Investing in the Common Good

A Financial Report from Silicon Valley Community Foundation
October 2008
INVESTING IN THE COMMON GOOD

A New Approach to Financial Stewardship, Accountability and Transparency
Emmett D. Carson, Ph.D., CEO and President
Vera Bennett, Chief Financial Officer

Traditionally, nonprofit organizations, including community foundations, release an annual report that describes the year’s activities along with financial information. The problem that often occurs is that audit and financial information is not widely available until an annual report is written, printed and mailed, making the data stale and less useful. In addition, this conventional annual report format often minimizes and diverts attention from the importance of the financial data.

With this report, we are establishing a new tradition. “Investing in the Common Good” provides a separate, comprehensive report on our financial health that focuses on our audited financial report, investment portfolio and financial profile. We believe that this type of reporting is essential for an institution of our size and complexity, and is consistent with our values of public accountability, integrity, responsiveness and innovation.

As Richard Wilkolaski, chair of the audit committee, notes in his message, we are especially pleased with the clean audit given the challenge of merging the very different procedures and processes of our two parent community foundations. The audit (which we posted on our website immediately after our board accepted it) validates that the controls that we have put in place provide necessary accounting safeguards.

Our investment committee chair, John M. Sobrato, notes our accomplishments of developing new investment guidelines and combining the investment portfolios of our parent foundations. The extreme market volatility has provided an unexpected and immediate pressure test of our new portfolio. As our investment consultant, Mike Miller of Colonial Consulting LLC, observes, thus far our portfolio has avoided many of the problem areas in the market and has performed well against established benchmarks.

Finally, several charts provide snapshots of the components of our $1.9 billion in assets under management from the 2007 fiscal year. We believe this data will provide further insight about our operations and financial condition, including our 0.72% ratio of general operating costs to total assets.

We hope that this new approach will provide more real-time information on the financial health of our institution for donors, nonprofits, corporations and other partners. We will, of course, release a separate year-end report that focuses on our work to create lasting change. If you have additional questions, please visit our website at www.siliconvalleycf.org or contact us at 650.450.5400 or donate@siliconvalleycf.org.

Fulfilling our mission—to strengthen the common good, improve quality of life and address the most challenging problems—is a responsibility we all share. Thank you for your continued partnership with us.
Overview of Assets by Fund Type
Total assets at the time of the merger on Jan. 1, 2007, were $1.7 billion. On Dec. 31, 2007, total assets were $1.9 billion.

Advised and corporate funds comprise more than half of the community foundation’s assets and provide support for nonprofits locally, nationally and internationally. Partnering with the community foundation gives fund advisors maximized tax deductions and the flexibility to support the causes they care about most.

Supporting organizations also receive the maximum level of tax deductions (as with a donor advised fund), but maintain their own boards, investment policies and charitable status. A supporting organization may have specific focus areas or broadly support organizations locally and across the globe. The community foundation manages the investments and administers the start-up costs, grants and reporting for supporting organizations.

The Community Endowment Fund and field of interest funds provide $8 million to $10 million in discretionary spending for the community foundation’s grantmaking strategies. The grantmaking strategies focus on five areas: Economic Security; Immigrant Integration; Education; Regional Planning; and a Community Opportunity Fund. A spending policy of 5% over 12 trailing quarters ensures that funding will continue to grow into the future.

In addition to grants, the community foundation supports local nonprofits by offering nonprofit funds as investment vehicles for organizations’ endowment and discretionary assets. Sixty-five nonprofits in the region rely on the fiscal strength and investment expertise provided by the community foundation through nonprofit funds.

The community foundation is trustee of 48 charitable remainder trusts. These trusts provide current income to individuals during their life times or for a period of years, with the remainder going to the community endowment and other charities.

Other funds include:
• Scholarships - The community foundation offers two types of scholarships, donor involved and community foundation managed. In 2007, 46 scholarship funds awarded more than $660,000 to 316 students.
• Designated Funds – The community foundation offers individuals the opportunity to establish a fund that supports a specific or favorite nonprofit in perpetuity or for a fixed number of years.
• Special Projects – Throughout the year the community foundation initiates collaborative funding projects with other private foundations and local governments.
A Note From Richard Wilkolaski  
Audit Committee Chair and Board Member  

From an accounting standpoint, the creation of Silicon Valley Community Foundation meant reviewing and aligning every policy and procedure of two highly successful community foundations with over 90 years of combined history. There were two complex sets of books; more than $1.7 billion in assets encompassing nearly 1,500 donor advised funds; a $160 million endowment; 22 investment pools; 48 charitable trusts; two information systems; more than 100 employees; and four locations.  

