

THE SOBRATO FAMILY FOUNDATION

DECEMBER 31, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

The Sobrato Family Foundation

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Independent Auditors' Report

THE BOARD OF DIRECTORS
THE SOBRATO FAMILY FOUNDATION
Cupertino, California

Report on the Financial Statements

We have audited the accompanying financial statements of **THE SOBRATO FAMILY FOUNDATION** which comprise the statement of financial position as of December 31, 2017 and 2016, the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Sobrato Family Foundation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hood & Strong LLP

San Jose, California
July 18, 2018

The Sobrato Family Foundation

Statement of Financial Position

<i>December 31,</i>	2017	2016
Assets		
Cash and cash equivalents	\$ 6,450,475	\$ 5,024,850
Investments	240,488,615	183,469,176
Interest and dividends receivable	25,987	268,697
Property held for sale	-	60,147,898
Notes receivable	-	2,247,728
Program and mission related investments, net	19,718,276	15,981,578
Contributions receivable from charitable lead trusts, net	-	329,394
Property and equipment, net	20,882,268	21,352,601
Other assets	576,496	536,872
Total assets	\$ 288,142,117	\$ 289,358,794
Liabilities and Net Assets		
Liabilities:		
Grants payable, unconditional	\$ 9,193,850	\$ 10,898,374
Future in-kind rent obligations	5,124,419	4,253,485
Other liabilities	2,045,851	1,885,164
Total liabilities	16,364,120	17,037,023
Net Assets:		
Unrestricted	271,777,997	271,992,377
Temporarily restricted	-	329,394
Total net assets	271,777,997	272,321,771
Total liabilities and net assets	\$ 288,142,117	\$ 289,358,794

See accompanying notes to financial statements.

The Sobrato Family Foundation

Statement of Activities and Changes in Net Assets

<i>Years Ended December 31,</i>	2017	2016
Changes in Unrestricted Net Assets:		
Investment activity and contributions		
Investment income, net	\$ 40,081,616	\$ 23,747,459
Contributions	1,516,500	60,000,000
Sales costs of donated land	(3,428,545)	-
Contributed services	697,096	695,207
Other income	250,000	-
In-kind rental income	3,313,695	2,290,500
Program related fees	2,528,239	1,984,789
Interest income, notes receivable	689,716	570,056
Total investment activity and contributions	45,648,317	89,288,011
Net assets released from restrictions	329,394	531,118
Total investment activity and other support	45,977,711	89,819,129
Program expenses		
Grants	27,448,813	32,305,094
In-kind rental expense	4,184,629	1,036,468
Direct charitable activities	11,040,000	6,431,219
Total program expenses	42,673,442	39,772,781
Administrative expense	2,763,221	2,399,102
Federal excise tax expense	755,428	65,801
Total administrative and excise tax expenses	3,518,649	2,464,903
Total expenses	46,192,091	42,237,684
Change in unrestricted net assets	(214,380)	47,581,445
Changes in Temporarily Restricted Net Assets:		
Net assets released from restrictions	(329,394)	(531,118)
Change in temporarily restricted net assets	(329,394)	(531,118)
Total change in net assets	(543,774)	47,050,327
Net Assets, beginning of year	272,321,771	225,271,444
Net Assets, end of year	\$ 271,777,997	\$ 272,321,771

See accompanying notes to financial statements.

The Sobrato Family Foundation

Statement of Cash Flows

<i>Years Ended December 31,</i>	2017	2016
Cash Flows from Operating Activities:		
Change in net assets	\$ (543,774)	\$ 47,050,327
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	773,844	723,676
Net realized and unrealized gains on investments	(37,355,316)	(20,202,075)
Sales costs of donated land	3,428,545	-
Contribution of property held for sale	(1,516,500)	(60,000,000)
Changes in operating assets and liabilities:		
Interest and dividend receivable	242,710	(176,957)
Notes receivable	2,247,728	6,718,132
Program and mission related investments, net	(3,736,698)	(13,431,423)
Contributions receivable from charitable lead trusts, net	329,394	531,118
Other assets	(39,624)	(219,076)
Grants payable, unconditional	(1,704,524)	4,809,426
Future in-kind rent obligations	870,934	(1,254,031)
Other liabilities	160,687	373,517
Net cash used by operating activities	(36,842,594)	(35,077,366)
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(303,511)	(225,052)
Proceeds from sale of property	58,769,498	-
Costs capitalized in connection with property held for sale	(533,645)	(147,898)
Proceeds from sales of investments	184,184,020	53,356,289
Acquisition of investments	(203,848,143)	(24,312,192)
Net cash provided by investing activities	38,268,219	28,671,147
Net Change in Cash and Cash Equivalents	1,425,625	(6,406,219)
Cash and Cash Equivalents, beginning of the year	5,024,850	11,431,069
Cash and Cash Equivalents, end of year	\$ 6,450,475	\$ 5,024,850
Supplementary Disclosure of Cash Flows Information:		
Cash paid during the year for excise taxes	\$ 810,000	\$ 90,000

