

MOSSES ADAMS

**SILICON VALLEY
COMMUNITY FOUNDATION**
(WITH SUPPORTING ORGANIZATIONS)

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

DECEMBER 31, 2008 AND 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 statements of financial position of the Silicon Valley Community Foundation (a California public benefit corporation) and its supporting organizations (the "community foundation") as of December 31, 2008 and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the community foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Silicon Valley Community Foundation's 2007 consolidated financial statements and in our report dated July 23, 2008, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with 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 community 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 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 community foundation at December 31, 2008, and the results of their activities and changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



San Francisco, California
July 1, 2009

CONSOLIDATED FINANCIAL STATEMENTS

SILICON VALLEY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2008 and 2007
(in thousands)

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 12,783	\$ 51,327
Investments, at fair value	1,401,578	1,842,879
Contributions and grants receivable	5,403	11,524
Notes and other receivables	4,935	7,110
Contributions receivable from charitable trusts	5,454	6,443
Property and equipment, net	33,250	22,137
Other assets	<u>851</u>	<u>1,467</u>
Total assets	<u>\$ 1,464,254</u>	<u>\$ 1,942,887</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants payable	\$ 45,253	\$ 34,035
Accounts payable and accrued liabilities	1,628	2,365
Liabilities to beneficiaries from split interest agreements	41,134	44,635
Deposits held for others	<u>55,165</u>	<u>32,271</u>
Total liabilities	<u>143,180</u>	<u>113,306</u>
NET ASSETS		
Unrestricted	1,283,624	1,784,627
Temporarily restricted	10,524	14,885
Permanently restricted	<u>26,926</u>	<u>30,069</u>
Total net assets	<u>1,321,074</u>	<u>1,829,581</u>
Total liabilities and net assets	<u>\$ 1,464,254</u>	<u>\$ 1,942,887</u>

See accompanying notes.

SILICON VALLEY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2008
(with Comparative Totals for Year Ended December 31, 2007)
(in thousands)

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES AND SUPPORT					
Contributions	\$ 186,263	\$ 4,601	\$ 129	\$ 190,993	\$ 292,124
Investment income, net of investment fees of \$7,480 and \$5,934, respectively	25,213	-	-	25,213	39,277
Net realized gains on investments	243	-	-	243	85,164
Change in value of split interest agreements	12	(3,462)	(3,248)	(6,698)	(479)
Other income	4,531	-	-	4,531	4,681
Net assets released from restrictions	5,524	(5,500)	(24)	-	-
	221,786	(4,361)	(3,143)	214,282	420,767
Unrealized gains (losses) on investments	(402,175)	-	-	(402,175)	38,201
TOTAL REVENUES AND SUPPORT	(180,389)	(4,361)	(3,143)	(187,893)	458,968
EXPENSES					
Grants awarded	291,097	-	-	291,097	242,476
Operating expenses					
Program	18,144	-	-	18,144	14,917
General and administrative	8,930	-	-	8,930	11,306
Development	2,443	-	-	2,443	2,380
TOTAL EXPENSES	320,614	-	-	320,614	271,079
CHANGE IN NET ASSETS	(501,003)	(4,361)	(3,143)	(508,507)	187,889
NET ASSETS, beginning of year	1,784,627	14,885	30,069	1,829,581	1,641,692
NET ASSETS, end of year	<u>\$ 1,283,624</u>	<u>\$ 10,524</u>	<u>\$ 26,926</u>	<u>\$ 1,321,074</u>	<u>\$ 1,829,581</u>

See accompanying notes.

SILICON VALLEY COMMUNITY FOUNDATION
CONSOLIDATED STATEMENT OF CASH FLOWS
Years Ended December 31, 2008 and 2007
(in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (508,507)	\$ 187,889
Adjustments to reconcile change in net assets to cash flows used by operating activities		
(Gain) loss on disposal of fixed assets	(2)	78
Depreciation	1,557	956
Realized and unrealized gain from changes in market value of investments	401,932	(123,365)
Contributions of stock, limited partnership and other assets	(87,969)	(182,878)
Changes in assets and liabilities		
Contributions and grants receivable	6,121	2,105
Notes and other receivables	(374)	10,475
Grants payable	11,218	7,342
Accounts payable and accrued expenses	(737)	(16,791)
Other assets	615	198
Increase in net present value of charitable remainder trusts and related accounts	(2,511)	(536)
Funds held as agency endowments	22,894	23,646
Cash flows used by operating activities	<u>(155,763)</u>	<u>(90,881)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	810,730	1,322,606
Purchases of investments	(694,892)	(1,232,962)
Notes receivable from investments	2,549	50
Purchases of fixed assets	(1,168)	(3,686)
Cash flows provided by investing activities	<u>117,219</u>	<u>86,008</u>
NET CHANGES IN CASH AND CASH EQUIVALENTS	(38,544)	(4,873)
CASH AND CASH EQUIVALENTS, beginning of year	<u>51,327</u>	<u>56,200</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 12,783</u>	<u>\$ 51,327</u>