Clearly, this was a significant undertaking.  

We put a strong, responsible team in place and implemented tight controls with a commitment to transparency for donors who trust the community foundation to help them accomplish their charitable giving. The community foundation’s audit committee hired Moss Adams LLP, one of the nation’s leading accounting firms with extensive experience in the nonprofit sector, as our independent auditors.  

Our first financial audit was completed in June of this year and the community foundation received an unqualified opinion with no adjustments to our year-end balances. This was a significant accomplishment given the complexity of this first year audit. A copy* of the 2007 independent auditor’s report and consolidated financial statements is available at www.siliconvalleycf.org.  

As chair of the audit committee, I am delighted with both the process and the outcome, and extremely proud of what the audit says about the community foundation’s policies and the people who implement them each day on behalf of our community. We hold ourselves to the highest standards in the stewardship of assets for our donors, and the people and programs receiving grants that help make our community, and world, a better place.  

About Richard Wilkolaski  
Richard Wilkolaski has served as a certified public accountant, business advisor and court expert witness for over 35 years. He is a partner at Seiler LLP, a regional public accounting firm.  

---  

*The condensed financial information on the next page has been derived from the audited financial statements reported upon by Moss Adams LLP, Silicon Valley Community Foundation’s outside audit firm. The information is presented as a summary and, therefore, does not include all the disclosures required by generally accepted accounting principals in the United States of America.
Statement of Financial Position December 31, 2007 (in thousands)

### 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: $1,942,887

### 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: 113,306

**NET ASSETS**
- Unrestricted: 1,784,627
- Temporarily restricted: 14,885
- Permanently restricted: 30,069

Total net assets: 1,829,581

Total liabilities and net assets: $1,942,887

Consolidated Statement of Activities December 31, 2007 (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES AND SUPPORT</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$289,409</td>
<td>$2,715</td>
<td>$</td>
<td>$292,124</td>
</tr>
<tr>
<td>Investment income, net of investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>fees of $5,934</td>
<td>39,277</td>
<td></td>
<td></td>
<td>39,277</td>
</tr>
<tr>
<td>Net realized and unrealized (losses) gains on investments</td>
<td>123,365</td>
<td></td>
<td></td>
<td>123,365</td>
</tr>
<tr>
<td>Change in value of split interest agreements</td>
<td>596</td>
<td>(829)</td>
<td>(246)</td>
<td>(479)</td>
</tr>
<tr>
<td>Other income</td>
<td>4,681</td>
<td></td>
<td></td>
<td>4,681</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>9,717</td>
<td>(9,697)</td>
<td>(20)</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES AND SUPPORT</strong></td>
<td>467,045</td>
<td>(7,811)</td>
<td>(266)</td>
<td>458,968</td>
</tr>
</tbody>
</table>

| **EXPENSES** |                      |                        |                        |           |
| 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     |
| **TOTAL EXPENSES** | 271,079       |                        |                        | 271,079   |

| **CHANGE IN NET ASSETS** |                      |                        |                        |           |
|                         | 195,966        | (7,811)                | (266)                  | 187,889   |

| **NET ASSETS, January 1, 2007** | 1,588,661 | 22,696 | 30,335 | 1,641,692 |

| **NET ASSETS, at the end of period** | $1,784,627 | $14,885 | $30,069 | $1,829,581 |
A Note From John M. Sobrato  
Investment Committee Chair and Board Member

Through more than 1,500 funds, Silicon Valley Community Foundation donors and fund advisors support an array of charitable endeavors and share a commitment to building a strong philanthropic portfolio.

Assets donated to the community foundation are maintained in the form of endowments, donor advised funds, charitable trusts or other types of funds. Gifted assets include cash, public and private securities and real estate received by the Real Estate Trust at Silicon Valley Community Foundation.

The role of the investment committee is to assist the board of directors in fulfilling its fiduciary duty for prudent investment of assets that people have generously entrusted to the community foundation. With the support of Colonial Consulting LLC, an independent investment advisor that specializes in foundations and endowments, the investment committee oversees the investment process by establishing policy guidelines and objectives, monitoring performance and expenses, and controlling risk through diversification.

