



Report of Independent Auditors and  
Consolidated Financial Statements

**Silicon Valley Community  
Foundation**

December 31, 2012

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## REPORT OF INDEPENDENT AUDITORS

To the Audit Committee of  
Silicon Valley Community Foundation

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Silicon Valley Community Foundation (a California public benefit corporation) and its affiliated and supporting organizations, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Silicon Valley Community Foundation and its affiliated and supporting organizations as of December 31 2012, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Silicon Valley Community Foundation and supporting organization's 2011 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated May 31, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Moss Adams LLP*

San Francisco, California  
June 6, 2013

**CONSOLIDATED FINANCIAL STATEMENTS**

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**SILICON VALLEY COMMUNITY FOUNDATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2012 and 2011**  
**(in thousands)**

|   | <u>2012</u>         | <u>2011</u>         |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| <b>ASSETS</b>   |                     |                     |
| Cash and cash equivalents                                   | \$ 51,999           | \$ 21,049           |
| Investments   | 2,798,917           | 2,012,608           |
| Contributions and grants receivable                         | 7,773               | 6,903               |
| Notes and other receivables, net                            | 3,950               | 2,321               |
| Beneficial interest in charitable remainder trusts          | 4,344               | 5,205               |
| Property and equipment, net                                 | 33,805              | 33,674              |
| Other assets  | 2,378               | 160                 |
| Total assets  | <u>\$ 2,903,166</u> | <u>\$ 2,081,920</u> |
| <b>LIABILITIES AND NET ASSETS</b>                           |                     |                     |
| <b>LIABILITIES</b>  |                     |                     |
| Grants payable  | \$ 110,940          | \$ 97,625           |
| Accounts payable and accrued liabilities                    | 3,892               | 2,104               |
| Liabilities to beneficiaries from split interest agreements | 34,046              | 32,034              |
| Deposits held for others                                    | 93,105              | 84,200              |
| Total liabilities   | <u>241,983</u>      | <u>215,963</u>      |
| <b>NET ASSETS</b>   |                     |                     |
| Unrestricted  | 2,517,947           | 1,730,303           |
| Temporarily restricted                                      | 50,731              | 44,032              |
| Permanently restricted                                      | 92,505              | 91,622              |
| Total net assets  | <u>2,661,183</u>    | <u>1,865,957</u>    |
| Total liabilities and net assets                            | <u>\$ 2,903,166</u> | <u>\$ 2,081,920</u> |

*See accompanying notes.*

**SILICON VALLEY COMMUNITY FOUNDATION**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**Year Ended December 31, 2012**  
**(with comparative totals for the year ended December 31, 2011)**  
**(in thousands)**

|   | 2012                |                           |                           | 2011                |                     |
|---|---------------------|---------------------------|---------------------------|---------------------|---------------------|
|   | Unrestricted        | Temporarily<br>Restricted | Permanently<br>Restricted | Total               | Total               |
| <b>REVENUES AND SUPPORT</b>   |                     |                           |                           |                     |                     |
| Contributions   | \$ 988,200          | \$ 4,289                  | \$ 49                     | \$ 992,538          | \$ 471,751          |
| Investment income, net of investment<br>fees of \$7,684 and \$9,246, in 2012 and 2011, respectively | 18,735              | -                         | -                         | 18,735              | 18,727              |
| Net realized gain on investments  | 35,977              | -                         | -                         | 35,977              | 51,619              |
| Change in value of split interest agreements  | -                   | (216)                     | 612                       | 396                 | 94                  |
| Other income  | 4,982               | -                         | -                         | 4,982               | 3,812               |
| Net assets released from restrictions   | 1,901               | (2,123)                   | 222                       | -                   | -                   |
|   | 1,049,795           | 1,950                     | 883                       | 1,052,628           | 546,003             |
| Unrealized gains (losses) on investments, net   | 66,087              | 4,749                     | -                         | 70,836              | (8,708)             |
| <b>TOTAL REVENUES AND SUPPORT</b>   | <b>1,115,882</b>    | <b>6,699</b>              | <b>883</b>                | <b>1,123,464</b>    | <b>537,295</b>      |
| <b>EXPENSES</b>   |                     |                           |                           |                     |                     |
| Grants awarded  | 293,996             | -                         | -                         | 293,996             | 238,199             |
| Operating expenses  |                     |                           |                           |                     |                     |
| Program   | 22,809              | -                         | -                         | 22,809              | 20,134              |
| General and administrative  | 8,347               | -                         | -                         | 8,347               | 8,153               |
| Development   | 3,086               | -                         | -                         | 3,086               | 2,714               |
| <b>TOTAL EXPENSES</b>   | <b>328,238</b>      | <b>-</b>                  | <b>-</b>                  | <b>328,238</b>      | <b>269,200</b>      |
| <b>CHANGE IN NET ASSETS</b>   | <b>787,644</b>      | <b>6,699</b>              | <b>883</b>                | <b>795,226</b>      | <b>268,095</b>      |
| <b>NET ASSETS, beginning of year</b>  | <b>1,730,303</b>    | <b>44,032</b>             | <b>91,622</b>             | <b>1,865,957</b>    | <b>1,597,862</b>    |
| <b>NET ASSETS, end of year</b>  | <b>\$ 2,517,947</b> | <b>\$ 50,731</b>          | <b>\$ 92,505</b>          | <b>\$ 2,661,183</b> | <b>\$ 1,865,957</b> |

See accompanying notes.

**SILICON VALLEY COMMUNITY FOUNDATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2012 and 2011**  
**(in thousands)**

|   | <u>2012</u>      | <u>2011</u>      |
|---|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                  |                  |
| Change in net assets  | \$ 795,226       | \$ 268,095       |
| Adjustments to reconcile change in net assets to cash flows used by operating activities: |                  |                  |
| Depreciation and amortization   | 2,079            | 1,899            |
| Noncash contributions   | (502,087)        | (241,354)        |
| Contributions received for long-term purposes   | (49)             | (165)            |
| Net realized and unrealized (gains) from changes in fair value of investments             | (106,813)        | (42,911)         |
| Changes in assets and liabilities   |                  |                  |
| Contributions and grants receivable   | (870)            | 3,433            |
| Other receivables   | (64)             | 198              |
| Fair value of charitable remainder trusts and related accounts                            | 2,872            | (2,820)          |
| Other assets  | (2,217)          | 312              |
| Grants payable  | 13,315           | (10,873)         |
| Accounts payable and accrued expenses   | 1,787            | (9,049)          |
| Cash flows (used by) operating activities   | <u>203,179</u>   | <u>(33,235)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                  |                  |
| Proceeds from sales of investments  | 1,103,762        | 801,257          |
| Purchases of investments  | (1,281,171)      | (759,672)        |
| Payments received on notes receivable   | (1,565)          | 88               |
| Purchases of fixed assets   | (2,209)          | (3,089)          |
| Deposits held for others  | 8,905            | 6,885            |
| Cash flows provided by investing activities   | <u>(172,278)</u> | <u>45,469</u>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                  |                  |
| Contributions received for long-term purposes   | 49               | 165              |
| <b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>   | 30,950           | 12,399           |
| <b>CASH AND CASH EQUIVALENTS, beginning of year</b>                                       | <u>21,049</u>    | <u>8,650</u>     |
| <b>CASH AND CASH EQUIVALENTS, end of year</b>   | <u>\$ 51,999</u> | <u>\$ 21,049</u> |