See accompanying notes.

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

NOTE 1 - DESCRIPTION OF THE FOUNDATION

Silicon Valley Community Foundation (“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 community foundation serves as a partner and resource to nonprofits and citizens improving the quality of life in San Mateo and Santa Clara counties and to those who want to give back locally, nationally, and internationally. With nearly \$1.5 billion in assets under management and 1,500 funds, it is one of the largest community foundations in the nation.

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

Programs:

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 allow donors to recommend grant recipients, subject to the community foundation’s due diligence and approval. These funds may be advised by an individual, family, or committee of people who desire to pool their contributions toward a common purpose. Collectively these funds granted approximately \$168,000,000 and \$174,000,000 to charitable organizations during the years ended December 31, 2008 and 2007, respectively.

Corporate Advised - The community foundation manages one of the largest corporate advised fund programs among all U.S. based community foundations. These funds made grants of approximately \$36,000,000 and \$20,000,000 in 2008 and 2007, respectively. 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 Endowment and Field of Interest Funds - Through the Community Endowment Fund or named endowment funds, donors can contribute unrestricted funds to address community needs. These funds are a permanent charitable resource that grows through community support and provides much-needed funding for local programs and services. They allow the community foundation to act strategically to improve the community by addressing the most urgent needs with one-time or multi-year grants.

Field of interest funds enable 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).

Together, the community endowment and field of interest funds granted approximately \$8,800,000 and \$6,800,000 to charities in San Mateo and Santa Clara Counties in 2008 and 2007, respectively.

Scholarship Funds - Silicon Valley Community Foundation administers 44 scholarship programs. The majority are designated for current or former residents of San Mateo and Santa Clara counties. In 2008 and 2007, the community foundation awarded 276 and 361 scholarships totaling approximately \$677,000 and \$660,000, respectively.

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. As of December 31, 2008, three of the supporting organizations listed below had ceased operations.

The Chong-Moon Lee Foundation
Driscoll Family Foundation
Dirk and Charlene Kabcenell Foundation
Frank Levinson Family Foundation
Portola Group Foundation
The Real Estate Trust
Sobrato Foundation
Peter and Nora Stent Family Foundation

William H. Cilker Foundation
eBay Foundation
Steven and Michele Kirsch Foundation
Bernard A. Newcomb Foundation
Raising A Reader
The Skoll Fund
The Star Hill Fund

SILICON VALLEY COMMUNITY FOUNDATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Two of the supporting organizations noted above 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 donors a 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 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 affiliates in its nationwide network.

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, 2008 and 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.

Description of 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 three categories listed below:

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 restriction or condition on the distribution of funds for any specified charitable purpose or to specified organizations if, in the sole judgment of the Board of Directors (without the necessity of the approval of any other party), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served. Based on the provision, the community foundation classifies contributions, except as noted below, as unrestricted for financial statement presentation.

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 more than one year in the future, are classified as temporarily restricted until the funds are received and discounted at a rate commensurate with the risks involved. 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 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.

Fair Value of Investments - The community foundation determines the fair value of investments consistent with Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). This standard clarifies the definition of fair value for financial reporting, establishes a hierarchical disclosure framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. The community foundation adopted SFAS 157 as of January 1, 2008. The adoption of SFAS 157 did not have a material impact on the financial statements.

SILICON VALLEY COMMUNITY FOUNDATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The new standard provides a consistent definition of fair value which focuses on an exit price which is 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. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

Level 1 - Valuation is based on observable inputs using quoted prices in active markets for identical assets that are accessible at the measurement date.

Level 2 - Valuation is based on inputs from sources other than quoted prices in active markets that are either directly or indirectly observable as of the reporting date. This may include quoted prices for similar assets in an active market, quoted prices for similar assets in a market that is not as active; or valuation methods using models, interest rates and yield curves as observable inputs.