The committee is also responsible for evaluating and approving recommendations for new investment managers and changes put forth by the investment advisor. An analogy might be helpful in understanding the relationship between the committee, investment advisor and individual managers in that it is similar to a football team. The committee, acting on behalf of the community foundation, is the team owner, with primary responsibility to hire a winning coach. The coach is the community foundation’s investment advisor, Colonial. The coach’s responsibility is to put together a winning team by putting the best players – in this case, investment managers – on the field.

While it is unrealistic to expect the coach to win the Super Bowl every year, if the owner has chosen the right coach, the team ought to be among the league’s elite teams and consistently make the playoffs. Likewise if the investment committee is doing its job, Colonial over the long run should help us consistently provide investment returns that are in the top quartile of community foundations. That is our goal. (You can read more about the investment philosophy and strategies we employ in the summary from Colonial on the following page, or visit our website at www.siliconvalleycf.org)

As chair of the investment committee, I am pleased with the significant accomplishments made since the community foundation opened less than two years ago. Together, we hired one of the nation’s leading investment advisors, developed new investment policy guidelines and made significant portfolio changes to enhance diversification and therefore expected long-term, risk-adjusted returns. We have provided our fund advisors with new and enhanced investment options for aligning invested assets and liquidity with charitable goals and time horizon. And, most importantly, we have built an organization that is committed to excellence in investment performance and in the resulting opportunities to make lasting change.

About John M. Sobrato

John M. Sobrato has been involved with the family-owned Sobrato Organization for 25 years. As chief executive officer he oversees the operations of the firm’s diversified holdings, which include an 8.5-million square-foot commercial portfolio in the Bay Area, a 7,500-unit residential portfolio in the western states, a global portfolio of marketable securities and a private philanthropic foundation, the Sobrato Family Foundation.
Silicon Valley Community Foundation: Investment Strategy in Turbulent Times

Silicon Valley Community Foundation invests its assets to foster strong support of the community’s current needs while also providing resources for future generations. Fund advisors are offered a variety of investment options, each of which is constructed to provide strong returns for a given level of risk. Higher risk offerings are appropriate for fund advisors with long-term charitable objectives, while lower risk options are best for those who plan to make meaningful grant distributions over shorter periods.

In all portfolios, asset allocation is the key to achieving strong returns and investment decisions are made with the following in mind:

- Capitalize on the benefits of a well-diversified portfolio. For lower risk portfolios, assets are heavily allocated to fixed income and other assets that are less risky. For moderate to higher risk portfolios, diversification is expanded to include equities and a well-diversified basket of alternative investment strategies.

- The key reason for broad diversification is to allow each portfolio to achieve its return objectives during a variety of economic and market conditions.

- Avoid attempts to predict short-term market behavior via market timing strategies – strategy is based on long-term objectives and risk tolerance.

- Retain world-class investment managers who are expected to out-perform index funds over three to five-year periods.

The strategy above was implemented in its current form in the second half of 2007. Since that time, market conditions have been difficult to say the least, thereby providing an early stress test for the portfolio. We are pleased to note that to date, returns have been encouraging in light of the magnitude of market difficulties.

Specifically, pursuit of a widely diversified approach has protected longer term portfolios via a combination of hedge funds dampening losses, modest exposure to commodities and natural resource companies, and skillful active management.

In the latter case, many of the bond market’s most troubled sectors have been avoided while equity selections have been driven by managers who take a long-term view and see market declines as an opportunity to acquire solid investments at what can be highly inexpensive prices.

<table>
<thead>
<tr>
<th>Investment Performance (net of fees)</th>
<th>1 Year 12/31/07</th>
<th>6 Months 6/30/08</th>
<th>1 Year 6/30/08</th>
<th>Assets (millions) 6/30/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment</td>
<td>8.9%</td>
<td>-7.2%</td>
<td>-5.4%</td>
<td>$122.7</td>
</tr>
<tr>
<td>Long-Term Growth</td>
<td>7.8%</td>
<td>-5.4%</td>
<td>-4.2%</td>
<td>$423.0</td>
</tr>
<tr>
<td>Social Impact</td>
<td>10.0%</td>
<td>-8.2%</td>
<td>-2.4%</td>
<td>$25.5</td>
</tr>
<tr>
<td>Balanced</td>
<td>6.3%</td>
<td>-3.0%</td>
<td>-0.5%</td>
<td>$28.5</td>
</tr>
<tr>
<td>Short-Term</td>
<td>7.6%</td>
<td>1.7%</td>
<td>7.6%</td>
<td>$23.7</td>
</tr>
<tr>
<td>Capital Preservation</td>
<td>5.2%</td>
<td>1.6%</td>
<td>4.2%</td>
<td>$138.8</td>
</tr>
<tr>
<td>Charitable Remainder Trusts¹</td>
<td>15.3%</td>
<td>-2.4%</td>
<td>-6.6%</td>
<td>$52.3</td>
</tr>
</tbody>
</table>

