula Community Foundation and Community Foundation Silicon Valley. The new community foundation received its IRS exemption in November 2006 and officially launched in January 2007. The new community foundation serves as a partner and resource to nonprofits and citizens improving the quality of life in our region and to those who want to give back locally, nationally, and internationally. With more than \$1.9 billion in assets under management and 1,500 funds, we are one of the largest community foundations in the nation.

Our goal is to be a leading voice and catalyst for innovative solutions to the region’s most challenging problems. Our vision is to be a comprehensive center for philanthropy that inspires greater civic participation throughout San Mateo and Santa Clara Counties.

**Programs:**

**Donor Advised Funds**

The community foundation offers several types of funds that enable donors to identify funding opportunities aligned with their values and charitable interests. Donor advised funds enable donors to recommend grant recipients, subject to community foundation due diligence and approval.

**Committee Advised**

A committee advised fund enables individuals to make grants with other donors interested in a particular subject. This type of fund is similar to a donor advised fund. It is created by a group of people who pool their contributions toward a common purpose and work together to make recommendations on the fund’s distributions to the community.

**Corporate**

The community foundation provides an array of services to help its corporate funds develop strategies that meet the needs of their local and global communities. The community foundation assists in the grantmaking process, works with employee contribution committees, builds community-wide partnerships, and works together on community relations activities.

**Community Grantmaking Programs**

While developing new grantmaking guidelines based on a year-long Community Input Project, Silicon Valley Community Foundation maintained its predecessors’ grants programs through early 2008, providing community organizations opportunities to apply for funding while the community foundation develops its new, regional grantmaking strategy. In 2007, these programs contributed more than \$8,000,000 to San Mateo and Santa Clara county nonprofit organizations.

**Community Endowment Fund**

The Community Endowment Fund invites donors to contribute unrestricted funds to address community needs through grants by community foundation staff. It is a permanent charitable resource that grows through community support and provides much-needed funding to local nonprofit organizations. It provides a flexible, unrestricted source of funding that acts as a savings account protecting and serving the needs of our region. This fund also allows the community foundation to act strategically to improve our community by addressing the most urgent needs with one-time or multi-year grants.

**Field of Interest Funds**

Field of interest funds allow donors to identify a broad charitable purpose or a category of interest (e.g., arts, education, human services, etc.) and/or geographic area or target population (e.g. senior citizens, children and youth, immigrants). Grants that fall within the donor’s specifications will be made through the community foundation’s grantmaking program with recognition given to the donor’s named fund.

**Scholarship Funds**

Silicon Valley Community Foundation administers a variety of scholarship programs. The majority are designated for current or former residents of San Mateo and Santa Clara counties. In 2007 the community foundation distributed 361 scholarships, totaling more than \$660,000.

## SILICON VALLEY COMMUNITY FOUNDATION NOTES TO FINANCIAL STATEMENTS

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### **Supporting Organizations**

The community foundation is fortunate to work with a number of supporting organizations. The community foundation appoints a majority of the members of the governing boards of the supporting foundations. Each governing board may create its own investment policy and grant guidelines. All supporting organizations are under the community foundation's effective control and are consolidated for financial statement purposes. They are:

The Chong-Moon Lee Foundation	William H. Cilker Foundation
Driscoll Family Foundation	eBay Foundation
Dirk and Charlene Kabcenell Foundation	Steven and Michele Kirsch Foundation
Frank Levinson Family Foundation	Bernard A. Newcomb Foundation
Portola Group Foundation	Raising A Reader
The Real Estate Trust	The Skoll Fund
Sobrato Foundation	The Star Hill Fund
Peter and Nora Stent Family Foundation	

Two of the supporting organizations were created by the community foundation to manage specific programs.

### **Real Estate Trust**

Silicon Valley Community Foundation partners with the Real Estate Trust to accept gifts of residential, commercial or undeveloped property. A gift of real estate to the Real Estate Trust offers an excellent way to unlock the full appraised value of a property, allow for significant tax and economic advantages, and at the same time, build a charitable legacy through support of one's favorite causes for years to come.

