

Schwab Charitable Fund

Consolidated Financial Statements as of and
for the Years Ended June 30, 2009 and 2008,
and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Schwab Charitable Fund:

We have audited the accompanying consolidated statements of financial position of Schwab Charitable Fund and its subsidiary (collectively, the "Fund") as of June 30, 2009 and 2008, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

November 3, 2009

SCHWAB CHARITABLE FUND

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND SUPPORT:		
Donor contributions	\$ 482,220,951	\$ 887,950,416
Investment income	14,410,347	20,676,447
Net realized and unrealized losses on investments	<u>(359,368,099)</u>	<u>(190,716,314)</u>
Total revenues and support	<u>137,263,199</u>	<u>717,910,549</u>
EXPENSES:		
Grants to charitable organizations	412,448,316	369,570,300
Management, general and program-related costs	<u>9,162,151</u>	<u>9,450,958</u>
Total expenses	<u>421,610,467</u>	<u>379,021,258</u>
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(284,347,268)	338,889,291
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Donor contributions	<u>2,000,000</u>	<u></u>
(DECREASE) INCREASE IN NET ASSETS	(282,347,268)	338,889,291
NET ASSETS		
Beginning of year	<u>2,095,991,568</u>	<u>1,757,102,277</u>
End of year	<u>\$ 1,813,644,300</u>	<u>\$ 2,095,991,568</u>

See notes to consolidated financial statements.

SCHWAB CHARITABLE FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (282,347,268)	\$ 338,889,291
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Net realized and unrealized losses on investments	359,368,099	190,716,314
Depreciation		1,708
Changes in operating assets and liabilities:		
Accounts receivable	(13,164)	166,566
Related-party receivables	249,776	(249,776)
Prepays and other assets	13,382	(3,195)
Grants payable	(3,919,964)	5,491,223
Accounts payable and accrued liabilities	(339,141)	(24,143)
Liabilities to beneficiaries	7,200,000	
Related-party payable	85,908	31,118
	<u>80,297,628</u>	<u>535,019,106</u>
Net cash provided by operating activities		
INVESTING ACTIVITIES:		
Sales of investments	435,968,053	632,915,139
Purchases of investments	<u>(515,543,832)</u>	<u>(1,167,875,627)</u>
	<u>(79,575,779)</u>	<u>(534,960,488)</u>
Net cash used in investing activities		
FINANCING ACTIVITIES — Repayment of note payable to related party	<u>(100,000)</u>	<u>(100,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	621,849	(41,382)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>602,984</u>	<u>644,366</u>
End of year	<u>\$ 1,224,833</u>	<u>\$ 602,984</u>

See notes to consolidated financial statements.

SCHWAB CHARITABLE FUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

1. ORGANIZATION

The accompanying consolidated financial statements include the accounts of Schwab Charitable Fund (the “Fund”) and The Schwab Charitable Services, LLC (the “Schwab LLC”), a Delaware corporation, with the Fund as its sole member.

The Fund is an independent, public charity established in California, to increase charitable giving in the United States of America by providing useful information, unbiased guidance, and advantageous ways to give. The Schwab LLC was established to serve as a trustee to certain charitable remainder trusts established with the ultimate beneficiary being the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation — The consolidated financial statements include the accounts of the Fund and the Schwab LLC. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. The Fund had no permanently restricted net assets as of June 30, 2009 and 2008.

Significant Estimates — The preparation of the 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, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and support, and expenses during the reporting period. Actual results could differ from these estimates. The Fund’s significant accounting estimates include the valuation of accounts receivable, the fair value of investments, and the value of related-party contributions.

Unrestricted Net Assets—Unrestricted net assets represent unrestricted resources available to support the Fund’s operations.

Temporarily Restricted Net Assets—Temporarily restricted net assets represent contributions whose use is limited by donor-imposed stipulations that may expire by the passage of time.

Cash and Cash Equivalents — Cash and cash equivalents include cash and liquid investments with a maturity of three months or less at the date of purchase.

Investments — On July 1, 2008, the Fund adopted Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), including FASB Staff Position (FSP) FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies the definition of fair value, establishes a framework for measuring fair value, and expands disclosures about the use of fair value measurements. FASB Statement No. 157 also establishes a hierarchical disclosure framework, which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from

actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). The adoption of FASB Statement No. 157 did not have a material effect on the Fund's financial statements.

Investments are reflected on the consolidated statement of financial position at fair value with changes in unrealized gains and losses resulting from changes in fair value reflected in the consolidated statements of activities and changes in net assets as part of net realized and unrealized gain (loss) on investments. Marketable securities listed on a national or international securities exchange or marketable securities traded in the over-the-counter market for which there is a last sale price available are valued based on quoted market prices. Management bases the value of certain non-marketable securities and other investments on information provided by the underlying portfolio funds' managers or their respective general partners. Investments received through gifts are recorded at estimated fair value at the date of donation.