*See accompanying notes.*



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

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**NOTE 1 – DESCRIPTION OF THE FOUNDATION**

Silicon Valley Community Foundation (“community foundation”) is a publicly supported, nonprofit public benefit corporation, which received its IRS exemption in November 2006 and officially launched in January 2007. The community foundation advances innovative philanthropic solutions to challenging problems. As Silicon Valley’s center of philanthropy, we provide individuals, families, and corporations with simple and effective ways to give locally and around the world. With more than \$2.9 billion in total assets and over 1,600 funds, the community foundation (inclusive of its supporting organizations and its affiliates) is one of the largest community foundations in the nation.

**Mission:**

Silicon Valley Community Foundation is a comprehensive center of philanthropy. Through visionary leadership, strategic grantmaking and world class experience, we partner with donors to strengthen the common good locally and throughout the world.

**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. Collectively, these funds granted approximately \$176,000,000 and \$154,000,000 to charitable organizations during the years ended December 31, 2012 and 2011, respectively.

**Corporate advised** – The community foundation manages one of the largest corporate advised fund programs among all U.S. based community foundations. The community foundation assists in the grantmaking process, works with employee contribution committees, builds community-wide partnerships, and works together on community relations activities. These funds made grants of approximately \$26,000,000 and \$27,000,000 during the years ended December 31, 2012 and 2011, respectively.

**Community endowment and field of interest funds** – Through the Community Endowment Fund or named endowment funds, donors can contribute funds to address community needs. These funds are a permanent charitable resource. They grow through community support and provide 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, and human services) and/or geographic area or target population (e.g., senior citizens, children and youth, and immigrants).

Together, the community endowment and field of interest funds granted approximately \$8,500,000 and \$8,700,000 to charities in San Mateo and Santa Clara Counties during the years ended December 31, 2012 and 2011, respectively.

**Scholarship funds** – The community foundation administers 45 scholarship programs. The majority are designated for current or former residents of San Mateo and Santa Clara counties. During the years ended December 31, 2012 and 2011, the community foundation awarded 299 and 283 scholarships totaling approximately \$918,000 and \$689,000, respectively.

**Supporting organizations** – The community foundation works with a number of supporting organizations. The community foundation appoints a majority of the members of the governing boards of the supporting organizations. Each governing board may create its own investment policy and grant guidelines. In 2012, the following supporting organizations were effectively under the community foundation’s control and were consolidated for financial statement purposes:

|  |                            |
|--|----------------------------|
| William H. Calker Foundation           | Driscoll Family Foundation |
| Dirk and Charlene Kabcenell Foundation | The Real Estate Trust      |
| The Chong-Moon Lee Foundation          | Sobrato Foundation         |
| Bernard A. Newcomb Foundation          | Reddere Foundation         |
| Raising A Reader                       | The Skoll Fund             |
| Peter and Nora Stent Family Foundation | The Star Hill Fund         |
| Startup: Education                     | Good Ventures              |

During 2012, one supporting organization was closed. In addition, during 2012, the community foundation signed an affiliation agreement with Entrepreneurs’ Foundation, now known as Entrepreneurs’ Foundation of SVCF. Effective June 30, 2012, SVCF obtained control of the board of directors and therefore the operations are included in the consolidated financial statements.

## SILICON VALLEY COMMUNITY FOUNDATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Principles of consolidation** – The accompanying consolidated financial statements as of December 31, 2012 and 2011 include the financial statements of the community foundation and its supporting organizations and affiliates, listed in Note 1 above. Inter-organizational transactions and balances have been eliminated in the consolidation.

**Prior year information** – The consolidated 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 and its supporting organizations and affiliates' consolidated financial statements for the year ended December 31, 2011, from which the summarized information was derived.

**Cash and cash equivalents** – For consolidated financial statement purposes, the community foundation and its supporting organizations and affiliates consider 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** – Net assets are classified based on existence or absence of donor-imposed restrictions as follows:

*Unrestricted* is defined as that portion of net assets that have no use or time restrictions. The bylaws of the community foundation include a variance provision giving the Board of Directors (the "Board") 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 (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 that provision, the community foundation classifies contributions, except as noted below, as unrestricted for financial statement presentation.

*Temporarily restricted* is defined as that portion of net assets that consist of a restriction on the 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 are discounted at a rate commensurate with the risks involved. The accumulation of assets, above historic gift value, in donor restricted endowment funds is classified as temporarily restricted until appropriated for use based on the community foundation's spending policy. The community foundation also 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* is defined as that portion of net assets consisting of the initial fair value of the gifts where the donor has specified that the assets donated are to be retained in an endowment, providing a permanent source of revenue for charitable purposes. The community foundation also records contributions to charitable trusts as permanently restricted where the donor has permanently restricted the corpus of the trust.

**Investments** – Investments are stated at fair value.

#### **Endowment funds:**

*Interpretation of relevant law* – The Board of the community foundation, with the advice of legal counsel, has determined it holds assets which meet the definition of endowment funds under the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). As a result of this interpretation, the corpus of funds subject to UPMIFA is classified as permanently restricted. The corpus represents the fair value of the original gifts as of the gift date, and all subsequent gifts where the donor has indicated the gift be retained permanently. The value of assets in excess of original gifts in donor restricted endowment funds are classified as temporarily restricted net assets until appropriated for expenditure by the community foundation.

From time to time, the fair value of the assets associated with individual donor restricted endowment funds may fall below the level classified as permanently restricted net assets. At December 31, 2012 and 2011, the community foundation had 27 endowment funds with deficiencies of this nature totaling approximately \$2,152,000 and 46 endowment funds with deficiencies of this nature totaling approximately \$ 3,509,000, respectively. These deficiencies are reflected in unrestricted net assets.

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

In accordance with UPMIFA, the community foundation considers the following factors in making a determination as to the appropriation of assets for expenditure: 1) the duration and preservation of the fund, 2) the purposes of the organization and the donor-restricted endowment fund, 3) general economic conditions, 4) the possible effect of inflation and deflation, 5) the expected total return from income and the appreciation of investments, 6) other resources of the organization, and 7) the investment policies of the community foundation.

*Investment and spending policies* – The community foundation has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding for programs supported by its endowment while seeking to maintain the purchasing power of the endowed assets. The investment and spending policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

To accomplish the long-term rate of return objectives, the community foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The community foundation targets a diversified asset allocation with an emphasis on equity based investments, within prudent risk parameters.

