



Investing in the Common Good

a financial report from silicon valley community foundation | 2010

Financial Stewardship

The capacity of the community foundation and its donors to serve our community is directly tied to our role as financial stewards.



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



Vera Bennett, Chief Financial
and Administrative Officer

Silicon Valley Community Foundation is our region's permanent charitable resource and comprehensive center for philanthropy. Today and for generations to come, the community foundation and its individual and corporate donors are investing in new ways to help people and to solve challenging social problems.

Our ability to do that work is inextricably linked to our financial performance and our professional management of the charitable assets that are entrusted to us.

Investing in the Common Good is our effort to provide a comprehensive look at our financial health and reflects our deep commitment to the values of public accountability, integrity and responsiveness.

This year, we are pleased to report on the strong financial position of the community foundation. The report demonstrates that our investment strategies and financial oversight are delivering solid, long-term results.

We are now the second largest community foundation in the nation. Last year alone, the community foundation, its supporting organizations, and individual and corporate fund advisors awarded nearly \$250 million in grants, more than any other community foundation in the United States.

Although 2009 was an extremely difficult economic year, it was also a year in which we began to see early signs of recovery. Our assets under management, which had declined 25 percent

at the end of 2008, have now rebounded with the strength of the market. With \$1.75 billion under management, we are again poised for growth.

All of our investment pools performed well against their benchmarks and we are pleased with the 28.1 percent return that our endowment pool achieved. This was an exceptionally strong performance within the foundation field and one of the highest returns among more than 200 U.S. foundations surveyed by the Chronicle of Philanthropy.

Through our endowment, field of interest and discretionary funds, we awarded \$9.8 million in grants in 2009 in San Mateo and Santa Clara counties at a time of rapidly rising need in our communities.

We have continued to maintain tight controls on our costs and last year, with the approval of our board of directors, drew on carefully accumulated reserves that were created to sustain us through the kind of dramatic downturn that our region and nation have experienced.

With guidance from the experienced members of our board's investment committee, the community foundation has adhered to its investment philosophy and strategies during a volatile period and emerged stronger.

On behalf of the board and staff, we thank donor advisors, corporate partners and nonprofit organizations for your ongoing partnership with us.

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Total assets rebound to \$1.75 billion as of December 31, 2009

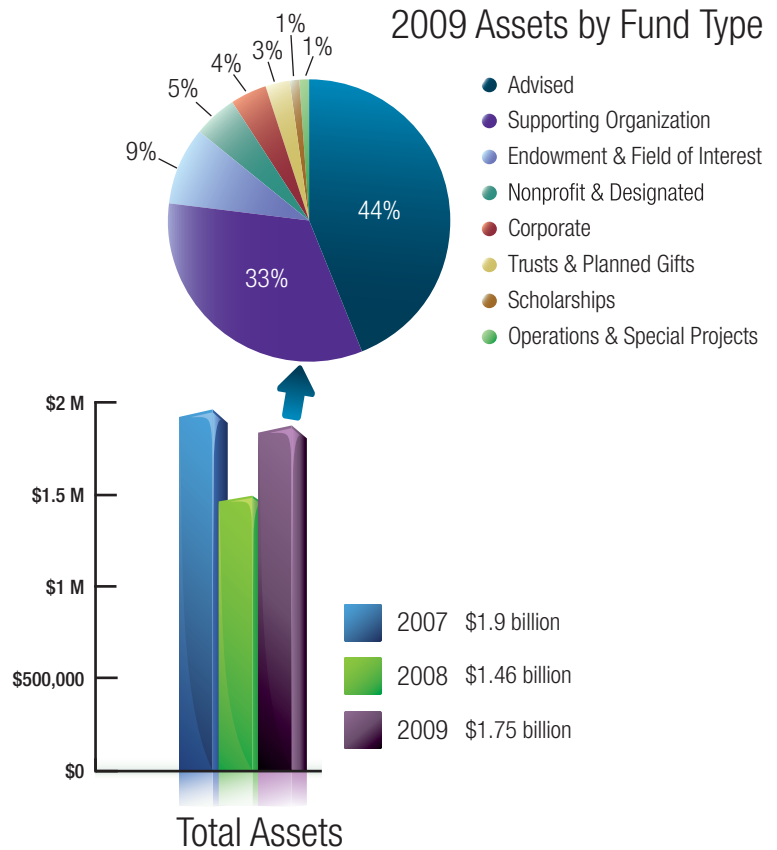
We are very pleased to report that the assets of the community foundation have rebounded from the effects of the market downturn. As of December 31, 2009 the community foundation's total assets were \$1.75 billion. The gain, over a twelve-month period, represents an increase across all assets of 19.5% during the calendar year.