### **Raising A Reader**

Raising a Reader was established in 2001 to promote the shared book experience between parents and young children, from birth through age five, to strengthen family bonds and to develop a love of reading critical to school success. The organization's national headquarters in San Mateo, California, provides program support and technical assistance to all affiliates in its nationwide network.

### **Strategic Partnerships and Initiatives:**

Going beyond a traditional grantmaking process, the community foundation's partnerships and initiatives represent high engagement philanthropy. Staff actively collaborates with nonprofit and public partners on specific programs to address a defined need in the region. Through the initiatives, staff works directly with community partners to define success, draft multi-year plans to reach it, and manage the effort until explicit goals are met.

Strategic Partnerships include:

#### **Silicon Valley Social Venture Fund**

Silicon Valley Social Venture Fund, also known as SV2, is a donor network that leverages its financial, intellectual and human capital to make a meaningful, measurable impact in Silicon Valley and beyond.

#### **Joint Venture Silicon Valley**

Silicon Valley Community Foundation and Joint Venture: Silicon Valley Network agreed in November 2007 to begin a partnership to expand and enhance the Silicon Valley Index, a nationally recognized report that measures the strength of the economy and the health of the community, and for the community foundation to become lead sponsor of Joint Venture's State of the Valley conference, the town hall-style meeting that brings together leaders from across the region.

#### **Peninsula Partnership Leadership Council**

Peninsula Partnership Leadership Council's mission is to formulate policies that effectively address the needs and foster the healthy development of children, youth and families in San Mateo County. It is funded by a partnership between the community foundation, the San Mateo County Health Department and the San Mateo County Office of Education.

#### **Children's Health Initiative**

Silicon Valley Community Foundation provides philanthropic fund management and grant support for the Children's Health Initiative of San Mateo County. The Children's Health Initiative offers the Healthy Kids health insurance program for children ages six to 18 in San Mateo County living in families with incomes at or less than 400% of the federal poverty level who are not eligible for other public health care programs such as Medi-Cal or Healthy Families.

**Philanthropy Incubator**

The Philanthropy Incubator is a special program that helps individual donors and institutional funders give their time, talents, and financial support with maximum impact.

**Silicon Valley Arts Fund**

The establishment of the Silicon Valley Arts Fund was a joint effort by the 10 largest arts institutions in the Santa Clara County that worked collaboratively to raise \$12 million to meet their individual and collective needs for financial stability while responding to Silicon Valley's growing demand for cultural services close to home. Today this fund provides an ongoing endowment for the participant art groups.

Initiatives Include:

**Community Schools Initiative**

An effort to transform public schools into community schools – institutions that provide the highest quality instruction, together with a wide range of supports, services and high level of parental and community participation in children's learning.

**Environmental Solutions Forum II**

A venture fund that promotes environmental education experiences for middle and high school students from low-income communities.

**Fostering the Future**

A venture fund designed to improve the system that serves kinship and foster care youth as they transition to adulthood.

**School Readiness Initiative**

A comprehensive set of family support strategies to increase parents' knowledge and ability to prepare their children for school. It also includes the Kickoff to Kindergarten program, a summer transitional program to equip young children (who have not had a previous, quality preschool experience) with the skills they need to be successful in kindergarten.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** –The financial statements have been prepared on the accrual basis of accounting.

**Principles of Consolidation** – The accompanying consolidated financial statements as of December 31, 2007 include the financial statements of the community foundation and its supporting organizations, listed in Note 1, above. Inter-organizational transactions and balances have been eliminated in the consolidation.

**Cash and Cash Equivalents** – For financial statement purposes, the community foundation considers all cash accounts, except those being held for investment purposes, and all highly liquid debt instruments purchased with a maturity of 90 days or less to be cash equivalents.