See accompanying notes to financial statements.

The Sobrato Family Foundation

Notes to Financial Statements

Note 1 - Organization:

The Sobrato Family Foundation (the “Foundation”) is a private foundation established by the Sobrato family and incorporated in California on January 27, 1993, as a nonprofit public benefit corporation.

The Foundation invests primarily in organizations serving those most in need in Santa Clara, San Mateo and Southern Alameda counties.

The Foundation provides strategic and responsive grants, program related investments, multi-year general operating support grants, and in-kind office and meeting space for Bay Area nonprofits. It also supports special initiatives that align with its mission, such as the SEAL program: Sobrato Early Academic Language program.

The Foundation’s four active programs are:

1. 21st Century Education — Focused on expanding avenues for low-income and English learner students to attain a college credential through improved educational quality, equity and choice – thereby increasing their economic opportunity.
2. Pathways for Success — Focused on expanding access to middle-skill jobs and career-potential opportunities for low-income individuals that do not possess a college degree, to enhance their economic opportunity.
3. General Operating Support — Focused on providing flexible support for Silicon Valley-based nonprofits that promote self-reliance and economic independence, and positively contribute to the quality of life for those in our region facing deep challenges.
4. Thriving Nonprofit Sector — Focused on increasing the effectiveness, scalability, and systemic impact of our nonprofit partners, and supporting the development of high-quality nonprofit leaders.

For more details on grants awarded, visit www.Sobrato.org.

The Foundation owns and operates the Sobrato Center for Nonprofits facility in Redwood Shores, California that provides office and meeting space for nonprofit organizations. The Foundation also provides support to the Sobrato Foundation, a related party, to support the operations of two similar nonprofit center facilities in Milpitas and San Jose, California.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

The Sobrato Family Foundation

Notes to Financial Statements

b. Description of Net Assets

The Foundation reports its financial position and operating activities in three classes of net assets:

- *Unrestricted Net Assets* - the portion of net assets that is neither temporarily nor permanently restricted by donor-imposed stipulations. These net assets are intended for use by management and the Board of Directors.
- *Temporarily Restricted Net Assets* - the portion of net assets for which use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation.
- *Permanently Restricted Net Assets* - the portion of net assets for which use is limited by donor-imposed stipulations that neither expire by passage of time nor can be removed by actions of the Foundation. For the years ended December 31, 2017 and 2016, the Foundation did not have any permanently restricted net assets.

c. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market funds. The Foundation considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents.

d. Investments and Related Income

Investments consist primarily of marketable securities and private equity funds. The Foundation maintains an investment policy that is approved by the Board of Directors. The investment policy establishes procedures for the selection, approval and monitoring of investments as well as concentration limits and asset allocation targets for portfolio holdings. Foundation investments are diversified across multiple asset classes and investment approaches to generate returns and mitigate risks, using liquid and illiquid investment vehicles. Marketable securities include domestic and international equities and are invested in all major regions and industry sectors. Private equity fund investments are invested in a range of private equity asset classes and primarily in U.S.-based funds.

Investments are stated at their fair value based on quoted market prices, except for alternative investments. For those investments that are not publicly traded, their value is recorded at net asset value (NAV) per percentage ownership as determined by the individual investment managers. Due to the inherent uncertainty of valuation of non-marketable and restricted investments, those estimated values may differ significantly from the values that would have been recorded had an active market existed for those investments.

Realized and unrealized gains or losses are included in the statement of activities and changes in net assets in the period the gains or losses occur. Dividend and interest income is accrued when earned.

The Sobrato Family Foundation

Notes to Financial Statements

e. Fair Value Measurements

The Foundation classifies its financial assets and liabilities measured at fair value on a recurring basis based on a fair value hierarchy with three levels of inputs (as described below). 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.