The community foundation's assets are comprised of a variety of fund types based upon the interests of our donors. We steward approximately 1,500 individual funds to ensure that donor intent is honored. Advised and corporate funds make up nearly half of total assets and the number of these funds continues to grow. Our staff works closely with donors to ensure that assets within each fund are invested in a manner consistent with the donor's goals. Donors benefit from expert investment management, oversight of regulatory compliance and due diligence for the charities they support locally, nationally and internationally.

Endowment and field of interest funds comprise approximately 9% of total assets. Although this is a small percentage, these funds provide a critical source of funding for our region. They provide a flexible source of revenue to support our grantmaking strategies and in 2009 enabled the community foundation to award \$9.8 million in grants to local nonprofit groups.

The community foundation is also home to 14 supporting organizations, which make up about 33% of total assets. Like advised funds, these organizations receive the maximum tax benefits for their donors, but maintain their own tax status and board of directors. The community foundation appoints the majority of board members, manages the assets, oversees regulatory compliance, handles all gift and grant activity, and prepares all tax filings.

In addition to grants, the community foundation supports the local nonprofit and private foundation community by offering investment management services. Currently, 78 nonprofit organizations invest in our various pools and rely on the financial expertise of our staff, consultant and investment committee. These organizations are able to take advantage of the community foundation's professional oversight, access to high quality investment managers, and broad diversification not available to most small endowments - all at a reasonable cost. The community foundation also manages 150 funds that donors have



designated to support specific nonprofit organizations. The community foundation ensures that these organizations continue to operate in good standing and that donor intent is realized through annual grants.

In 2009, the community foundation's 45 scholarship programs had assets of \$10.4 million and awarded 304 scholarships totaling approximately \$722,000. With all the cutbacks in state and federal budgets for education, these grants are especially important to the education of our youth. We are grateful to the dozens of volunteers who helped review applications and interview students.

Finally the community foundation is trustee and remainder beneficiary of 51 charitable remainder trusts with assets of \$46.2 million, approximately 3% of total assets. These trusts provide incomes to individuals during their lifetimes or for a term of years, with the remainder providing charitable support to our community endowment funds and other charities based on the donors' interests.

Financial Statements



a note from **Richard Wilkolaski**
Audit Committee Chair

Each year brings a new set of changes in accounting practices and regulatory oversight. Our third year as a community foundation was no exception with California's enactment of the Uniform Prudent Management of Institutional Funds Act. UPMIFA provides uniform rules for the investment and expenditures of endowment funds held by charitable institutions.

After staff reviewed more than 800 funds to confirm donor intent, the Board of Directors adopted new spending policies based on growth expectations and preservation of assets for those funds subject to UPMIFA. The reclassification of net assets that resulted from UPMIFA implementation is shown in the Consolidated Statement of Activities.

We are pleased by the results of this year's financial audit, conducted by Moss Adams LLP. The consolidated financial statements show that our internal controls and commitment to rigorous oversight continue to build the community foundation's strong financial position. The information on these pages has been derived from the audited statements and should be read in conjunction with those documents. The complete audited financial statements and accompanying notes are available at www.siliconvalleycf.org.

Consolidated Statement of Financial Position, December 31, 2009 and 2008 (in thousands)

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash and cash equivalents	\$ 14,152	\$ 12,783
Investments	1,682,696	1,401,578
Contributions and grants receivable	8,559	5,403
Notes and other receivables, net	3,426	4,935
Contributions receivable from charitable trusts	6,880	5,454
Property and equipment, net	32,789	33,250
Other assets	607	851
Total assets	<u>\$ 1,749,109</u>	<u>\$ 1,464,254</u>
LIABILITIES		
Grants payable	\$ 139,850	\$ 45,253
Accounts payable and accrued liabilities	2,802	1,628
Liabilities to beneficiaries from split interest agreements	38,576	41,134
Deposits held for others	65,707	55,165
Total liabilities	<u>\$ 246,935</u>	<u>\$ 143,180</u>
NET ASSETS		
Unrestricted	1,364,763	1,283,624
Temporarily restricted	43,906	10,524
Permanently restricted	93,505	26,926
Total Net Assets	<u>1,502,174</u>	<u>1,321,074</u>
TOTAL LIABILITIES AND NET ASSETS	<u>1,749,109</u>	<u>1,464,254</u>