**Net Assets** – The accompanying consolidated financial statements have been prepared in accordance with the standards set forth in Statements of Financial Accounting Standards No. 116 (Accounting for Contributions Received and Contributions Made), No. 117 (Financial Statements for Not-for-Profit Organizations) and the guidelines set forth in the industry audit and accounting guide "Not-For-Profit Organizations" issued by the American Institute of Certified Public Accountants. Under these guidelines, contributions of cash and other assets are classified as one of the following three categories:

*Unrestricted* - Unconditional promises to give by a donor without any use or time restrictions. The Bylaws of the community foundation include a variance provision giving the Board of Directors the power to modify any restrictions or conditions placed on gifts to the community foundation, if in its sole judgment, the Board determines that the restriction becomes unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community. Based on the provision, the community foundation classifies contributions, except as noted below, as unrestricted for financial statement presentation.

## SILICON VALLEY COMMUNITY FOUNDATION NOTES TO FINANCIAL STATEMENTS

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*Temporarily Restricted* - Unconditional promises to give by a donor that specifies a specific use or the occurrence of a certain future event. Contributions unconditionally promised, which are scheduled to be received in more than one year in the future, are classified as temporarily restricted until the funds are received. The community foundation receives grants from charitable foundations and local agencies for initiatives and special projects for which purpose restrictions apply. Such grants and contributions are recorded as temporarily restricted until the purpose restrictions are met. When the donor restriction expires (a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

*Permanently Restricted* - Unconditional promises to give by a donor that specifies that the assets donated be invested to provide a permanent source of income. The community foundation records contributions as permanently restricted where the donor has permanently restricted the corpus of a donation or the remainder of a charitable trust.

**Investments** – All debt securities and equity securities with readily determinable fair values are carried at estimated fair value based on quoted market prices as of the last trading date of the community foundation's fiscal year. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are calculated on an adjusted cost basis. Adjusted cost is the estimated fair value of the security at the beginning of the year, or the cost if purchased during the year. Dividend and interest income are accrued when earned.

The investments owned that represent securities that are not publicly traded are stated at estimated fair value based upon management's best estimate of available information as of the end of the fiscal period. In establishing the estimated fair value, the investment manager may give consideration to operating results, financial condition, recent sales prices of issuers' securities and other pertinent information. These investments are valued at the community foundation's percentage interest owned in these investment companies. Because of the inherent uncertainty of valuations, however, these estimated fair values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material. Subsequent to the period end, management may change its estimates as additional information becomes available. Any such adjustments are accounted for as a change in estimated value in the following year.

The community foundation recognizes that there are inherent risks associated with non-publicly traded securities. Risk is managed through rigorous evaluation before an investment is made, quarterly monitoring of valuations and regular communication with investment managers. The community foundation may also have risk associated with its concentration of investments in certain geographic areas and certain industries.

### **Concentrations of Risk**

To address market risk of investments, the community foundation maintains a formal investment policy that sets out performance criteria, investment guidelines and requires review of the investment managers' performances. Investments are managed by multiple investment managers, who have responsibility for investing the funds in various investment alternatives. An investment consultant is also utilized. The community foundation has custody agreements with selected banks, which process disbursements at the direction of authorized staff.

In addition, concentrations of market and credit risk exist for charitable remainder trusts as well as for cash equivalents. In the regular course of business, the community foundation may maintain operating cash balances at a bank in excess of federally insured limits. Management does not believe it is exposed to any significant credit risk on uninsured amounts.

Major Contributions - For the year ended December 31, 2007, 49% of contributions were received from three donors.

Program Related Investments - In furtherance of their missions, the community foundation and its affiliated supporting organizations may occasionally make investments in below market rate loans or investment vehicles that the Boards have determined to provide a social benefit to the community (refer to Note 5).

Supporting Organization Assets – 24% of the community foundation's assets at December 31, 2007 were in one supporting organization.

**Spending Policy** - The Board of Directors established a spending policy for permanent and board designated endowment funds. Annually, 5% of the average market value over twelve trailing quarters is appropriated for grant distribution under the terms of the endowment.