Benchmarks

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>1 Year 6/30/08</th>
<th>1 Year 6/30/08</th>
<th>1 Year 6/30/08</th>
<th>Assets (millions) 6/30/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Stock Index</td>
<td>5.5%</td>
<td>-11.9%</td>
<td>-13.1%</td>
<td>-</td>
</tr>
<tr>
<td>Lehman Aggregate Bond Index</td>
<td>7.0%</td>
<td>1.1%</td>
<td>7.1%</td>
<td>-</td>
</tr>
<tr>
<td>U.S. Treasury Bills</td>
<td>5.0%</td>
<td>1.3%</td>
<td>3.7%</td>
<td>-</td>
</tr>
</tbody>
</table>

¹Asset weighted returns across 48 trusts.

In summary, although it will require three to five years to truly demonstrate how the investment strategy and selected managers are performing relative to their benchmarks, we believe the current asset allocation strategy and selection of skilled managers are well positioned to achieve strong results.

Prepared by Mike Miller, CFA, managing director at Colonial Consulting LLC. Colonial Consulting LLC is based in New York and registered with the Securities Exchange Commission as an investment advisor. The firm was founded in 1980 with the objective of providing investment consulting services primarily to the endowment and foundation community. Today, Colonial has 85 clients with aggregate assets of nearly $22 billion.
Where did our grants come from?

In 2007, the community foundation awarded more than $242 million in grants. Grants provided in 2007 included $174 million through donor advised funds; $8 million from the community foundation’s endowment; and $60 million in grantmaking through corporate, nonprofit and supporting organization funds. The community foundation issued more than 10,000 grants.

Through July 2008, fund advisors and corporations have continued their generosity by recommending a combined total of $73 million in grant dollars, and the endowment has distributed $12.3 million. Total grants awarded by the community foundation through July 2008 were over $120 million.

- 73% Donor Advised Funds
- 9% Supporting Organizations
- 8% Corporate Advised Funds
- 5% Designated Funds
- 3% Endowment and Discretionary Funds
- 2% Operations, Special Project Funds, Scholarship and Field of Interest Funds

Where did our grants go?

In 2007, $80 million, or approximately 33% of the $242 million in grants supported local causes in our two-county region. Within this percentage more than 3% came from endowment and field of interest funds. The remaining nearly 30% came from generous donors through advised and corporate funds, supporting foundations and designated funds.

Another 23% of grants were made to nonprofits in other parts of the Bay Area. The remaining 43% was distributed nationally and 1% internationally.

Although $2 million in international grants may seem like a small percentage of the total, it is the largest amount of international giving among more than 400 community foundations in the country, and an area in which we have developed specialized experience.

- 30% San Mateo and Santa Clara Counties (Advised and Corporate)
- 38% United States (Except California)
- 23% Other Bay Area Counties
- 5% California, Outside Bay Area
- 3% San Mateo and Santa Clara Counties (Endowment)
- 1% International
What types of gifts were received?

In 2007, the community foundation received overwhelming support from the community in the form of new gifts. $292 million was contributed by local philanthropists, and of this amount 63% came in the form of appreciated securities.

The Real Estate Trust at Silicon Valley Community Foundation, which provides expertise in managing contributions and sales of property, received 12%, or $36 million.

Through July of 2008, the community foundation received $73 million in new gifts; the majority of gifts continue to be from from individuals, families and corporations.

- 63% Securities
- 19% Cash
- 12% Real Estate
- 6% Other

What was the source of those gifts?

Individuals, families and corporations make up the majority of the contributors to our funds. The community foundation also partners with leading corporations, private foundations and nonprofit organizations to create innovative solutions to meet growing community needs. Other gifts include bequests and estate distributions to support our endowment.