Consolidated Statement of Activities, December 31, 2009 and 2008 (in thousands)

	2009			2008	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES AND SUPPORT					
Contributions	\$ 224,286	\$ 6,040	\$ 7,265	\$ 237,591	\$ 190,993
Less supporting organization acquisition	(96,919)	-	-	(96,919)	-
Contributions, net	127,367	6,040	7,265	140,672	190,993
Investment income, net of investment fees of \$7,230 and \$7,480, respectively	16,198	-	-	16,198	25,213
Net Realized gains (losses) on investments	(69,563)	-	-	(69,563)	243
Change in value of split interest agreements	-	1,477	2,296	3,773	(6,698)
Other income	4,505	-	-	4,505	4,531
Net assets released from restrictions	10,404	(6,389)	(4,015)	-	-
	88,911	1,128	5,546	95,585	214,282
Unrealized gains (losses) on investments, net	264,708	-	-	264,708	(402,175)
TOTAL REVENUES AND SUPPORT	353,619	1,128	5,546	360,293	(187,893)
EXPENSES					
Grants awarded	248,852	-	-	248,852	291,097
Less supporting organization acquisition	(96,919)	-	-	(96,919)	-
Grants awarded, net	151,933	-	-	151,933	291,097
Operating expenses					
Program	17,477	-	-	17,477	18,144
General and administrative	7,523	-	-	7,523	8,930
Development	2,260	-	-	2,260	2,443
TOTAL EXPENSES	179,193	-	-	179,193	320,614
CHANGE IN NET ASSETS BEFORE UPMIFA RECLASSIFICATION	174,426	1,128	5,546	181,100	(508,507)
UPMIFA reclassification of net assets	(77,016)	32,254	44,762	-	-
CHANGE IN NET ASSETS	97,410	33,382	50,308	181,100	(508,507)
NET ASSETS, beginning of year, as reported	1,283,624	10,524	26,926	1,321,074	1,829,581
Reclassification of net assets	(16,271)	-	16,271	-	-
NET ASSETS, beginning of year, as restated	1,267,353	10,524	43,197	1,321,074	1,829,581
NET ASSETS, end of year	\$ 1,364,763	\$ 43,906	\$ 93,505	\$ 1,502,174	\$ 1,321,074

Investment Stewardship

The investment committee ensures financial stewardship of assets necessary to address the community's most challenging issues today and well into the future.



a note from **Erika Williams**
Investment Committee Chair

Capital markets during the last few years have been highly volatile, delivering one of the harshest investment climates many have ever witnessed. Despite this, our investment managers performed well and were able to capitalize on the opportunities that have occurred during the market turmoil. As a result, the community foundation's investments remain well positioned for continued outperformance compared to peer and market benchmarks.

The investment strategy implemented three years ago is achieving results. We attribute this success to staying the course when it was tempting to shift toward lower risk assets, to

judicious exposure to illiquid assets and to remaining focused on the core principles of our investment philosophy, which is summarized on the following page.

All of the community foundation's investment pools matched or outperformed their benchmarks, after fees, for the one- and three-year periods ending 2009 and the first half of 2010. Broad diversification helped dampen losses in our longer-term portfolios through allocations to fixed income and hedge funds while diligent rebalancing allowed equity managers to take advantage of market declines and acquire solid investments at inexpensive prices.

The endowment produced a very strong return of 28.1% for 2009, outperforming its benchmark by 3.6% and the median return of all community foundations by 4.6%. Investment performance of portfolios designed for donor funds and charitable remainder trusts also performed well against benchmarks as evident in the table below.

Investment Performance	Assets (millions)	Year ended	6 mos ended	Year ended	3 years ended	Expense Ratio	
Investment Pools		12/31/2009	12/31/2009	6/30/2010	6/30/2010	6/30/2010	
Community Endowment <i>80% S&P 500 / 20% Barclays Aggregate</i>	\$128.0	28.1%	24.5%	-3.0%	13.4%	-3.7%	0.83%
				-4.2%	13.7%	-8.1%	
Long-Term Growth Pool <i>75% S&P 500 / 25% Barclays Aggregate</i>	\$440.9	22.2%	21.4%	-2.3%	12.0%	-3.4%	0.85%
				-3.6%	13.5%	-5.1%	
Social Impact Pool <i>70% S&P 500 / 30% Barclays Aggregate</i>	\$32.7	30.2%	20.4%	-4.6%	13.3%	-2.8%	0.81%
				-3.0%	13.3%	-4.2%	
Balanced Pool <i>50% S&P 500 / 50% Barclays Aggregate</i>	\$82.1	25.4%	16.3%	-0.9%	13.3%	1.1%	0.68%
				-0.6%	12.3%	-0.5%	
Short-Term Pool <i>Barclays Capital 1-3 Year Govt/Credit</i>	\$56.9	5.9%	3.8%	3.9%	8.0%	6.6%	0.23%
				1.9%	3.8%	5.1%	
Capital Preservation Pool <i>U.S. T-Bills</i>	\$199.2	0.8%	0.3%	0.2%	0.5%	2.1%	0.25%
				0.1%	0.3%	1.8%	
Charitable Remainder Trusts							
Growth Strategy <i>Multi-Asset Benchmark</i>	\$30.8	24.6%	24.0%	-3.1%	15.4%	-4.6%	0.52%
				-2.9%	15.7%	-5.0%	