Level 1 values are based on unadjusted quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Foundation's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

The Foundation reports certain investments using the NAV per share method under the so-called "practical expedient". The practical expedient allows NAV per share to represent fair value for reporting purposes when the criteria for using this method are met.

f. Property Held for Sale

Property held for sale represents land donated to the Foundation, which the Foundation intends to sell in the short term. Property is recorded at fair value as determined by independent appraisals.

g. Notes Receivable

In 2002, the Foundation received gifts of notes receivable from the Sobrato 2000 Grandchildren's Trust, a related party. The notes were recorded at their fair value at the date of the gift and are being amortized over a 25-year term, with the remaining principal repayment paid in full in 2017.

h. Program Related Investments

Program related investments are recorded at fair value. Additionally, the Foundation records a contribution expense for the difference between the stated interest rate on the notes and an estimated market rate, discounted between 3.75% and 4.50%. This difference is amortized over the term of the notes.

i. Contributions Receivable from Charitable Lead Trusts

The Foundation's remainder interests in various irrevocable trusts for which the Foundation is the designated beneficiary are recorded at their net present values, which were actuarially determined using the fair value of the trusts' assets and applicable discount rates on the dates in which the trust agreements were entered. Periodically, management reviews the valuation of the receivables and adjusts the balances accordingly, if appropriate.

The Sobrato Family Foundation

Notes to Financial Statements

j. Property and Equipment

Property and equipment purchased by the Foundation are stated at cost. Acquisitions of property and equipment equal to or in excess of \$25,000 are capitalized. Significant donated property and equipment are recorded at their estimated fair value, generally based on independent appraisals. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, donations of property and equipment are recorded as unrestricted contributions.

Depreciation is computed using a combination of the straight-line method and the modified accelerated cost recovery system over the estimated useful lives of the assets ranging from five to thirty-nine years.

k. Grants Payable

Unconditional grants are recorded when approved. Conditional grants are not recorded until the conditions are substantially met. Unconditional multi-year grants are recorded at their net present value using a discount rate appropriate for the year the grant was approved, if material to the financial statements. Grant amendments, including cancellations, are recorded as increases or decreases of grant expense in the year of the amendment.

l. Future In-Kind Rent Obligations

In 2013, the Foundation purchased the Sobrato Center for Nonprofits facility (the Center) located in Redwood Shores, California. The lease agreements with non-profit tenants contain rental rates that are substantially below market in order to assist the nonprofit organizations. The rent concessions are considered future grants to the tenants and have been recorded as future in-kind rent obligations on the statement of financial position and as in-kind rental expense on the statement of activities and changes in net assets. The liability is amortized as in-kind rental income annually on the statement of activities and changes in net assets. The fair values have been discounted to net present value.

m. Revenue Recognition

Contributions are recognized at their fair value when the donor makes an unconditional promise to give. Contributions that are restricted by the donor are reported as increases to unrestricted net assets if the restrictions are met in the year the contribution is recognized. Contributions that are temporarily restricted by the donor and the restrictions have not been met during the year in which the contribution is recognized, are recorded as increases in temporarily restricted net assets and, when the restriction is met, then reclassified to unrestricted net assets and reported on the statement of activities and changes in net assets as net assets released from restrictions.

Significant donated assets are recorded at their estimated fair value at the date of receipt.

Contributed services, which require a specialized skill and which the Foundation would have paid for if not contributed, are recorded at their estimated fair market value. All such in-kind contributions received during 2017 and 2016 are from related parties.

Program fees are recognized in the period the services are provided.

The Sobrato Family Foundation

Notes to Financial Statements

n. Functional Expense Allocations

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on time, space and other factors. Direct charitable activities expenses pertain to charitable activities for the benefit of others initiated and conducted in whole or in part by the Foundation.

o. Income Taxes

The Foundation is exempt from federal income and California franchise taxes under Section 501(c)(3) of the Internal Revenue Code and under Section 23701(d) of the California Revenue and Taxation Code, respectively. The Foundation is classified as a private foundation and is subject to excise tax on its net investment income. Deferred taxes on unrealized gains are recorded when material. In addition, the Foundation may be subject to tax on unrelated business income, if any, generated by its investments.