The spending policy determines the amount of money to be distributed annually from the community foundation’s various endowed funds for grantmaking and operational support. The Board generally approves the spending policy in the fourth quarter of the year for grants to be made in the following year. The community foundation assesses a support fee to endowed funds which is added to the spending rate for grants and is a component of the total spending policy. The spending policy for support fees ranges from .5% to 3.5% of the average daily balance of the fund over the previous month, and varies by fund type. The spending policy for grants varies by fund type and whether the balance of the fund is above or below historic gift value. For funds with balances above historic gift value the spending policy for grants is 4.5% or 5.0% of the fund balance averaged over 12 trailing quarters. In 2009, the community foundation adopted a sliding scale spending policy to address underwater funds, defined as those funds with balances below historic gift value. The table below illustrates the reduction in spending policy for grants for funds with balances that are under historic gift value at December 31, 2012 and 2011:

**Spending Policy for Underwater Funds**

| Amount Underwater      | Reduction in Spending | Spending Rate for funds with 2% support fee | Spending rate for funds with .5% support fee |
|------------------------|-----------------------|---|--|
| Less than 8%           | None                  | 4.50%                                       | 5.00%  |
| Over 8% less than 16%  | 1/3                   | 3.00%                                       | 3.33%  |
| Over 16% less than 30% | 2/3                   | 1.50%                                       | 1.67%  |
| Over 30%               | Full                  | 0.00%                                       | 0.00%  |

The spending policy is consistent with the community foundation’s objective to maintain purchasing power of endowed assets as well as to provide stable support to the community.

**Concentrations of risk** – The community foundation and its supporting organizations and affiliates recognize 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.

To address market and credit risks of investments, the community foundation and its supporting organizations and affiliates maintain formal investment policies that set out performance criteria, provide investment guidelines and require regular review of investment performance. Investments are managed by multiple investment managers, who have responsibility for investing the funds in various investment strategies. An investment consultant is also utilized. The community foundation and its supporting organizations and affiliates have custody agreements with selected banks, which process transactions at the direction of authorized staff and investment managers.

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

## SILICON VALLEY COMMUNITY FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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*Major contributions* – For the year ended December 31, 2012, the community foundation received 70% of its contributions from three donors. For the year ended December 31, 2011, the community foundation received 61% of its contributions from three donors.

*Program related investments* – In furtherance of their missions, the community foundation and its supporting organizations and affiliates may occasionally make investments in below market rate loans or investment vehicles that the Boards have determined to provide a social benefit to the community.

*Supporting organization assets* – 17% and 22% of the community foundation and its supporting organizations and affiliates' total assets at December 31, 2012 and 2011, respectively, were in one supporting organization.

*Concentrated investments* – 20% of the community foundation and its supporting organizations' total investments were in one company's publicly traded common stock at December 31, 2012.

**Notes receivable** – 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.

**Split-interest gifts** – The community foundation has an irrevocable remainder beneficiary interest in charitable remainder trusts and charitable gift annuities whose maturities are based on the life expectancies of the income beneficiaries or a specified term of years.

Trusts and annuities in which the community foundation is both trustee and remainder beneficiary are recorded at the fair value of the assets in the trusts. The corresponding liability for certain future amounts due to beneficiaries is recorded at the fair value of the annuity payments. The present value discount rate used for all trusts and annuities was 2.4% and 2.8% at December 31, 2012 and 2011, respectively.

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. The present value discount rate used for all trusts and annuities was 3.5% at December 31, 2012 and 2011.

**Property and equipment** – Acquisitions and donations of property and equipment with a fair value in excess of \$10,000 are capitalized 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.

**Deposits held for others** – The community foundation accepts funds from unrelated nonprofit organizations who desire to have the community foundation provide efficient investment management, programmatic expertise, and technical assistance. A liability is recorded at the estimated fair value of assets deposited with the community foundation by nonprofit organizations.

**Grant expense** – Grants are recognized when all significant conditions are met by grantees, 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. Grants payable represent the present value of grants to be paid in the future and have been discounted at .95%.

**Revenue recognition** – Contributions are recognized as revenue when received or unconditionally promised. Unconditional promises to give that are expected to be collected in future years are recognized at fair value based on discounted cash flows. The discount on these amounts is computed using the rate applicable in the year the promises were received. Contributions of assets other than cash are recorded at their estimated fair value. Real estate contributed is recorded at appraised value on the date of the gift and is generally made available for sale as soon as 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 original contributions.

**Allowance for doubtful accounts** – The community foundation and its supporting organizations and affiliates provides for amounts that may be uncollectible on contributions, grants and other receivables. Management estimates the amount based on a variety of factors, which include, but are not necessarily limited to: prior collection history, the ability of the debtor to pay, and historical trends. For the years ended December 31, 2012 and 2011, the allowance was approximately \$122,000 and \$8,000 respectively.

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

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**Contributions-in-kind** – 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 and its supporting organizations and affiliates would have paid for if not contributed, are recorded at their estimated fair value at the date contributed services are received. For the years ended December 31, 2012 and 2011, the community foundation and its supporting organizations and affiliates recognized approximately \$4,929,000 and \$5,539,000 respectively, in contributed services. The expenses related to these contributions were allocated 72% to program and 28% to general and administrative for 2012 and 2011.

**Functional expense allocations** – Expenses which apply to more than one functional category have been allocated between program, general and administrative, and fundraising based on the time spent on these functions by specific employees as estimated by management. Indirect expenses, such as general office supplies are allocated based on the overall number of staff in the various functional categories. Certain marketing material 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 consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Income taxes** – The community foundation and its supporting organizations and affiliates are tax-exempt organizations and are not subject to federal or state income taxes, except on unrelated business income, in accordance with Section 501(a) of the Internal Revenue Code. In addition, the community foundation and its supporting organizations and affiliates qualified for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and have been classified as organizations that are not private foundations. Unrelated business income tax, if any, is immaterial and no tax provision has been made in the accompanying consolidated financial statements.

The community foundation and its supporting organizations and affiliates do not have any material uncertain tax positions. The community foundation and its supporting organizations and affiliates file informational tax returns in the U.S. federal and California jurisdictions. The community foundation and its supporting organizations and affiliates are not subject to U.S. federal tax examinations by tax authorities for years before 2009 and 2008 for its state filings.

**Subsequent events** – Subsequent events are events or transactions that occur after the consolidated Statement of Financial Position date, but before consolidated financial statements are issued. The community foundation and its supporting organizations and affiliates recognize in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated Statement of Financial Position, including the estimates inherent in the process of preparing the consolidated financial statements. The consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated Statement of Financial Position, but arose after the consolidated Statement of Financial Position date and before the consolidated financial statements are available to be issued.

The community foundation and its supporting organizations and affiliates have evaluated subsequent events through June 6, 2013, 2013, which is the date the consolidated financial statements were available to be issued.