Level 3 - Valuation is based on unobservable inputs for the asset, reflecting the community foundation's assumptions about the assumptions that a market participant would use in pricing the asset, to the extent that observable inputs (Levels 1 and 2) are not available. Level 3 assets include situations where there is little or no market activity for the investment, and significant management judgment or estimates are required.

Cash and cash equivalents are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Marketable investments including publicly traded investments such as stocks, mutual funds, exchange traded funds, and derivative contracts that trade on an active exchange are classified within Level 1.

Nonmarketable, redeemable investments such as hedge funds, commingled funds and derivatives are classified in Level 2 or Level 3 depending on the underlying investments and level of transparency provided by the fund sponsor.

Nonmarketable, nonredeemable interests in private equity, venture capital and real estate funds, and investments in limited partnerships holding real estate and direct investments in private companies are classified within Level 3. Private interests in illiquid assets require significant judgment by the community foundation due to the absence of quoted market values, inherent lack of liquidity and the long-term nature of such investments. Valuations are based on information provided by fund managers, external investment advisors and additional factors to determine if the carrying value of these investments should be adjusted. In determining valuation adjustments, emphasis is placed on market participants' assumptions and market-based information over entity specific information.

Valuations of interests in private, limited partnership funds are reviewed quarterly and determined through consideration of the information provided by the fund manager and other market factors. Other factors include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

Valuations of real estate limited partnerships are reviewed annually and are determined by a number of objective as well as subjective factors, including, but not limited to, initial investment, comparable sales, cap rate environment, projected cash flow, replacement cost, interest rate environment, comparable leases, business plans and other market conditions. Limited partnership agreements that have a stated exit price or restrictions on the sale of the asset, such as a right of first refusal at a stated price, are recorded at the exit price. Given the illiquid nature of the underlying real estate holdings, all investment values are management's estimates based on the criteria noted above in the absence of bona fide third party transactions. Final transacted values could be materially different than management's estimates. 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.

SILICON VALLEY COMMUNITY FOUNDATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

One supporting organization holds direct investments in private companies. Valuations are reviewed quarterly using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies. Methodologies are consistent with the market, income and cost approaches described in SFAS 157, and may include, but are not limited to, valuations based on initial investment amount, recent transactions, the company's own assessment, liquidation value, present value of future cash flows and replacement cost. Credit risk also exists for charitable remainder trusts as a result of the underlying investments contained in the trusts.

Concentrations of Risk - 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.

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.

Concentrations of market risk exists 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. The community foundation has not experienced any losses in such accounts.

Major Contributions - For the years ended December 31, 2008 and 2007, 45% of contributions were received from two donors and 49% from three donors, respectively.

Program Related Investments - In furtherance of its mission, the community foundation may occasionally make investments in below market rate loans or investment vehicles that the various boards have determined to provide a social benefit to the community.

Supporting Organization Assets - At December 31, 2008 and 2007, 25% and 24% of the community foundation's total assets 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.

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. 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.

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 specified term of years.

Trusts in which the community foundation acts as trustee are recorded at the fair 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. The community foundation has adopted SFAS 159, *Fair Value Option for Financial Assets and Financial Liabilities*, for the charitable remainder trusts for which it is trustee. A discount rate of 3.4% was applied to all trusts based on the Applicable Federal Rate, under Internal Revenue Code Section 7520 at December 2008. The adoption of SFAS 159 resulted in a one time reduction of approximately \$114,000 in the liability. This reduction is reflected in the change in split interest gifts on the Statement of Activities.

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

Trusts for which the community foundation does not act as trustee are recorded at the present value of the assets to be received in the future using a discount rate of 3.4%.

The community foundation's beneficial interest in untrusted charitable remainder trusts is considered to be a financial asset subject to the valuation hierarchy. Such assets will generally be classified as Level 3 since observable inputs are minimal. Further, as a result of the adoption of the fair value option, as described above, the liabilities associated with the split interest gifts are considered to be financial liabilities subject to the valuation hierarchy and are considered Level 3 within the hierarchy.

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.

Grants Expense - Grants are recognized when all significant conditions are met, all due diligence has been completed and they are approved by staff or board committee. 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 and is generally made available for sale as soon as is practicable. Contributions of public stock are recorded at the mean of the quoted market price on the date of donation. 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 value. For the years ended December 31, 2008 and 2007, the community foundation recognized a total of approximately \$4,997,000 and \$4,725,000, respectively, in contributed services.