Our Investment Philosophy

Diversification, asset allocation, manager selection and discipline are the keys to strong performance.

Our goal is to construct a strategic asset allocation that is expected to achieve return objectives and maximize return given a prudent level of risk.

We conduct rigorous initial and ongoing due diligence of investment managers, only hiring best in class, reasonably priced, institutional managers.

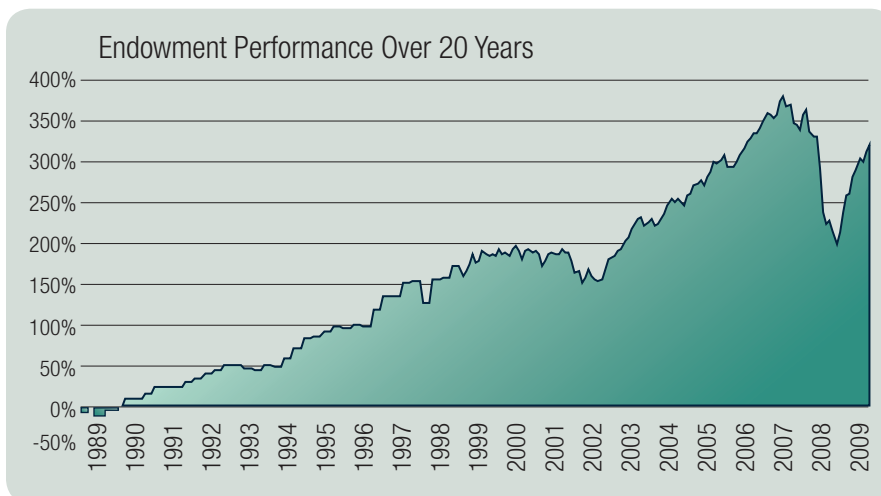
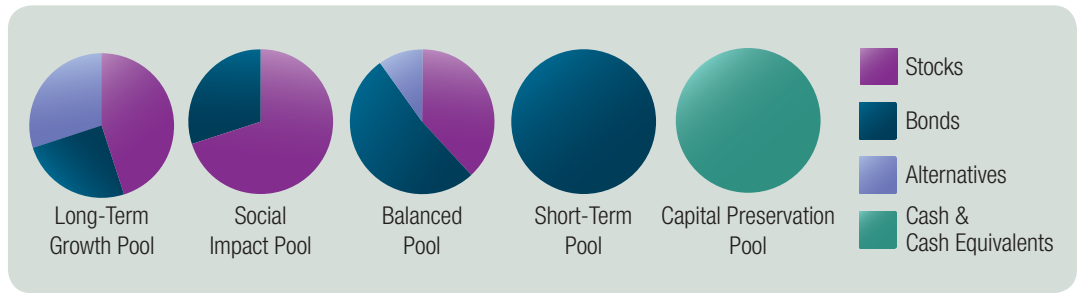
We diversify portfolios by asset class and investment strategy to maximize the likelihood of achieving return objectives under a variety of economic and market conditions.

We avoid the temptation to change strategy based on short-term market behavior or near-term outlook, and regularly rebalance back to target allocations.

Investment Pools for Advised Funds

The community foundation offers a variety of investment options to meet a range of philanthropic goals and time horizons. Each pool is diversified across various asset classes and strategies to achieve return objectives while minimizing volatility to the degree possible. Donors establishing advised funds may allocate across the pools.

Regular monthly rebalancing to a fund's target allocation helps minimize volatility and capitalize on market fluctuations.