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

**NOTE 3 – FAIR VALUE MEASUREMENT**

The following tables present the balance of assets and liabilities carried at fair value on the Statements of Financial Position as of December 31, 2012 and 2011:

| <b>ASSETS</b>   | <b>December 31, 2012</b> |                       |                       |                         |
|---|--------------------------|-----------------------|-----------------------|-------------------------|
|   | <b>Level 1</b>           | <b>Level 2</b>        | <b>Level 3</b>        | <b>Total</b>            |
| <b>Investments</b>  |                          |                       |                       |                         |
| <b>Money funds &amp; deposits</b>                           |                          |                       |                       |                         |
| Money market funds  | \$ 181,649,572           | \$ -                  | \$ -                  | \$ 181,649,572          |
| Certificates of deposit                                     | -                        | 118,335,789           | -                     | 118,335,789             |
| <b>Global bonds</b>   |                          |                       |                       |                         |
| Govt/corporate bonds  | 279,553,713              | 79,477,164            | -                     | 359,030,877             |
| Foreign bonds   | 39,427,210               | 54,982,876            | -                     | 94,410,086              |
| High yield bonds  | 240,177                  | 35,978,865            | -                     | 36,219,042              |
| <b>Global equities</b>                                      |                          |                       |                       |                         |
| U.S. equities   | 1,164,792,411            | 23,546,948            | -                     | 1,188,339,359           |
| Foreign equities  | 55,690,989               | 47,366,524            | -                     | 103,057,513             |
| Emerging market equities                                    | 50,132,748               | 19,902,089            | -                     | 70,034,837              |
| <b>Derivatives</b>  | -                        | 535,947               | -                     | 535,947                 |
| <b>Alternative investments - redeemable:</b>                |                          |                       |                       |                         |
| Hedge funds   | -                        | 45,692,121            | 106,474,117           | 152,166,238             |
| Commodities   | 823,074                  | 51,402,156            | -                     | 52,225,230              |
| REITs   | 6,634,069                | -                     | -                     | 6,634,069               |
| <b>Alternative investments - nonredeemable:</b>             |                          |                       |                       |                         |
| Private equity  | -                        | -                     | 334,276,426           | 334,276,426             |
| Real estate   | -                        | 49,095,444            | 35,296,504            | 84,391,948              |
| Real assets   | -                        | -                     | 17,610,476            | 17,610,476              |
| <b>Total Investments</b>                                    | <b>\$ 1,778,943,963</b>  | <b>\$ 526,315,923</b> | <b>\$ 493,657,523</b> | <b>\$ 2,798,917,409</b> |
| <b>Split interest agreements</b>                            |                          |                       |                       |                         |
| Beneficial interests in charitable remainder trusts         | \$ -                     | \$ -                  | \$ 4,344,020          | \$ 4,344,020            |
| <b>LIABILITIES</b>  |                          |                       |                       |                         |
| <b>Split interest agreements</b>                            |                          |                       |                       |                         |
| Liabilities to beneficiaries from split interest agreements | \$ -                     | \$ -                  | \$ (34,045,537)       | \$ (34,045,537)         |

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

| <b>ASSETS</b>   | <b>December 31, 2011</b> |                       |                        |                         |
|---|--------------------------|-----------------------|------------------------|-------------------------|
|   | <b>Level 1</b>           | <b>Level 2</b>        | <b>Level 3</b>         | <b>Total</b>            |
| <b>Investments</b>  |                          |                       |                        |                         |
| <b>Money funds &amp; deposits</b>                           |                          |                       |                        |                         |
| Money market funds  | \$ 151,629,870           | \$ 8,450,785          | \$ -                   | \$ 160,080,655          |
| Certificates of deposit                                     | -                        | 105,636,117           |                        | 105,636,117             |
| <b>Global bonds</b>   |                          |                       |                        |                         |
| Govt/corporate bonds  | 317,534,892              | 8,860,508             | -                      | 326,395,400             |
| Foreign bonds   | 29,775,575               | 46,789,516            | -                      | 76,565,091              |
| High yield bonds  | 6,307,144                | 30,548,856            | -                      | 36,856,000              |
| <b>Global equities</b>                                      |                          |                       |                        |                         |
| U.S. equities   | 314,852,923              | 27,631,473            | -                      | 342,484,396             |
| Foreign equities  | 54,662,515               | 64,913,642            | -                      | 119,576,157             |
| Emerging market equities                                    | 42,940,420               | 5,861,199             | -                      | 48,801,619              |
| <b>Derivatives</b>  | -                        | 1,102,543             | -                      | 1,102,543               |
| <b>Alternative investments - redeemable:</b>                |                          |                       |                        |                         |
| Hedge funds   | -                        | 60,533,743            | 109,756,525            | 170,290,268             |
| Commodities   | 7,451,861                | 42,204,308            | -                      | 49,656,169              |
| REITs   | 6,416,125                | -                     | -                      | 6,416,125               |
| <b>Alternative investments - nonredeemable:</b>             |                          |                       |                        |                         |
| Private equity  | -                        | -                     | 470,214,432            | 470,214,432             |
| Real estate   | -                        | 48,345,378            | 36,025,419             | 84,370,797              |
| Real assets   | -                        | -                     | 14,162,311             | 14,162,311              |
| Total Investments   | <u>\$ 931,571,325</u>    | <u>\$ 450,878,068</u> | <u>\$ 630,158,687</u>  | <u>\$ 2,012,608,080</u> |
| <b>Split interest agreements</b>                            |                          |                       |                        |                         |
| Beneficial interests in charitable remainder trusts         | <u>\$ -</u>              | <u>\$ -</u>           | <u>\$ 5,204,964</u>    | <u>\$ 5,204,964</u>     |
| <b>LIABILITIES</b>  |                          |                       |                        |                         |
| <b>Split interest agreements</b>                            | <b>Level 1</b>           | <b>Level 2</b>        | <b>Level 3</b>         | <b>Total</b>            |
| Liabilities to beneficiaries from split interest agreements | <u>\$ -</u>              | <u>\$ -</u>           | <u>\$ (32,034,232)</u> | <u>\$ (32,034,232)</u>  |

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The community foundation and its supporting organizations and affiliates determines fair value based on the fair value hierarchy established under applicable accounting guidance which requires an entity to prioritize the use of observable market-based inputs over the use of unobservable inputs when measuring fair value. There are three levels of inputs used to measure fair value. Financial instruments are considered Level 1 when the valuation is based on quoted market prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be collaborated by observable market data for substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

**Valuation process** – Finance and investment staff determine fair value measurement policies and procedures for assets and liabilities under the supervision of the Chief Operating Officer & Chief Financial Officer. These policies and procedures are reassessed annually to determine if the current valuation techniques are still appropriate. A variety of qualitative factors are used to subjectively determine the most appropriate valuation methodologies. Methodologies are consistent with the market, income and cost approaches. Unobservable inputs used in fair value measurements are evaluated and adjusted on an annual basis, or as necessary based on current market conditions and other third party information. In determining the reasonableness of the methodology the community foundation evaluates a variety of factors including a review of existing agreements, economic conditions, industry, and market developments. Certain unobservable inputs are assessed through review of contract terms while others are substantiated utilizing available market data including but not limited to market comparables, qualified opinions, and discount rates and mortality tables for split interest agreements.