**SILICON VALLEY COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

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**Notes Receivable** – In accordance with Technical Practice Aid 6140.05, Accounting for Loans of Cash That are Interest Free or That Have Below-Market Interest Rates, in lieu of discounting notes receivable having a maturity date that cannot be reasonably determined, the difference between the risk free rate of return at the date of issuance of the notes and the actual interest rate of the notes is calculated and, if material, recorded annually as interest income and expense.

**Real Estate Investments** – These generally consist of limited partnership holdings. Investments in limited partnerships where real estate is the primary investment are based upon independent valuations, except as noted below, of the limited partnerships. Due to the inherent uncertainties of the real estate valuation, the appraised value reflected in the accompanying consolidated financial statements may differ significantly from values that would be determined by negotiations between parties in sales transactions, resulting in differences that could be material. Independent appraisals of real estate held for investment, and not in limited partnerships, are conducted every three to five years, depending on the nature of the investment.

As a result of contributions, the community foundation holds 25.5% and 27.3% interests in two real estate limited partnerships, the value of which totaled \$41,454,816 at December 31, 2007. The community foundation records the partnership interests at a market value based on cash distributions capitalized at 9%. The partnership agreements stipulate that the partners of the limited partnerships have right of first refusal for any sale of the community foundation's partnership interest. In addition, the community foundation has agreed that if it were to offer the sale of any interest to the partners it would be based on the same capitalization rate.

**Charitable Remainder Trusts** – The community foundation is an irrevocable remainder beneficiary of numerous charitable remainder trusts whose maturities are based on the life expectancy of the income beneficiaries or a term of years. Trusts which are trusted by parties other than the community foundation are recorded as future interests receivable at the fair value of the assets in the trusts, less the present value of amounts due to beneficiaries.

Trusts in which the community foundation acts as trustee are recorded at the market value of the assets in the trusts. The corresponding liability for certain future amounts due beneficiaries is recorded at the present value of the annuity payments. Discount rates are determined based on year of inception of the trust. Due to differences in rates used by the two predecessors (prior to merger) discount rates of current trusts vary within a specific inception year.

**Property and Equipment** – Acquisitions and donations of property and equipment in excess of \$5,000 are capitalized. These are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from three to thirty-nine years. Leasehold improvements are amortized using the straight-line method over the lesser of the assets' estimated useful lives or the term of the applicable lease.

Donated property and equipment is recorded at fair value at the date of donation.

**Grant Expenses** – Grants are recognized when all significant conditions are met and all due diligence has been completed. Grants are ratified by the Board of Directors at board meetings during the year. Grant refunds are recorded as a reduction of grant expense at the time the community foundation receives or is notified of the refund.

**Revenue Recognition** – Contributions are recognized as revenue when received or unconditionally promised. Contributions of assets other than cash are recorded at their estimated fair value. Real estate contributed to the community foundation is recorded at appraised value on the date of the gift. Real estate is generally made available for sale and is valued at the lower of the carrying amount or fair value. Contributions of public stock are recorded at the mean of the quoted market price on the date of donation. Material contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history and type of contribution.

**Contributions-in-Kind** – Contributions-in-kind are recognized in accordance with SFAS 116. Significant donated property and equipment is recorded at estimated fair value at the date of receipt. Contributed services, which require a specialized skill and which the community foundation would have paid for if not contributed, have been recorded at their estimated fair market value. For the year ended December 31, 2007, the community foundation recognized a total of approximately \$4,725,000 in contributed services.