Financial Instruments - Financial instruments included in the community foundation's Consolidated Statement of Financial Position as of December 31, 2008 and 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.

Functional Expense Allocations - Expenses which apply to more than one functional category have been allocated between program, general and administrative, and development based on the time spent on these functions by specific employees as estimated by senior management. Certain marketing materials incur joint costs based on the messages in the materials. Such costs are allocated based on the percentage of the publication devoted to each functional area. All other 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.

Prior Year Information - The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the community foundation's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

SILICON VALLEY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recent Accounting Pronouncements - In September 2008, the Financial Accounting Standards Board issued FASB Staff Position FSP-FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds* ("UPMIFA"). This FSP provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The FSP requires certain disclosures relating to net assets whether or not the organization's state of residence has enacted a version of the model act for fiscal years ended after December 15, 2008.

California enacted its version in September 2008 with an effective date of January 1, 2009. The community foundation is in the process of evaluating the impact of California UPMIFA on its 2009 financial statements. Management believes reclassifications will be necessary and estimates that approximately \$20,000,000 will be reclassified from unrestricted to permanently restricted and \$1,400,000 from unrestricted to temporarily restricted net assets. The non-UPMIFA disclosures required by FSP 117 have been adopted and are included in Note 10.

Income Taxes - The community foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except to the extent of unrelated business taxable income as defined under IRC sections 511 through 515. Pursuant to FSP FIN 48-3, management has elected to defer the application of FASB Interpretation No. 48 - Accounting for Uncertainty in Income Taxes to fiscal years beginning after December 15, 2008. The community foundation evaluates uncertain tax positions in accordance with FASB Statement No. 5, Accounting for Contingencies whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2008 and 2007, the community foundation had no uncertain tax positions requiring accrual.

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 AND FAIR VALUE DISCLOSURES

The community foundation provides donor advisors with various investment pool options. The asset allocation of any individual fund is dependent on the donor's choice within these approved investments. In addition, funds which have over \$10 million in assets may be invested separately from the pools, subject to approval by the community foundation's 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:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 284,099,464	\$ 278,975,288
Global bonds	270,684,086	349,310,905
Global equities	347,035,321	768,783,929
Alternative investments (see detail below)	<u>499,758,875</u>	<u>445,809,258</u>
	<u>\$ 1,401,577,746</u>	<u>\$ 1,842,879,380</u>

Alternative investments include redeemable interests in hedge funds and nonredeemable interests in private equity, venture capital and real estate funds. Alternative investments also include limited partnership investments in real estate and direct investments in private companies. Of the total alternative investments, 52% and 47% are concentrated in one supporting organization as of December 31, 2008 and 2007, respectively.

SILICON VALLEY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the investment strategy types as of December 31:

	<u>2008</u>	<u>2007</u>
Hedge funds	\$ 206,301,371	\$ 193,324,698
Private equity	165,254,749	96,351,413
Private real estate	87,984,476	94,510,121
Real assets	46,276,079	59,751,660
Nonpublically traded securities	-	1,871,366
Derivatives	<u>(6,057,800)</u>	<u>-</u>
	<u>\$ 499,758,875</u>	<u>\$ 445,809,258</u>

Derivatives are comprised of currency hedges valued at (\$6,693,188) and short positions valued at \$635,388, with notional values of (\$10,004,200) and \$21,088,470, respectively. Both are held by one supporting organization.

The following table presents the investments carried at fair value on the Statement of Financial Position as of December 31, 2008, by SFAS 157 valuation hierarchy:

<u>Fair Value Measurement Inputs</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 847,046,630	\$ 89,193,697	\$ 471,395,219	\$ 1,407,635,546
Derivatives	<u>-</u>	<u>(6,057,800)</u>	<u>-</u>	<u>(6,057,800)</u>
Total	<u>\$ 847,046,630</u>	<u>\$ 83,135,897</u>	<u>\$ 471,395,219</u>	<u>\$ 1,401,577,746</u>

The following table includes a roll-forward of the amounts in the Statement of Financial Position for the year ended December 31, 2008 (including the change in fair value) for investments classified within Level 3 of the fair value hierarchy:

Balance at January 1, 2008	\$ 503,920,228
Net payments, purchases and sales	127,922,084
Realized gains	10,531,484
Unrealized losses	<u>(170,978,577)</u>
Balance at December 31, 2008	<u>\$ 471,395,219</u>

The following table presents the fair value of beneficial interests in non-trusted assets including charitable trusts and life estates reflected on the Statement of Financial Position as of December 31, 2008, by SFAS 157 valuation hierarchy:

<u>Fair Value Measurement Inputs</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial Interests in Charitable Remainder Trusts	\$ -	\$ -	\$ 5,454,153	\$ 5,454,153
Liabilities to beneficiaries from split interest agreements	\$ -	\$ -	\$ (41,134,307)	\$ (41,134,307)

SILICON VALLEY COMMUNITY FOUNDATION
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The following table includes a roll-forward of the amounts in the Statement of Financial Position for the year ended December 31, 2008, (including the change in fair value) for the above amounts:

Balance at January 1, 2008	\$ 5,825,858
Net payments, purchases and sales	-
Realized gains	-
Unrealized losses	<u>(371,705)</u>
Balance at December 31, 2008	<u>\$ 5,454,153</u>
Balance at January 1, 2008	\$ 58,914,590
New trusts during 2008	498,995
Trust maturities during 2008	(610,279)
Decrease in value due to change in actuarial life expectancy	(5,132,157)
Decrease in value in estimated fair value of underlying trust assets	<u>(12,536,842)</u>
Balance at December 31, 2008	<u>\$ 41,134,307</u>

An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

While the community foundation believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

The following schedule summarizes the investment returns for the years ended December 31:

	<u>2008</u>	<u>2007</u>
Investment income	\$ 32,692,759	\$ 45,211,488
Realized and unrealized gain	(401,932,197)	123,365,286
Direct investment related expenses	<u>(7,480,210)</u>	<u>(5,933,888)</u>
	<u>\$ (376,719,648)</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, 2008, those commitments are approximately \$109,845,000.

**SILICON VALLEY COMMUNITY FOUNDATION
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NOTE 4 - CONTRIBUTIONS AND GRANTS RECEIVABLE

Contributions and grants receivable as of December 31, 2008, are expected to be collected as follows:

	<u>Less than one year</u>	<u>Greater than one year</u>
Contributions receivable	\$ 4,487,265	\$ -
Grants receivable	916,012	-
Total	<u>\$ 5,403,277</u>	<u>\$ -</u>

NOTE 5 - NOTES AND OTHER RECEIVABLE

Notes receivable as of December 31, 2008, consist of the following:

	<u>Less than one year</u>	<u>Greater than one year</u>
Silicon Valley Arts Funds	\$ 2,331,219	\$ -
Program related loans	1,568,260	255,000
Executive loans	44,028	373,912
Other receivables	362,016	-
Total	<u>\$ 4,305,523</u>	<u>\$ 628,912</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.

An outstanding executive loan exists in the amount of \$417,940 to the current CEO and President of the community foundation. The loan was issued when the CEO 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. In 2008, the annual payment of principal and interest in the amount of \$62,850 was forgiven.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2008</u>	<u>2007</u>
Buildings and land	\$ 18,700,000	\$ 19,827,943
Leasehold improvements	17,632,430	4,262,252
Office equipment and other	1,969,381	1,690,352
Computer equipment	1,148,811	1,110,724
Total	<u>39,450,622</u>	<u>26,891,271</u>
Less: accumulated depreciation and amortization	<u>(6,200,675)</u>	<u>(4,754,574)</u>
Property and equipment, net	<u>\$ 33,249,947</u>	<u>\$ 22,136,697</u>

**SILICON VALLEY COMMUNITY FOUNDATION
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Leasehold improvements include a leasehold position in real property acquired through a gift during 2008 to one of the community foundation's supporting organizations. The leasehold was valued at the time of the gift at approximately \$13,128,000, which represented its appraised fair value. The lease term expires on June 30, 2046. The lease provides an option to purchase the underlying land from the land owner by the supporting organization. The option term to purchase begins on March 1, 2016 and continues until the expiration of the lease.