**SILICON VALLEY COMMUNITY FOUNDATION**  
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Investments include those held in individual funds established by donors, supporting organizations, charitable trusts and a variety of investment pools made available to donor funds for investment of gifted assets. Separate asset allocations are maintained for each investment pool, supporting organization and charitable trust. The asset allocation of any individual donor fund is dependent on the donor's choice of approved investment pools. Advised funds of three million or more are eligible to be invested separately from the pools, subject to approval by the community foundation's investment committee.

Alternative investments include redeemable interests in hedge funds; commingled pools and real estate investment trusts; and nonredeemable interests in real estate, real assets and private equity funds. Alternative investments may be structured as limited partnerships, limited liability companies, commingled trusts and offshore investment funds. This class of assets also includes direct investment in private companies, real estate and commodities. Of the total alternative investments, 53% and 42% were concentrated in one supporting organization as of December 31, 2012 and 2011, respectively.

Derivatives are used by one supporting organization as hedging instruments to protect against loss and to achieve desired market exposure. These include futures contracts, swaps, and exchange-listed and over-the-counter put and call options on securities or on financial indices. The change in net assets, as reported in the Statements of Activities, representing the amount of unrealized gain or loss on derivative investments held at December 31, 2012 and 2011, was \$1,668,000 and (\$3,600,000), respectively.

The following table presents investment returns for the periods ended December 31, 2012 and 2011:

|                                    | <u>2012</u>           | <u>2011</u>          |
|------------------------------------|-----------------------|----------------------|
| Investment income                  | \$ 26,419,107         | \$ 27,972,570        |
| Realized and unrealized gains, net | 106,813,322           | 42,911,168           |
| Direct investment related expenses | <u>(7,684,425)</u>    | <u>(9,245,737)</u>   |
|                                    | <u>\$ 125,548,004</u> | <u>\$ 61,638,001</u> |

**Level 1, 2 and 3 valuation techniques and inputs**

Level 1 investments include marketable securities, exchange traded funds and cash equivalents that are carried at fair value based on observable quoted market prices in active markets; and mutual funds that are valued based on the net asset value per share computed by the fund manager and validated by a sufficient level of observable activity (i.e., purchases and sales).

Level 2 investments include bank issued certificates of deposit that are fully FDIC insured and valued using maturity and interest rate as observable inputs; bonds other than U.S. Treasury securities (i.e., U.S. agency, corporate, mortgage-backed, municipal and foreign) that are valued using matrix pricing or market corroborated pricing and inputs such as yield curves and indices; investment funds (i.e., commingled funds, hedge funds and real estate funds) that are valued at net asset value based on capital statements provided by entities that calculate fair value using net asset value per share or its equivalent; physical commodities (i.e., gold) that are valued using observable quoted market prices in active markets from independent pricing providers; and derivatives (i.e., swaps and over the counter put and call options) that are valued with pricing models and inputs that utilize contractual terms including period to maturity, and readily observable parameters including interest rates, volatility, correlation levels and credit quality of the counterparty.

Level 3 investments include direct investments in real estate and private companies; investment funds that are illiquid (i.e., private equity and most real estate funds) or have restrictions on redemptions (i.e., hedge funds with lock-up periods or withdrawal limitations); and beneficial interests in non-trusted charitable remainder trusts. Valuation techniques and inputs for each are described below.

*Real estate* – Direct investment in real estate and interests in real estate partnerships (other than real estate funds) are reviewed no less than annually using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies. Methodologies are consistent with the market, income and cost approaches. Valuation inputs may include, but are not limited to the initial investment amount (cost), partnership financial statements, market comparables, qualified appraisal, discounted cash flow, and the community foundation's own assessment of value and applicable discounts. Independent appraisals of significant real estate held for investment are conducted every three to five years, depending on the nature of the investment.



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

*Private and restricted stock* – Closely-held private or restricted stock is reviewed no less than annually using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies. Valuation inputs may include, but are not limited to initial investment amount (cost), observed transaction price used in subsequent valuations, liquidation value, qualified opinion or appraisal, company financial statements, press releases and company commentary, and the community foundation’s own assessment of value and applicable discounts.

*Investment funds* – Private equity funds, real estate funds and hedge funds with redemption restrictions are valued no less than quarterly based on the net asset value reported by the fund manager as a practical expedient.

*Beneficial interests* – Inputs used for valuation of remainder interests in non-trusted charitable trusts include financial statements provided by the trustee, the life expectancy of the income beneficiaries, and an applicable discount rate determined by the community foundation. The fair value of beneficial interests is reviewed and updated annually by adjusting the current life expectancies of the income beneficiaries, applicable discount rate and market value of each trust.

**Level 3 roll-forward tables**

*Investments* – The following tables present the roll-forward of Level 3 investments carried at fair value (including the change in fair value) on the Statements of Financial Position for the years ended December 31, 2012 and 2011:

|                                   | <u>2012</u>           | <u>Hedge Funds</u>    | <u>Private Equity</u> | <u>Real Estate</u>   | <u>Real Assets</u>   |
|-----------------------------------|-----------------------|-----------------------|-----------------------|----------------------|----------------------|
| <b>Balance, January 1</b>         | \$ 630,158,687        | \$ 109,756,525        | \$ 470,214,432        | \$ 36,025,419        | \$ 14,162,311        |
| Transfers                         | (113,485,843)         | (3,970,149)           | (109,515,694)         | -                    | -                    |
| Net payments, purchases and sales | (60,227,719)          | (7,667,844)           | (52,834,539)          | (2,695,932)          | 2,970,596            |
| Investment Income                 | 2,019,349             | (2,497)               | 2,118,271             | (135,289)            | 38,864               |
| Investment Fees                   | (3,637,743)           | (739)                 | (3,029,521)           | (291,154)            | (316,329)            |
| Realized gains (losses)           | 13,361,310            | 661,329               | 11,232,563            | 1,315,422            | 151,996              |
| Unrealized gains (losses)         | 25,469,482            | 7,697,492             | 16,090,914            | 1,078,038            | 603,038              |
| <b>Balance, December 31</b>       | <u>\$ 493,657,523</u> | <u>\$ 106,474,117</u> | <u>\$ 334,276,426</u> | <u>\$ 35,296,504</u> | <u>\$ 17,610,476</u> |