## SILICON VALLEY COMMUNITY FOUNDATION NOTES TO FINANCIAL STATEMENTS

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**Fair Value of Financial Instruments** – Financial instruments included in the community foundation’s Consolidated Statement of Financial Position as of December 31, 2007 include cash and cash equivalents, investments, contributions receivable, notes receivable, contributions receivable from charitable trusts, accounts payable and accrued liabilities, grants payable, liability to beneficiaries from split interest agreements, and deposits held for others. For cash and cash equivalents, contributions receivable accounts payable, and accrued liabilities, the carrying amounts represent a reasonable estimate of the corresponding fair values. Investments, contributions receivable from charitable trusts, grants payable, liability to beneficiaries from split interest agreements, and deposits held for others are reflected in the accompanying Consolidated Statement of Financial Position at their estimated fair values using methodologies described above. The carrying values of the notes receivable represent reasonable estimates of the corresponding fair values, based on the community foundation’s discounted cash flow analyses and comparison with similar financial instruments in the marketplace having similar interest rate and maturity structures.

**Functional Expense Allocations** – Expenses which apply to more than one functional category have been allocated between program, management and general, and fund-raising based on the time spent on these functions by specific employees as estimated by senior management. The remaining costs are charged directly to the appropriate functional category.

**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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Income Taxes** – The Foundation is exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code and from state income and franchise taxes under Section 23701d of the California Revenue and Taxation code. Continuance of such exemption is subject to compliance with regulations and review of activities by taxing authorities. The Foundation is not aware of any transactions that would affect its tax-exempt status.

**Prior Year Information** – Silicon Valley Community Foundation officially began operation on January 1, 2007. As such, prior year information is not included in the accompanying consolidated financial statements. Prior year information for the two predecessors, Community Foundation of Silicon Valley and Peninsula Community Foundation, are available upon request.

### **Recent Accounting Pronouncements:**

**Fair Value Measurements** – In September 2006, the FASB issued FAS No. 157, “Fair Value Measurements,” which defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. FAS 157 does not expand or require any new fair value measures and is effective for fiscal periods, beginning after November 15, 2007. The Foundation is currently evaluating what effect, if any, the adoption of FAS No. 157 will have on the Foundation’s Financial Statements.

In February 2007, FASB issued No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115”, (effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The Foundation is currently evaluating what effect, if any, the adoption of SFAS No. 159 will have on the Foundation’s Statements.

In March 2008, the FASB released an exposure draft FASB Staff Position – FAS 117a (“FSP-FAS117a”). The expected implementation date is expected to be for fiscal years ending after December 15, 2008. FSP-FAS 117a will provide for an update of FAS 117 relating to the treatment of permanently restricted net assets to be more in line with the model act entitled *Uniform Prudent Management of Institutional Funds Act* (“UPMIFA”). California to date has not passed UPMIFA, however, the FSP-FAS 117a contains disclosure provisions that are required for all not for profits whether or not they are located in a state that has enacted UPMIFA. The community foundation is currently evaluating the impact of FSP-FAS 117a and does not believe it will have a material affect of the financial statements.

**SILICON VALLEY COMMUNITY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS**

In July 2006, the FASB released FASB Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes – an interpretation of SFAS 109*. FIN 48 provides guidance for how uncertain tax position should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken in the course of preparing the community foundation’s tax returns to determine whether tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. FIN 48 is required for fiscal years beginning after December 15, 2007. The community foundation is currently evaluating the impact of FIN 48 and does not believe it will have a material affect of the financial statements.

Other accounting standards that have been issued or proposed by FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Foundation’s Financial Statements upon adoption.

**NOTE 3 – INVESTMENTS**

The community foundation provides donor advisors with various investment pools. The asset allocation of any individual fund is dependent on the donor’s choice within these approved investments. In addition, funds over \$10 million may be invested separately from the pools, subject to approval by the investment committee. Separate asset allocations are maintained for the endowment, supporting organizations and charitable trusts.

The community foundation’s investments consisted of the following at December 31, 2007:

Cash and cash equivalents	\$ 278,975,288
Global bonds	349,310,905
US equities	481,381,812
International equities	287,402,117
Non-publicly traded securities	1,871,366
Alternative investments (see detail below)	<u>443,937,892</u>
	<u><u>\$ 1,842,879,380</u></u>

Alternative investments include commingled funds, limited partnerships, limited liability corporations and offshore investment funds. 47% of the alternative investments are concentrated in one supporting organization. The following table summarizes the investment strategy types as of December 31, 2007.