Realized gains and losses resulting from sales of investments are calculated on an adjusted cost based on the trade date for publicly traded investments or upon closing of the transaction for other investments. Dividend and interest income are accrued when earned.

Assets Held in Charitable Remainder Trusts and Liability to Beneficiaries of Trust Agreements —

Assets held in charitable remainder trusts are recognized at estimated fair value when irrevocable trusts naming the Fund as a beneficiary are executed. Additionally, charitable remainder trusts that name the Fund as trustee are executed with a corresponding liability to beneficiaries of trust agreements. Such liability is calculated as the present value of the estimated future cash flows to be distributed to the income beneficiaries over their expected lives. The Fund has determined such liability using investment returns consistent with the composition of investment portfolios, single or joint life expectancies from the Internal Revenue Service mortality table, and a discount rate of 3.4%.

As of June 30, 2009, investments include \$9,200,000 in assets held by the Fund, as trustee, on which income will be paid to designated beneficiaries until death, at which time the assets may be used by the Fund as designated by the donor. Corresponding liabilities to beneficiaries of the trusts of \$7,200,000 are included in liabilities as of June 30, 2009.

Revenue Recognition — Contributions are recognized as revenue when received or unconditionally promised. The Fund reports contributions as restricted support if such contributions are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Except for contributions of trusts, all other contributions are subject to the variance power established by the Fund's formal contribution agreements. This variance power provides the Fund's board of directors with the ability to modify donor stipulations that are incapable of fulfillment or inconsistent with the charitable needs of the community. As a result of this variance power, these contributions are classified as unrestricted for financial statement purposes.

Contributions of services are recognized when received if such services (a) enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated. The value of contributed services and interest recognized as in-kind contributions in the accompanying consolidated statements of activities and changes in net assets was \$1,827,947 and \$1,451,899 for the years ended June 30, 2009 and 2008, respectively, which consisted primarily of professional services, administration costs, and interest.

Grants — Grants are recognized when the unconditional promise to give is approved by the Fund. Grants payable of \$2,288,215 and \$6,208,179, as of June 30, 2009 and 2008, respectively are payable within one year.

Guarantees — Guarantees that are entered into by the Fund are valued as obligations as required by FASB Interpretation (FIN) No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others — an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34*. On May 27, 2009, the Fund entered into an agreement to act as a guarantor for obligations to a third-party organization as a means of assisting this organization in achieving charitable objectives. As part of the agreement, the Fund is required to maintain a separate account equivalent to the maximum value of available guarantees provided by the Fund, for which the Fund is restricted from making any withdrawals. The agreement expires on May 27, 2012 whereby upon six-month advanced notice by the Fund, any unsecured guaranteed amounts may be withdrawn from the account.

At June 30, 2009, the account consisted of \$8,000,000 held in money market funds and is included in investments in the consolidated statement of financial position. Of this amount, \$4,100,000 was secured by guarantees for obligations provided by the third-party organization, which would require the Fund to perform under should the beneficiaries be unable to meet their obligations to the third-party organization. The Fund has not recorded any liability for its obligations under the guarantees because it believes that the likelihood of making any payment is low and the related liability is determined to be immaterial.

Estimated Fair Value of Financial Instruments — The carrying amounts of cash and cash equivalents, accounts receivable, and related-party payable approximate fair value because of the short maturity of these items. Investments are reflected at estimated fair value as described above. The fair value of the note payable to related party disclosed in Note 5 is based on the present value of the expected future cash flows.

Exemption From Taxes — The Fund has been classified as a tax-exempt organization that is exempt from federal taxes under Section 501(c)(3) of the Internal Revenue Code and from California income taxes under Revenue and Taxation Code Section 23701(d).

New Accounting Pronouncements — On May 28, 2009, FASB issued FASB Statement No. 165, *Subsequent Events* (FASB Statement No. 165), effective for interim or annual periods ending after June 15, 2009. FASB Statement No. 165 objective is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Entities are required to disclose the date through which subsequent events were evaluated, as well as the rationale for why that date was selected. In preparing the consolidated financial statements, the Fund evaluated for potential recognition and disclosure, events and transactions that occurred through November 3, 2009.

3. FAIR-VALUE MEASUREMENTS

Investments measured and reported at fair value using level inputs, as defined by FASB Statement No. 157, are classified and disclosed in one of the following categories:

Level I — Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I are publicly traded equity securities. As required by FASB Statement No. 157, the Fund does not adjust the quoted price for these investments even in situations where the Fund holds a large position and a sale could reasonably impact the quoted price.

Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category are publicly traded equity securities with restrictions and certain debt securities.

Level III — Pricing inputs are unobservable for the investments and include situations where there is little, if any, market activity for the investment. The inputs into determination of fair value require significant judgment or estimation by management. The types of investments which would generally be included in this category include private investment funds, such as hedge funds, private equity funds, real estate funds, and venture capital funds.