|                                   | <u>2011</u>           | <u>Hedge Funds</u>    | <u>Private Equity</u> | <u>Real Estate</u>   | <u>Real Assets</u>   |
|-----------------------------------|-----------------------|-----------------------|-----------------------|----------------------|----------------------|
| <b>Balance, January 1</b>         | \$ 433,706,194        | \$ 112,260,997        | \$ 253,978,474        | \$ 44,654,516        | \$ 22,812,207        |
| Net payments, purchases and sales | 125,921,544           | (2,928,570)           | 146,506,620           | (9,821,796)          | (7,834,710)          |
| Investment Income                 | 2,443,167             | 142                   | 1,720,051             | 718,385              | 4,589                |
| Investment Fees                   | (4,827,156)           | (820)                 | (3,427,945)           | (513,300)            | (885,091)            |
| Realized gains (losses)           | 31,194,846            | 1,876,851             | 27,771,941            | (197,882)            | 1,743,936            |
| Unrealized gains (losses)         | 41,720,092            | (1,452,075)           | 43,665,291            | 1,185,496            | (1,678,620)          |
| <b>Balance, December 31</b>       | <u>\$ 630,158,687</u> | <u>\$ 109,756,525</u> | <u>\$ 470,214,432</u> | <u>\$ 36,025,419</u> | <u>\$ 14,162,311</u> |

For the year ended December 31, 2012, transfers from Level 3 to Level 1 included \$109.5 million of privately held stock due to the removal of restrictions on sale and the ability to transact in active markets at quoted prices. The community foundation and its supporting organizations and its affiliates’ policy is to recognize transfers in and transfers out of fair value hierarchy classifications at the beginning of the period in which the event or change in circumstances occurred. The change in net assets, as reported in the Statements of Activities, attributable to unrealized gains on Level 3 investments held at December 31, 2012 and 2011, was \$25,956,000 and \$41,702,000, respectively.

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*Split interest agreements* – The following tables present a roll-forward for the fair value of beneficial interests in split interest agreements (including the change in fair value) for non-trusteed charitable remainder trusts and life estates; and the fair value of liabilities to income beneficiaries of split interest agreements (including the change in fair value) for split interest agreement trustee by the community foundation (i.e., charitable remainder and annuity trusts, gift annuities, and pooled income fund), as shown on the Statements of Financial Position for the years ended December 31, 2012 and 2011.

**Beneficial interests in charitable remainder trusts**

|                                    |                            |
|------------------------------------|----------------------------|
| <b>Balance</b> , January 1, 2011   | \$ 5,760,443               |
| Other changes                      | (162,099)                  |
| Realized gains                     | -                          |
| Unrealized losses                  | <u>(393,380)</u>           |
| <b>Balance</b> , December 31, 2011 | 5,204,964                  |
| Other changes                      | -                          |
| Realized gains                     | -                          |
| Unrealized gains                   | <u>(860,944)</u>           |
| <b>Balance</b> , December 31, 2012 | <u><u>\$ 4,344,020</u></u> |

**Liabilities to beneficiaries from split interest agreements**

|  |                             |
|--|-----------------------------|
| <b>Balance</b> , January 1, 2011                                   | \$ 35,311,822               |
| New trusts during 2011   | 97,399                      |
| Trust maturities during 2011                                       | (895,109)                   |
| Change in value due to change in actuarial life expectancy         | (238,987)                   |
| Change in value in estimated fair value of underlying trust assets | <u>(2,240,893)</u>          |
| <b>Balance</b> , December 31, 2011                                 | 32,034,232                  |
| New trusts during 2012   | 269,892                     |
| Trust maturities during 2012                                       | -                           |
| Change in value due to change in actuarial life expectancy         | -                           |
| Change in value in estimated fair value of underlying trust assets | <u>1,741,413</u>            |
| <b>Balance</b> , December 31, 2012                                 | <u><u>\$ 34,045,537</u></u> |

**Investments in entities that calculate net asset value per share or its equivalent**

The following table presents the unfunded commitments, redemption frequency, and notice period for investments in entities that calculate fair value using net asset value per share or its equivalent:

**Note 3 - Investments, Redemption Characteristics**

**Investments in entities that calculate net asset value per share or its equivalent**

| <b>Investments</b>   | <b>Note</b> | <b>Fair Value</b>            | <b>Unfunded Commitments</b> | <b>Redemption Frequency</b> | <b>Redemption Notice</b> |
|----------------------|-------------|------------------------------|-----------------------------|-----------------------------|--------------------------|
| Global bond funds    | a           | 90,961,741                   | -                           | monthly                     | 10-30 days               |
| Global equity funds  | b           | 90,815,560                   | -                           | monthly to quarterly        | 5-60 days                |
| Commodity funds      | c           | 38,011,815                   | -                           | monthly monthly,            | 36 days                  |
| Hedge funds          | d           | 152,166,238                  | -                           | semiannually, illiquid      | 5-120 days               |
| Private equity funds | e           | 306,945,626                  | 52,108,352                  | illiquid                    | -                        |
| Real assets funds    | f           | 17,610,476                   | 14,519,331                  | illiquid                    | -                        |
| Real estate funds    | g           | <u>71,306,081</u>            | <u>5,366,043</u>            | illiquid                    | -                        |
| <b>Total</b>         |             | <u><u>\$ 767,817,537</u></u> | <u><u>71,993,726</u></u>    |                             |                          |

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

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(a) Global Bond Funds. This class includes investments in actively managed funds that invest in government, corporate or sovereign bonds. Investments are held within a commingled trust or limited partnership structure. All of the assets in this class may be redeemed on a monthly basis without restrictions.

(b) Global Equity Funds. This class includes investments in actively managed funds that invest in stocks and other securities issued by companies in domestic, developed and emerging markets. Investments are held within a commingled trust or limited partnership structure. Approximately 74% of the value in this class is redeemable on a monthly basis, and 26% may be redeemed on a quarterly basis subject to a maximum withdrawal of 10% of invested capital per quarter.

(c) Commodity Funds. This class includes investments in actively managed commingled trust funds that invest in commodities, commodity futures or companies involved in the extraction or production of commodity goods and related services, including but not limited to precious metals, oil and gas, agricultural products, materials, natural resources, and real estate. All of the assets in this class may be redeemed on a monthly basis without restrictions.

(d) Hedge Funds. This class includes investments in actively managed hedge funds and fund-of-funds employing a variety of strategies, including but not limited to multi-strategy, absolute return, long/short, arbitrage, event-driven, distressed debt and credit. Hedge funds have the ability to invest long and short, apply leverage, invest in derivatives, and invest in the debt or equity of public and private companies in domestic, developed and emerging markets. Hedge funds have the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. Approximately 25% of the value of this class cannot be redeemed because of restrictions on redemptions in the first 1 to 10 years after acquisition. An additional 34% of the value of this class has restrictions on the amount that can be redeemed in a given period. The remaining 41% has no restrictions on redemptions.