Hedge Funds	
Fund of funds	\$ 112,477,369
Multi-strategy	49,346,077
Other strategies	31,501,252
Private Equity	
Venture capital	62,709,800
Buyout/special situation	33,641,613
Real Assets	
Real assets	59,751,660
Private real estate	<u>94,510,121</u>
	<u><u>\$ 443,937,892</u></u>

**SILICON VALLEY COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

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The following schedule summarizes the investment returns for the year ended December 31, 2007:

Investment income	\$ 45,211,488
Realized and unrealized gain	123,365,286
Direct investment related expenses	<u>(5,933,888)</u>
	<u>\$ 162,642,886</u>

The community foundation and its supporting organizations have commitments under venture capital partnership agreements to make additional capital contributions. At December 31, 2007, those commitments are approximately \$118,056,000.

**NOTE 4 – CONTRIBUTIONS AND GRANTS RECEIVABLE**

Contributions and grants receivable as of December 31, 2007 are expected to be collected as follows:

	<u>Less than one year</u>	<u>Greater than one year</u>
Contributions receivable	\$ 10,229,674	\$ -
Grants receivable	<u>894,333</u>	<u>400,000</u>
Total	<u>\$ 11,124,007</u>	<u>\$ 400,000</u>

**NOTE 5 – NOTES AND OTHER RECEIVABLE**

Notes receivable as of December 31, 2007 consist of the following:

	<u>Less than one year</u>	<u>Greater than one year</u>
Sales of real property, secured by deeds of trust, bearing interest of 6.5%, 7% and 8.5%	\$ 2,300,434	\$ -
Silicon Valley Arts Funds, bearing no interest, maturing at various dates through June 2008	1,981,219	-
Program related loans	1,910,294	-
Executive loans	103,475	479,236
Other receivables	<u>335,742</u>	<u>-</u>
Total	<u>\$ 6,631,164</u>	<u>\$ 479,236</u>

Program related loans are stated at the amount of unpaid principal. A program officer is assigned to monitor the payments and the ongoing stability of the organization.

Outstanding executive loans consist of \$459,983 to the current CEO and President of the community foundation and \$122,728 to the former President of the predecessor foundation, Community Foundation of Silicon Valley. The former President now serves as Senior Advisor to the President.

The note to the CEO was issued when he was hired in 2006 to assist in locating affordable housing as he transitioned from the Mid West to the West Coast. It bears interest at 4.73% per annum and will mature in 2016. The note to the Senior Advisor was issued in 1989, when he was hired as President of the predecessor foundation, to assist in locating affordable housing as he transitioned from the East Coast to the West Coast. It bears interest at 8% per annum and will mature in 2013.

**SILICON VALLEY COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31, 2007:

Buildings and land	\$ 19,827,943
Leasehold improvements	4,262,252
Office equipment and other fixed assets	1,690,352
Computer equipment	1,110,724
Total	<u>26,891,271</u>
Less: accumulated depreciation and amortization	<u>(4,754,574)</u>
Property and equipment, net	<u><u>\$ 22,136,697</u></u>

Due to the office relocation resulting from the merger, the community foundation incurred one-time costs of \$2,841,000 for new office furnishings and leasehold improvements.

**NOTE 7 – GRANTS PAYABLE**

Grants payable are expected to be disbursed as follows:

Year ending December 31,	
2008	\$ 25,390,669
2009	6,005,147
2010	1,834,809
2011	1,145,000
2012	235,000
2013	100,000
Total	<u>34,710,625</u>
Discount	<u>(675,761)</u>
Net grants payable	<u><u>\$ 34,034,864</u></u>

**NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are restricted for the following at December 31, 2007:

Charitable remainder trusts	\$ 11,020,701
Special projects	<u>3,864,693</u>
Total	<u><u>\$ 14,885,394</u></u>

**SILICON VALLEY COMMUNITY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets are restricted for the following at December 31, 2007.