Endowment Pool

This chart illustrates investment performance of the endowment pool over 20 years. We invest and manage the endowment for long-term growth through allocations to public and private equities, and for stability during periods of market volatility through allocations to fixed income securities and absolute return strategies. The endowment pool has a strategic target allocation of 47% equity, 20% fixed income and 33% alternative investments. The pool has averaged a return of 7.3% annually, net of expenses.

Gifts from donor funds, bequests, charitable remainder trusts, life estates and outright gifts to the endowment provide an important source of permanent charitable capital that helps meet the needs of our community today and for years to come. In effect, endowment funds are savings accounts that protect and serve the needs of our region. An endowment gift of \$100,000 made 20 years ago with an annual spending policy of 5% would have distributed a total of \$148,000 in grants to support critical community needs while the principal appreciated to \$163,000 in value.

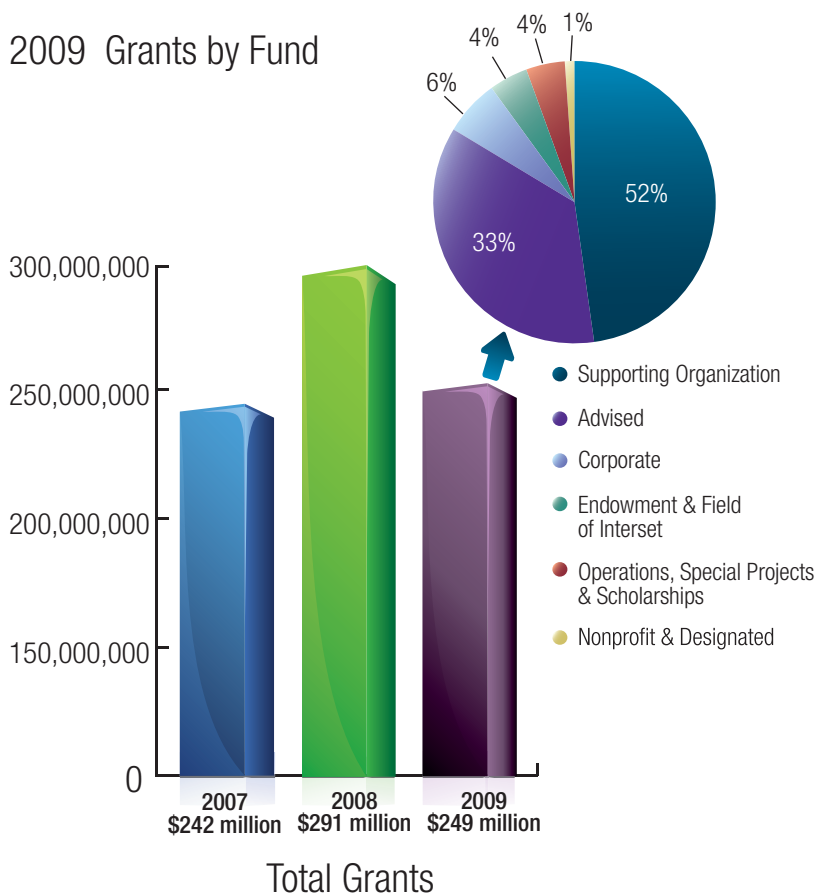
Grants

How were grants funded?

Grants from the community foundation come from a variety of fund types. The volatility in the stock market in 2009 took a toll on grants. Overall, the community foundation awarded 9,293 grants, a 15% decrease from the prior year in all areas except our endowment grantmaking.

The community foundation awarded nearly \$250 million in grants. Of that, \$82 million was provided through donor advised grants, compared to \$169 million in 2008. Corporate advised grants also decreased, from \$41 million in 2008 to \$16 million in 2009. The community foundation's endowment grantmaking to its five strategies, however, remained steady at more than \$8 million. In addition, we are extremely grateful to our individual and corporate advisors who responded to our requests for support and supplemented grants from our endowment and field of interest funds with \$2.9 million. Supporting organizations' grants totaled about \$130 million, an increase largely due to the acquisition of one supporting organization.