(e) Private Equity Funds. This class includes investments in actively managed private equity funds and fund-of-funds that invest in private and public companies through a variety of strategies including but not limited to early and late stage venture capital, leveraged buy-outs, distressed assets, special situations, and credit strategies. These investments are generally not redeemable from the fund manager. Instead, distributions are received through the liquidation of the underlying assets of the fund, typically over 10 to 12 years.

(f) Real Assets Funds. This class includes investments in actively managed private equity funds that invest primarily in private companies involved in mining, energy and infrastructure, timber, agribusiness, natural resources, and other hard assets. These investments are generally not redeemable from the fund manager. Instead, distributions are received through the liquidation of the underlying assets of the fund, typically over 5 to 10 years.

(g) Real Estate Funds. This class includes investments in actively managed private equity funds that invest in commercial properties in the U.S. and abroad including but not limited to: residential, multi-family, office, retail, hotel, industrial and other specialties. These investments are generally not redeemable from the fund manager. Instead, distributions are received through the liquidation of the underlying assets of the fund, typically over 10 to 12 years.

While the community foundation and its supporting organizations and affiliates believe their 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 consolidated financial statements.

**SILICON VALLEY COMMUNITY FOUNDATION**  
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The table below presents information about significant unobservable inputs related to material categories of Level 3 financial assets and liabilities at December 31, 2012:

|   | <u>Fair Value at December 31, 2012</u> | <u>Valuation Techniques</u>      | <u>Unobservable Inputs</u>                  | <u>Range</u>           |
|---|--|----------------------------------|---|------------------------|
| Private equity direct investment                            | \$27,330,897                           | Independent or company valuation | 409A valuation<br>Company financials        | na*                    |
| Real property and real estate limited partnership interests | \$13,079,970                           | Market comparables               | Listing prices<br>General partner estimates | na*                    |
| Beneficial Interests in Charitable Remainder Trusts         | \$4,344,020                            | Discounted cash flow             | Discount Rate<br>Life expectancies          | 2.4%,<br>4 to 66 years |
| Liabilities to beneficiaries from split interest agreements | \$34,045,537                           | Discounted cash flow             | Discount Rate<br>Life expectancies          | 2.4%,<br>4 to 66 years |

\* Not included due to the wide range of possible values given the diverse nature of the underlying investments.

*Real estate* – Direct holdings of real estate are initially recorded based on the fair value of the contributed asset, and are updated no less than annually based on market comparable sales activity or listing prices provided by listing agents or web sources when available. Interests in real estate limited partnerships are initially recorded based on fair value of the contributed asset, and are updated annually using estimated fair value inputs provided by the general partner. Limited partnership interests are further discounted for lack of marketability and control. Valuation inputs may include, but are not limited to the initial investment amount (cost), partnership financial statements, market comparables, qualified appraisal, discounted cash flow, and the community foundation’s own assessment of value and applicable discounts.

*Beneficial interests* in charitable remainder trusts and liabilities to beneficiaries for split interest agreements– The community foundation uses a discounted cash flow methodology to record the fair value of beneficial interests in non-trusted charitable remainder trusts and to determine the liability associated with split interest agreements. Fair value inputs are reviewed and updated annually by adjusting the current life expectancy of the income beneficiaries, an applicable discount rate determined by the community foundation, and market value of each trust from financial statements provided by the trustee. A decrease in the discount rate and a shorter life expectancy will increase the fair value of the trust receivable and liability, just as an increase in the discount rate and a longer life expectancy will decrease the fair value of the trust receivable and liability.

*Private equity* – Closely-held private or restricted stock is reviewed no less than annually using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies. Valuation inputs may include, but are not limited to initial investment amount (cost), observed transaction price used in subsequent valuations, liquidation value, qualified opinion or appraisal, company financial statements, press releases and company commentary, and the community foundation’s own assessment of value and applicable discounts.

**NOTE 4 – CONTRIBUTIONS AND GRANTS RECEIVABLE, NET**

Contributions and grants receivable as of December 31, 2012, are expected to be collected as follows:

|                          | <u>Less than<br/>one year</u> | <u>Greater than<br/>one year</u> |
|--------------------------|-------------------------------|----------------------------------|
| Contributions receivable | \$ 6,059,280                  | \$ 2,189                         |
| Grants receivable        | 1,270,301                     | 440,833                          |
| Total                    | <u>\$ 7,329,581</u>           | <u>\$ 443,022</u>                |

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

**NOTE 5 – NOTES AND OTHER RECEIVABLE, NET**

Notes receivable as of December 31, 2012, consisted of the following:

|                       | <u>Less than<br/>one year</u> | <u>Greater than<br/>one year</u> |
|-----------------------|-------------------------------|----------------------------------|
| Program related loans | \$ 950,053                    | \$ 2,468,989                     |
| Executive loans       | 53,179                        | 174,807                          |
| Other receivables     | 302,884                       | -                                |
| Total                 | <u>\$ 1,306,116</u>           | <u>\$ 2,643,796</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 \$27,986 at December 31, 2012, to the current CEO and President of Silicon Valley 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. The annual payment of principal and interest in the amount of \$62,850 for each fiscal year 2012 and 2011 was forgiven in accordance with loan agreement.

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

|   | <u>2012</u>          | <u>2011</u>          |
|---|----------------------|----------------------|
| Leasehold interest in building                  | \$ 18,700,000        | \$ 18,700,000        |
| Leasehold improvements                          | 17,125,508           | 16,841,713           |
| Construction in progress                        | 4,198,640            | 2,495,514            |
| Office equipment and other                      | 1,601,436            | 1,472,831            |
| Computer equipment                              | 3,305,925            | 3,258,188            |
| Total   | 44,931,509           | 42,768,246           |
| Less: accumulated depreciation and amortization | <u>(11,126,945)</u>  | <u>(9,094,634)</u>   |
| Property and equipment, net                     | <u>\$ 33,804,564</u> | <u>\$ 33,673,612</u> |

**NOTE 7 – GRANTS PAYABLE**

Grants payable are expected to be disbursed as follows:

**Years ending December 31,**

|                     |                       |
|---------------------|-----------------------|
| 2013                | \$ 35,884,022         |
| 2014                | 18,188,018            |
| 2015                | 4,371,450             |
| 2016                | 2,227,000             |
| 2017                | 445,000               |
| Thereafter          | <u>52,609,500</u>     |
| Total               | 113,724,990           |
| Discount            | <u>(2,785,136)</u>    |
| Grants payable, net | <u>\$ 110,939,854</u> |

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

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**NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were restricted for the following at December 31:

|   | <u>2012</u>          | <u>2011</u>          |
|---|----------------------|----------------------|
| Charitable remainder trusts and irrevocable planned gifts | \$ 6,597,737         | \$ 6,459,546         |
| Special projects  | 2,983,216            | 2,426,177            |
| Endowment (un-appropriated earnings)                      | 41,149,667           | 35,146,402           |
| Total   | <u>\$ 50,730,620</u> | <u>\$ 44,032,125</u> |