The Fund values these investments in good faith at the Fund's pro rata interest in the net assets of these entities at fair value based on information, including but not limited to, subscription documents, audited financial statements, investor statements, and fund manager reports provided by fund managers, general partners, and independent advisors. Considerable judgment is required to interpret the factors used by management to develop such estimates of fair value. Accordingly, it is possible that a fund's results may subsequently be adjusted, and the adjustments may be material to the Fund. Because of the inherent uncertainty of valuations, the estimated values of investments with the Fund's managers may differ significantly from the values that would have been used had a ready market for the securities existed, and the difference could be material.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair-value hierarchy. In such cases, an investment's level within the fair-value hierarchy is based on the lowest level of input that is significant to the fair-value measurement. Management's assessment of the significance of a particular input to the fair-value measurement in its entirety requires judgment and considers factors specific to the investment.

The valuation of the Fund's investments by the fair-value hierarchy levels as of June 30, 2009 and 2008, respectively, is summarized as follows:

Fair Value Measurements as of June 30, 2009				
	Total	Level I	Level II	Level III
Short-term investment funds	\$ 387,792,663	\$ 387,792,663.00	\$	\$
Mutual funds	542,718,626	542,718,626		
Equity funds	316,343,177	316,343,177		
Equity securities	119,530,450	119,530,450		
Index funds	102,997,820	102,997,820		
Bonds	31,963,007	31,963,007		
Fixed income funds	119,280,145	119,280,145		
Alternative investments	<u>209,649,885</u>		29,347,474	180,302,411
Total Investments	<u>\$ 1,830,275,773.00</u>	<u>\$ 1,620,625,888.00</u>	<u>\$ 29,347,474.00</u>	<u>\$ 180,302,411.00</u>

Fair Value Measurements as of June 30, 2008				
	Total	Level I	Level II	Level III
Short-term investment funds	\$ 366,292,880	\$ 366,292,880	\$	\$
Mutual funds	638,006,921	638,006,921		
Equity funds	411,585,473	411,585,473		
Equity securities	146,594,249	146,594,249		
Index funds	123,751,002	123,751,002		
Bonds	106,891,632	106,891,632		
Fixed income funds	70,305,706	70,305,706		
Alternative investments	<u>246,640,231</u>		41,124,376	205,515,855
Total Investments	<u>\$ 2,110,068,094</u>	<u>\$ 1,863,427,863</u>	<u>\$ 41,124,376</u>	<u>\$ 205,515,855</u>

Level I investments include \$8,000,000 at June 30, 2009 that is restricted for guarantees provided by the Fund (see Note 2).

The detailed changes in fair value for the Fund's Level III investments for the year ended June 30, 2009, is as follows:

Balance — July 1, 2008	\$ 205,515,855
Total realized and unrealized gains and losses - net	(53,441,205)
Purchases (sales) — net	<u>28,227,761</u>
Balance — June 30, 2009	<u>180,302,411</u>
Changes in unrealized gains included in earnings relating to investments still held at June 30, 2009	<u>\$ (50,791,298)</u>

4. EMPLOYEE BENEFIT PLAN

The Fund has a voluntary defined contribution 401(k) plan covering certain employees who have met specified service and eligibility requirements. Fund contributions are discretionary, and individual employee contributions have a maximum limit set by law. The Fund's contributions totaled \$104,394 and \$60,814 for the years ended June 30, 2009 and 2008, respectively.

5. RELATED-PARTY TRANSACTIONS

In-kind contributions of professional services, occupancy, and administration costs received from Charles Schwab & Co., Inc. (“Schwab”) were \$1,215,277 and \$1,159,012 for the years ended June 30, 2009 and 2008, respectively (see Note 2). All administrative service fees for the years ended June 30, 2009 and 2008, were contributed by Schwab as in-kind contributions.

On July 8, 1999, the Fund entered into an interest-free, revolving promissory note agreement (the “Note”) with The Charles Schwab Corporation. The unpaid principal balance is payable when the Fund, at its discretion and in good faith, determines that it is able to do so. The principal borrowings outstanding on the Note were \$8,450,000 and \$8,550,000 as of June 30, 2009 and 2008, respectively. On July 18, 2008, the Note was amended, extending the maturity date to July 31, 2011, and decreased the maximum principal borrowings to \$8,750,000.

The Fund recorded interest expense of \$239,039 and \$292,887 for the years ended June 30, 2009 and 2008, respectively, and included a corresponding amount as in-kind contributions from The Charles Schwab Corporation based on an estimated market interest rate for similar borrowings. The estimated fair value of the note payable to the related party as of June 30, 2009 and 2008 is \$7,422,350 and \$7,664,590, respectively.

During the years ended June 30, 2009 and 2008, the Fund recorded revenues of \$365,223 and \$249,776 for program-related services provided to Schwab.

The Fund recorded management, general and program related costs of \$373,631 for the year ended June 30, 2009, and included a corresponding amount as in-kind contributions for pro bono professional services related to the Fund’s microfinance program received from a related party.

* * * * *