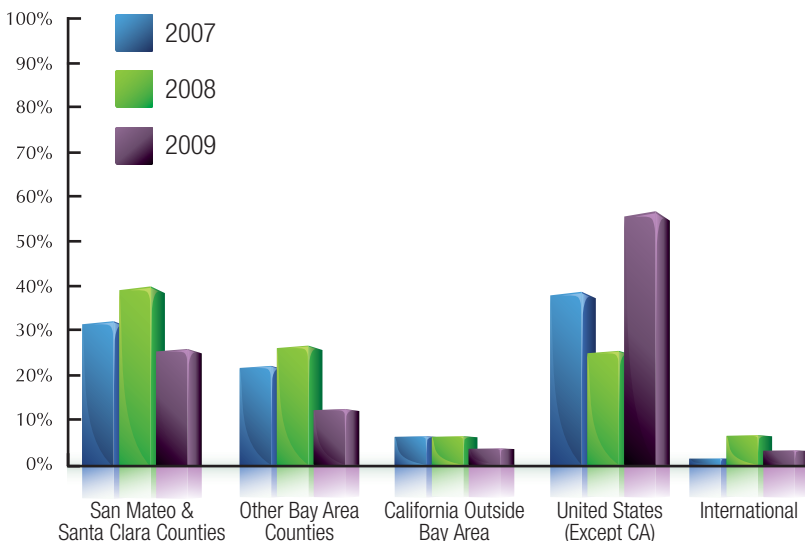
2009 Grants by Fund



Where did our grants go?

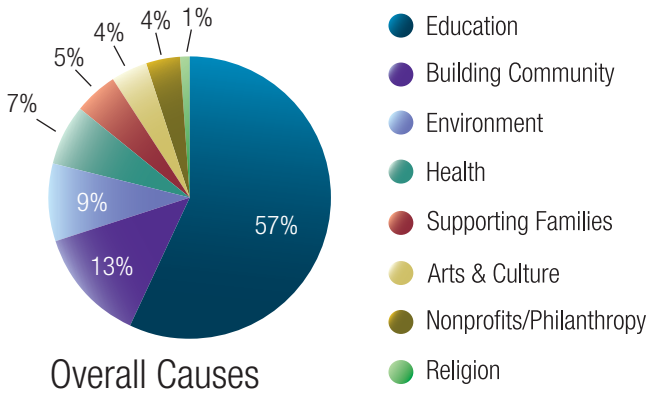
In 2009, 26% of our grants, or \$64 million, went to organizations located in San Mateo and Santa Clara counties. Another \$33 million supported organizations in the larger Bay Area, many of which provide services to individuals in our region. Overall, the decrease in total grants from 2008 to 2009 related to the recession was consistent in all geographic regions, with the exception of grants awarded outside of California. The increase in that category was due to commitments made by a supporting organization we acquired in 2009.

The community foundation continues to have one of the largest international grantmaking programs among community foundations in the United States. Last year, we funded organizations in 20 countries, helping to improve the quality of life in regions as distant as India, Pakistan and China and as close to home as Mexico.



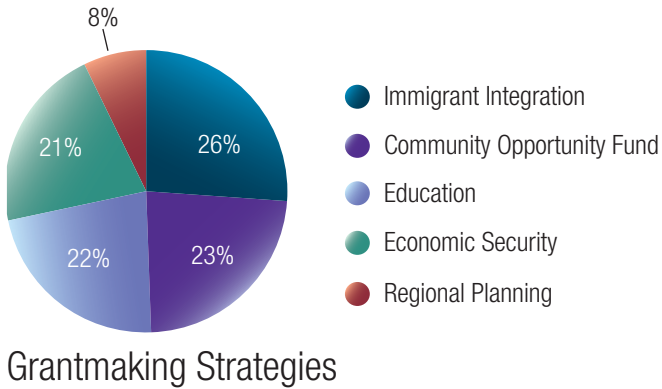
2009 Total Grants: \$249 million

Grants and Gifts



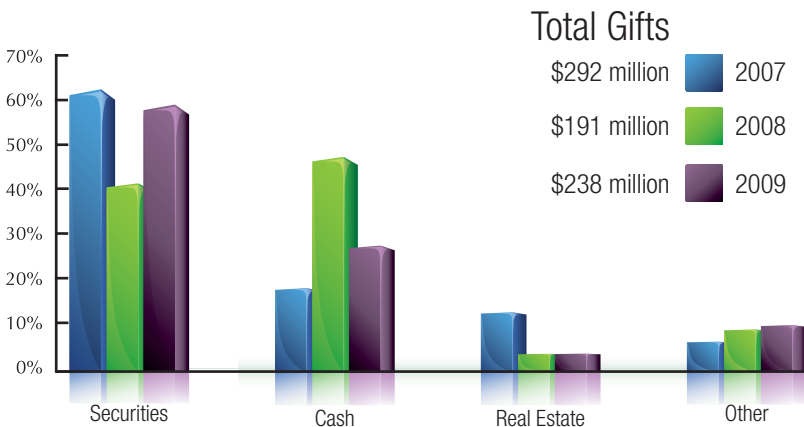
What causes did grants support?