**NOTE 9 - PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets were restricted for the following at December 31:

|   | <u>2012</u>          | <u>2011</u>          |
|---|----------------------|----------------------|
| Charitable remainder trusts and irrevocable planned gifts | \$ 5,488,388         | \$ 4,892,037         |
| Endowment   | 87,016,386           | 86,730,713           |
| Total   | <u>\$ 92,504,774</u> | <u>\$ 91,622,750</u> |

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**NOTE 10 – ENDOWMENT DISCLOSURES**

California enacted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) effective January 1, 2009. The community foundation is required to provide information about net assets which are defined as endowment. Classifications include 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 years ended December 31, 2012 and 2011 were as follows:

|  | <u>Unrestricted</u>      | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>          |
|--|--------------------------|-----------------------------------|-----------------------------------|-----------------------|
| <b>Endowment net assets, January 1, 2011</b>         | \$ 80,159,586            | \$ 37,040,021                     | \$ 95,088,107                     | \$ 212,287,714        |
| Investment return:                                   |                          |                                   |                                   |                       |
| Investment income                                    | 4,913,554                | -                                 | -                                 | 4,913,554             |
| Net appreciation (realized and unrealized)           | (3,258,873)              | -                                 | -                                 | (3,258,873)           |
| Total investment return                              | 1,654,681                | -                                 | -                                 | 1,654,681             |
| Contributions  | 197,615                  | 17,093                            | 155,777                           | 370,485               |
| Appropriation of endowment assets for expenditure    | (13,652,676)             | -                                 | -                                 | (13,652,676)          |
| Other changes:                                       |                          |                                   |                                   |                       |
| Transfers to/(from) board-designated endowment funds | 1,777,601                | -                                 | -                                 | 1,777,601             |
| Other transfers                                      | 23,146                   | (1,910,712)                       | (8,513,171)                       | (10,400,737)          |
| <b>Endowment net assets, December 31, 2011</b>       | 70,159,953               | 35,146,402                        | 86,730,713                        | 192,037,068           |
| Investment return:                                   |                          |                                   |                                   |                       |
| Investment income                                    | 5,662,465                | -                                 | -                                 | 5,662,465             |
| Net appreciation (realized and unrealized)           | 11,233,469               | 4,749,410                         | -                                 | 15,982,879            |
| Total investment return                              | 16,895,934               | 4,749,410                         | -                                 | 21,645,344            |
| Contributions  | 583,242                  | -                                 | 48,173                            | 631,415               |
| Appropriation of endowment assets for expenditure    | (13,441,062)             | -                                 | -                                 | (13,441,062)          |
| Other changes:                                       |                          |                                   |                                   |                       |
| Transfers to/(from) board-designated endowment funds | 540,621                  | -                                 | -                                 | 540,621               |
| Other transfers                                      | 244,500                  | (482,000)                         | 237,500                           | -                     |
| <b>Endowment net assets, December 31, 2012</b>       | <u>\$ 74,983,188</u>     | <u>\$ 39,413,812</u>              | <u>\$ 87,016,386</u>              | <u>\$ 201,413,386</u> |
|  | <b>December 31, 2012</b> |                                   |                                   |                       |
|  | <u>Unrestricted</u>      | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>          |
| Donor restricted endowments                          | \$ (1,423,305)           | \$ 39,413,812                     | \$ 87,016,386                     | \$ 125,006,893        |
| Board designated endowments                          | 76,406,493               | -                                 | -                                 | \$ 76,406,493         |
| Total  | <u>\$ 74,983,188</u>     | <u>\$ 39,413,812</u>              | <u>\$ 87,016,386</u>              | <u>\$ 201,413,386</u> |
|  | <b>December 31, 2011</b> |                                   |                                   |                       |
|  | <u>Unrestricted</u>      | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>          |
| Donor restricted endowments                          | \$ (3,228,183)           | \$ 35,146,402                     | \$ 86,730,713                     | \$ 118,648,932        |
| Board designated endowments                          | 73,388,136               | -                                 | -                                 | 73,388,136            |
| Total  | <u>\$ 70,159,953</u>     | <u>\$ 35,146,402</u>              | <u>\$ 86,730,713</u>              | <u>\$ 192,037,068</u> |

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**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 and its supporting organizations and affiliates. 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 are active in oversight of fundraising events, activities and in making private contributions. Contributions received from the Board or from companies with which the Board is affiliated were approximately \$16,868,000 and \$2,808,000 for the years ended December 31, 2012 and 2011, respectively.

One of the community foundation’s supporting organizations utilizes the services of an investment manager whose founder is also the founder of the supporting organization. In-kind investment management service fees of approximately \$1,891,000 and \$1,771,000 were donated by the investment manager during the years ended December 31, 2012 and 2011, respectively.

**NOTE 12 – RETIREMENT PLANS**

The community foundation has a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code, for which substantially all employees are eligible. Employees may elect to make contributions to the plan under salary deferral provisions and are considered eligible for those voluntary contributions on the first day of employment. The community foundation contributes 5% of salary to the plan for all eligible employees, as defined, on a pay period basis beginning with the second year of employment. Contributions to the plan for the years ended December 31, 2012 and 2011, were \$378,500 and \$333,900, respectively.

The community 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. Contributions by the community foundation for the years ended December 31, 2012 and 2011, were \$0 and \$8,100, respectively.

**NOTE 13 – COMMITMENTS**

The main office facility in Mountain View is retained under an operating lease with a term of 10 years, expiring in August 2017. The community foundation also maintains conference and office space in San Mateo with a lease that has a term of 10 years, expiring in December 2019. In addition, the community foundation has a satellite office in San Francisco with a lease term of 3 years, expiring March 2015 and a satellite office in San Jose with a lease term of 2 years, expiring July 2014. Following is a schedule of future minimum rental payments under its non-cancelable operating leases.

**Years ending December 31.**

|            |    |                  |
|------------|----|------------------|
| 2013       | \$ | 2,234,592        |
| 2014       |    | 2,289,577        |
| 2015       |    | 2,325,726        |
| 2016       |    | 2,322,935        |
| 2017       |    | 239,944          |
| Thereafter |    | 501,698          |
|            |    | <u>501,698</u>   |
|            | \$ | <u>9,914,472</u> |



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Rental expense consisted of approximately \$1,880,000 and \$1,831,000 for the years ended December 31, 2012 and 2011, respectively, for the main office facility. Lease expense for the conference center in San Mateo was approximately \$217,000 and \$201,000 for the years ended December 31, 2012 and 2011. Lease expense for the San Jose and San Francisco satellite offices for the year ended December 31, 2012 was \$5,425 and \$12,275, respectively. Sublease income for the years ended December 31, 2012 and 2011, was approximately \$103,000 and \$132,000, respectively for the community foundation's Mountain View office.