NOTE 7 - GRANTS PAYABLE

Grants payable are expected to be disbursed as follows:

<u>Year ending December 31,</u>	
2009	\$ 30,936,858
2010	9,767,733
2011	4,630,700
2012	498,200
2013	<u>100,000</u>
Total	45,933,491
Discount	<u>(680,775)</u>
Net grants payable	<u>\$ 45,252,716</u>

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Charitable Remainder Trusts and Irrevocable Planned Gifts	\$ 6,859,095	\$ 11,020,701
Special projects	<u>3,664,528</u>	<u>3,864,693</u>
Total	<u>\$ 10,523,623</u>	<u>\$ 14,885,394</u>

NOTE 9 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted for the following at December 31, 2008 and 2007. Due to the recent market downturn, the market value of permanently restricted net assets are approximately \$4,300,000 below historical gift value at December 31, 2008.

	<u>2008</u>	<u>2007</u>
Charitable Remainder Trusts and Irrevocable Planned Gifts	\$ 7,037,522	\$ 10,180,003
Endowment	<u>19,888,814</u>	<u>19,888,814</u>
Total	<u>\$ 26,926,336</u>	<u>\$ 30,068,817</u>

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

NOTE 10 - ENDOWMENT DISCLOSURES

The community foundation is required to provide information about net assets which are defined as endowment, which includes endowment which is permanently restricted by donors (permanently restricted net assets) and endowment which has been board designated. The changes in endowment net assets for the year ended December 31, 2008 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2008	\$ 160,566,832	\$ 19,888,814	\$ 180,455,646
Investment return:			
Investment income	5,546,468	-	5,546,468
Net depreciation (realized and unrealized)	(35,884,532)	-	(35,884,532)
Total investment return	(30,338,064)	-	(30,338,064)
Contributions	5,458,499	-	5,458,499
Appropriation of endowment assets for expenditure	(14,266,511)	-	(14,266,511)
Other changes:			
Transfers to/from board-designated endowment funds	(273,525)	-	(273,525)
Endowment net assets, December 31, 2008	<u>\$ 121,147,231</u>	<u>\$ 19,888,814</u>	<u>\$ 141,036,045</u>

At December 31, 2008, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowments	\$ (4,307,284)	\$ 19,888,814	\$ 15,581,530
Board designated endowments	125,454,515	-	125,454,515
Total	<u>\$ 121,147,231</u>	<u>\$ 19,888,814</u>	<u>\$ 141,036,045</u>

NOTE 11 - RELATED PARTY TRANSACTIONS

In addition to the note receivable from the CEO and President described in Note 5, the community foundation had 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 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 \$15,335,000 and \$40,733,000 for the years ended December 31, 2008 and 2007, respectively.

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 \$1,600,000 were donated by the investment manager for each of the years ended December 31, 2008 and 2007.

SILICON VALLEY COMMUNITY FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - DEPOSITS HELD FOR OTHERS

At December 31, 2008 and 2007, the community foundation held 80 and 76 nonprofit funds, respectively. 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 June 1999)*, 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.

	<u>2008</u>	<u>2007</u>
Nonprofit fund balances, beginning of year	\$ 32,270,842	\$ 25,686,740
Amounts raised in contributions or transferred in	34,418,777	6,921,190
Dividend and interest income, net of investment fees	464,992	713,368
Realized and unrealized investment returns	(8,866,389)	1,887,054
Grants	(2,853,441)	(2,725,838)
Expenses	<u>(269,893)</u>	<u>(211,672)</u>
Nonprofit fund balances, end of year	<u>\$ 55,164,888</u>	<u>\$ 32,270,842</u>

Amounts raised in contributions include the conversion of one of the community foundation's supporting organizations to a private foundation. The community foundation continues to manage the assets for the private foundation, valued on December 31, 2008, at approximately \$27,000,000.

NOTE 13 - 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 on 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 for the year ended December 31, 2008 and 2007, were \$875,258 and \$892,758, respectively.

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 \$15,500 and \$13,275 to the plan in 2008 and 2007, respectively.

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

NOTE 14 - COMMITMENTS

The main office facility in Mountain View 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 San Mateo and San Jose is occupied by two of its supporting organizations and by sub-tenants under 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>
2009	\$ 2,146,704
2010	1,227,088
2011	1,270,180
2012	1,314,467
2013	1,360,451
Thereafter	5,336,698

Rental expense consisted of \$1,663,756 and \$524,268 on December 31, 2008 and 2007, respectively, for the main office facility and \$1,403,219 for the satellite offices for the year ended December 31, 2008. Sublease income for the community foundation's offices was \$414,839 for the year ended December 31, 2008. Sub-lease income receivable under the sub-tenant leases through 2009 is expected to be approximately \$384,000.