The chart on the left represents causes supported by grants from the community foundation, a majority of which are identified and recommended by our individual and corporate donors. Education received the most support at approximately \$138 million. The next largest area of support, at approximately \$32 million, was building community, which includes organizations that work broadly to improve quality of life. Environmental causes were the third most supported at approximately \$22 million.



In 2008, the community foundation identified five grantmaking strategies, which are supported by our endowment and field of interest funds. As the chart shows, in 2009 four of those strategies received relatively equal amounts of funding - slightly more than \$2 million as allocated under the foundation's spending policy. Regional planning grants were a smaller percentage because the community foundation was just beginning its investments in this area.

What types of gifts were received?



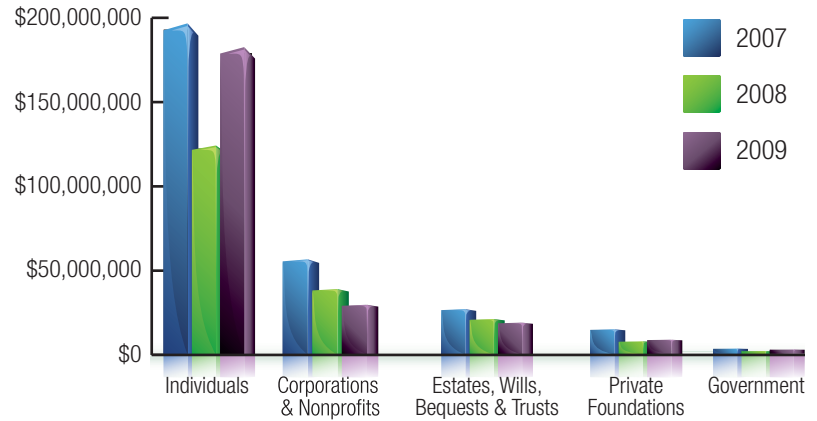
Typically, the community foundation receives the majority of its gifts in the form of appreciated securities. The recession took a serious toll on gifts of securities in 2008 but the community foundation experienced a corresponding increase in cash gifts. With improvements in the market in late 2009, we are pleased to report that gifts of securities have returned to a more traditional level. We received \$138 million in gifts from securities in 2009, compared to \$76 million in 2008.

The real estate market continues to be challenging, which is reflected in the consistency at 4% of gifts to the Real Estate Trust over the past two years. The Trust provides expertise in managing contributions and sales of property and received just over \$9.5 million in real estate in 2009.

What were the sources of those gifts?

Individuals, families and corporations continue to be the major contributors to the growth of the community foundation's assets under management. Estates and bequests are a primary source of funding for our endowment, which directly benefits our region and supports our discretionary grantmaking. Over the past three years, individual and family contributions have ranged from 64% to 75% of total contributions and rebounded in 2009 from the lows of the previous year. Corporate and nonprofit contributions decreased to approximately \$29 million in 2009 and represented about 12% of total contributions.

Private foundations also contribute to the community foundation and partner with us in many projects across our region. Those contributions are highlighted below in the work of our community leadership department.



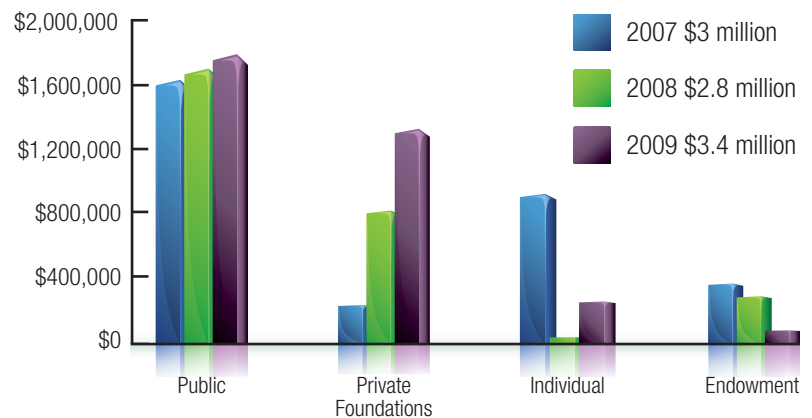
2009 Total Gifts: \$238 million

How do we support other community leadership work?

In addition to its grantmaking, the community foundation plays a variety of community leadership roles, by convening, connecting, informing, influencing and leading the search for solutions to today's most challenging problems. Initiatives are a powerful example of our community leadership work.