Charitable remainder trusts	\$ 10,180,003
Special programs	19,888,814
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Total	\$ 30,068,817
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A reclassification of certain charitable trusts and endowment funds resulted in a one time adjustment of approximately \$8,023,000 from unrestricted to permanently restricted net assets and approximately \$2,183,000 from temporarily restricted to permanently restricted net assets.

**NOTE 10 – RELATED PARTY TRANSACTIONS**

In addition to the description in Note 5 of Notes Receivable from two members of the senior staff, the community foundation has engaged in the following related party transactions.

Board members may hold interests or may be employed by corporations or partnerships held as investments by the community foundation. A conflict of interest policy has been established which covers investments and vendor relationships with Board members, volunteers and staff. The policy requires annual disclosures and discussion of potential conflicts at meetings, so that Board members, volunteers and staff may continue to serve the community foundation through their professional knowledge and expertise

The community foundation's volunteer members of the Board of Directors are active in oversight of fundraising events, activities and in making private contributions. Contributions received from the Board of Directors or from companies with which the Board of Directors are affiliated were approximately \$40,733,000 for the year ended December 31, 2007.

The community foundation utilizes the services of an investment manager whose founder is also the founder of one of the community foundations supporting organizations. In-kind investment management service fees of approximately \$1,632,685 were donated by the investment manager during the year ended December 31, 2007.

**NOTE 11 – DEPOSITS HELD FOR OTHERS**

At December 31, 2007, the community foundation held funds for 76 nonprofit organizations. In accordance with Financial Accounting Standard No. 136, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others (Issued 6/99), a liability is recorded which represents the readily determinable estimated fair values of assets deposited with the community foundation by other nonprofit organizations. The funds are managed by the community foundation on an agency relationship basis. The community foundation serves its charitable leadership role for the community by providing an efficient investment management function, programmatic expertise, and technical assistance for the nonprofit community. The following table summarizes the activity in such funds during the year then ended.

Nonprofit fund balances at January 1, 2007	\$ 25,686,740
Amounts raised in contributions	6,921,190
Dividend and interest income, net of investment fees	713,368
Realized and unrealized investment returns	1,887,054
Grants	(2,725,838)
Expenses	(211,672)
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Nonprofit fund balances at December 31, 2007	\$ 32,270,842
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**NOTE 12 – RETIREMENT PLANS**

The Foundation has a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code, for which substantially all employees are eligible. Employees are considered eligible for contributions upon the first day of employment. Employees may elect to make contributions to the plan under salary deferral provisions. The community foundation contributes 10% of salary to the plan for all eligible employees, as defined, on a semi monthly basis. Contributions to the plan were \$892,758 for the year ended December 31, 2007.

The Foundation also provides a defined contribution plan under Section 457(b) of the Internal Revenue Code for all employees that are members of a select group of management and highly compensated employees. The employees may elect to make contributions to the plan under a salary reduction agreement. Contributions are at the discretion of the community foundation. The community foundation contributed \$13,275 to the plan in 2007.

**NOTE 13 – COMMITMENTS**

In August, 2007 the community foundation moved into a new office facility in Mountain View, vacating the offices of the predecessors. The main office facility carries an operating lease with a term of 10 years, expiring August 2017. The community foundation maintains conference and office space in the former foundation offices in San Mateo and San Jose. Office space in the satellites is occupied by two of its supporting organizations and by sub-tenants under two sub-lease agreements, expiring in 2009. Following is a schedule of future minimum rental payments under its non-cancelable operating leases.

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 2,501,000
2009	2,142,000
2010	1,191,000
2011	1,233,000
2012	1,276,000
Thereafter	6,503,011

Rental expense consisted of \$524,268 for the main office facility and approximately \$1,606,897 for the satellite offices for the year ended December 31, 2007. Sublease income for the community foundation's offices was approximately \$9,499 for the year ended December 31, 2007. Sub-lease income receivable under the two sub-tenant leases through 2009 is \$420,776.