We are especially appreciative of the assistance that we receive from financial advisors, attorneys and accountants throughout the region.

- 66% Individual
- 19% Corporation and Nonprofit Organization
- 6% Estate, Will, Bequest
- 5% Private Foundation
- 3% Trust
- 1% Government
How do we support operations?

One of the benefits of the merger is the ability to economize and better utilize resources. In the first 18 months we were able to reduce fees on many selected funds. The fees charged on the funds under management comprise the majority of support for general operations. Ninety-two percent of our budget is supported by fees, with interest income, contributions and event revenue covering the remaining 8%.

Total operations, including costs incurred by supporting foundations and special project funds, as well as the one-time costs of the merger, were $28 million. Of this amount, $13.9 million was the cost of general operations and programmatic work. This is 0.72% of total assets - less than the cost of operations at each of the parent organizations.

About Us

Silicon Valley Community Foundation is a catalyst and leader for innovative solutions to our region’s most challenging problems. Serving all of San Mateo and Santa Clara counties, the community foundation has more than $1.9 billion in assets under management and 1,500 philanthropic funds. The community foundation provides grants through donor advised and corporate funds in addition to its own Community Endowment Fund. In addition, the community foundation serves as a regional center for philanthropy, providing donors simple and effective ways to give locally and around the world. Silicon Valley Community Foundation launched in January 2007 following the landmark merger of Community Foundation Silicon Valley and Peninsula Community Foundation and is now one of the largest community foundations in the nation.

To obtain additional copies of this report please go to our website at www.siliconvalleycf.org or contact us at 650.450.4500.
BOARD OF DIRECTORS
Patricia Bresee, Chair
Retired Commissioner,
Superior Court of San Mateo County

Nancy Handel, Vice Chair
Retired CFO
Applied Materials

Laura Arrillaga-Andreessen
Stanford Graduate School of Business

Gloria Brown
Community Leader

Emmett D. Carson, Ph.D.
CEO and President

Caretha Coleman
Coleman Consulting

Debra Engel
Community Leader

Bernadine Chuck Fong, Ph.D.
President Emerita,
Foothill College

Thomas J. Friel
Retired Chairman,
Heidrick & Struggles International, Inc.

Gregory Gallo
DLA Piper

Narendra Gupta
Wind River

Susan M. Hyatt
Community Leader

William S. Johnson
Palo Alto Weekly

Ivonne Montes de Oca
The Pinnacle Company

C.S. Park
Former chairman and CEO,
Maxtor Corp.

Jennifer Raiser
The Raiser Organization

John M. Sobrato
Sobrato Organization

Sanjay Vaswani
Center for Corporate Innovation

Richard Wilkolaski
Seiler LLP

Erika Williams
The Erika Williams Group

Jane Williams
Sand Hill Advisors, Inc.

Anne Yamamoto
Frank, Rimerman + Co. LLP

Gordon Yamate
Former Vice President and General Counsel,
Knight Ridder

AUDIT COMMITTEE
Richard Wilkolaski, Chair
Patricia Bresee (ex officio)

Bernadine Chuck Fong
Anne Yamamoto
Gordon Yamate

Walter Baumgartner*
Patricia Bresee (ex officio)
Phil Boyce*
Steve Brown*
Narendra Gupta
Nancy Handel
Elizabeth Obershaw*
Perry Olson*
Burnie Sparks*
Richard Wilkolaski
Erika Williams

*indicates Advisors to the Board

INVESTMENT COMMITTEE
John Michael Sobrato, Chair

Walter Baumgartner*
Patricia Bresee (ex officio)
Phil Boyce*
Steve Brown*
Narendra Gupta
Nancy Handel
Elizabeth Obershaw*
Perry Olson*
Burnie Sparks*
Richard Wilkolaski
Erika Williams

*indicates Advisors to the Board
VISION, MISSION AND VALUES
The vision of Silicon Valley Community Foundation is to be a comprehensive center for philanthropy that inspires greater civic participation throughout San Mateo and Santa Clara counties.

The mission of Silicon Valley Community Foundation is to strengthen the common good, improve quality of life and address the most challenging problems. We do this through visionary community leadership, world-class donor services and effective grantmaking.

We value:
Collaboration    Integrity
Diversity        Public Accountability
Inclusiveness    Respect
Innovation       Responsiveness