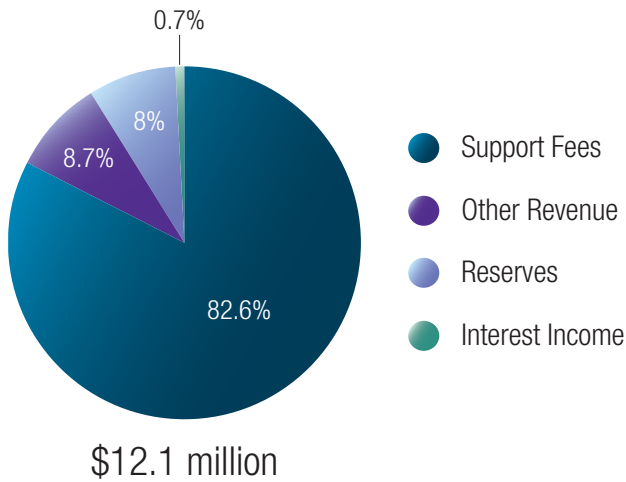
We currently manage several initiatives that span critical issues such as early learning and education to youth development and the environment. Initiatives focus on bold ideas, long-term plans for social change, investments of cash and expertise, and collaboration. We take pride in working with public and private partners to multiply our resources and impact.

Since 2007, the community foundation has raised more than \$9 million for its initiatives, including \$600,000 from endowment funds, \$1.2 million from donor advised funds (individuals), \$2.2 million from private foundations and \$5 million from local government.



Sources of Funding for Initiatives

Operations

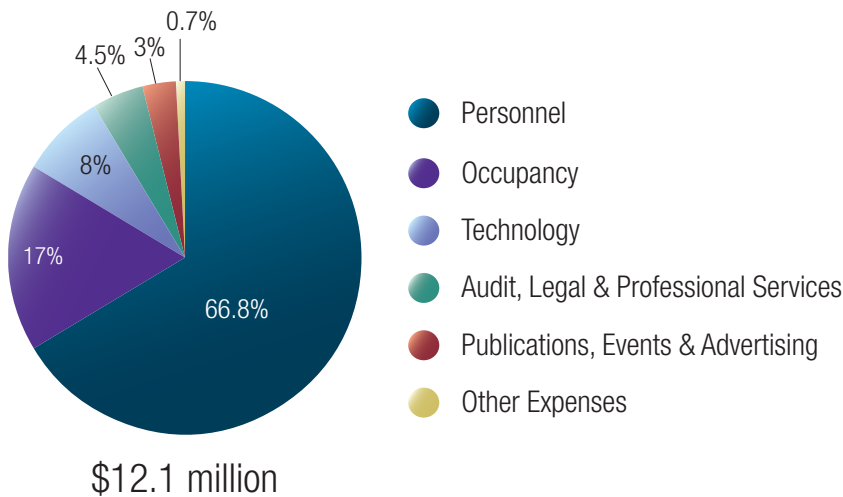


Operations - Revenue:

The community foundation supports its operations primarily through fees charged to assets under management. Because our fees are tied to market balances, we experienced the same painful cutbacks in 2009 as many other organizations. We reduced our operating budget 18% to \$12.1 million and made the difficult decision to reduce our workforce.

Nearly 83% of our budget in 2009 was funded by fees on assets under management. Additional revenue was generated by contributions, fees for service and interest income. The board of directors authorized the use of a portion of carefully accumulated operating reserves to fund our remaining operating expenses.

On average, our operating budget for 2009 represents approximately 75 basis points (0.75%) of total assets. This ratio is among the lowest of all community foundations across the nation.

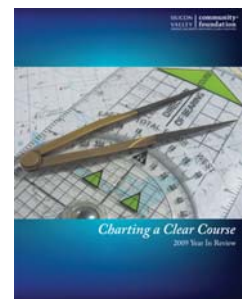


Operations - Expenses:

As a service organization, the majority of our expenses, 66.8%, are related to personnel. Of that, 41.4% directly supports our programmatic work, 16% supports finance, investments and administration staff, and 9.4% supports our development work.

Our next largest expense, 17%, is occupancy costs. A portion of this cost allows us to provide free meeting space to nonprofit organizations throughout our region at our main office in Mountain View and our conference facility in San Mateo. Eight percent of expenses was for technology that supports our data and phone systems, websites and online services for donors.

For more information about our work in the community, please see our year in review report, published every February and available online at: www.siliconvalleycf.org



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To read more about Silicon Valley Community Foundation
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