Management has evaluated the Foundation's tax positions and concluded that the Foundation has maintained its tax-exempt status and had not taken any uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

p. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

q. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14 – *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. The amendments in this ASU set forth the FASB's changes to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the amendments in the ASU is permitted. The Foundation is currently evaluating the impact of this pronouncement on its financial statements.

r. Subsequent Events

The Foundation evaluated subsequent events from December 31, 2017 through July 18, 2018, the date these financial statements were available to be issued. There are no material subsequent events that required recognition or additional disclosure in these financial statements.

The Sobrato Family Foundation

Notes to Financial Statements

Note 3 - Investments:

Investments consist of the following as of December 31:

	2017	2016
Marketable securities - level 1 input	\$ 185,548,256	\$ 131,932,648
Private equity - net asset value (a)	44,704,496	42,092,438
Hedge fund - net asset value (b)	10,235,863	9,444,090
<u>Total alternative investments</u>	<u>54,940,359</u>	<u>51,536,528</u>
<u>Total investments</u>	<u>\$ 240,488,615</u>	<u>\$ 183,469,176</u>

- a) This category includes private equity funds that focus on buyout, growth equity and/or distressed debt. These investments are not redeemable. Instead, the nature of the investments in this category is that distributions are received through the liquidation of the underlying assets in the fund. These investments have estimated remaining lives of between three and thirteen years.
- b) This is an investment in a hedge fund that invests in both long and short positions primarily in U.S. common stocks and credit instruments. Management of the hedge fund has 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. The Fund has passed its initial lock up period.

Investment income consists of the following for the years ended December 31:

	2017	2016
Realized gains, net	\$ 32,506,564	\$ 9,351,860
Unrealized gains, net	4,848,752	10,850,215
Dividend income	2,914,937	3,699,390
Management fees	(188,637)	(154,006)
<u>Total investment income, net</u>	<u>\$ 40,081,616</u>	<u>\$ 23,747,459</u>

In May 2017 the Foundation's Board adopted a socially responsible investing strategy that screens the environmental, social, and governance (ESG) practices of the public companies in which it invests. To implement the ESG screen, the Foundation sold its existing public company investments, generating cash of \$184,184,020, and invested the proceeds and additional cash totaling \$203,848,143 in public companies subject to the ESG screen.

The Sobrato Family Foundation

Notes to Financial Statements

The following table provides additional information related to investments valued using NAV as of December 31:

2017	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	\$ 44,704,496	\$ 11,889,251	N/A	N/A
Hedge fund	10,235,863		Quarterly	60 Days
	\$ 54,940,359	\$ 11,889,251		

2016	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	\$ 42,092,438	\$ 16,968,728	N/A	N/A
Hedge fund	9,444,090		Quarterly	60 Days
	\$ 51,536,528	\$ 16,968,728		

Note 4 - Property Held for Sale:

Property held for sale consists of a 50% interest in a tenancy in common that was donated to the Foundation by a related party during 2016 which was sold in June 2017. The estimated value of the Foundation's interest in the property at the time of the donation was \$60,000,000, plus associated costs of \$147,898 which were capitalized in 2016. The property was sold for \$60,621,721. Costs associated with the sale of donated land were \$3,428,545.

Note 5 - Notes Receivable:

Notes receivable at December 31, 2016 consisted of \$2,247,728 and was due from the Sobrato 2000 Grandchildren's Trust, a related party. Two Trustees of this trust are Directors of the Foundation.

In April 2017, the Foundation received payment in full for the remaining note.

The Sobrato Family Foundation

Notes to Financial Statements

Note 6 - Program and Mission Related Investments:

The Foundation makes program related investments (PRIs) and mission related investments (MRIs) to organizations and projects that further its mission and impact in the community. The Foundation's PRIs expand the amount of charitable activities the Foundation can support. Currently, the Foundation's PRI & MRI programs are focused on encouraging the development of permanent supportive housing, the expansion of charter schools into underserved communities, the development of education technology, and other capital projects aligned with its education and economic opportunity mission through the provision of low-interest loans or equity investments.

Program and mission related investments consist of the following at December 31:

	2017	2016
Loans, net	\$ 18,003,807	\$ 14,584,272
Equity	1,714,469	1,397,306
	<hr/>	<hr/>
	\$ 19,718,276	\$ 15,981,578

There were eight and six loans outstanding at December 31, 2017 and 2016, respectively. Each loan is secured by a deed of trust of certain property.

Repayment of the loans outstanding at December 31, 2017, is expected to be as follows:

2018	\$ 2,902,600
2019	2,299,910
2020	3,218,796
2021	1,323,786
2022	1,404,477
Thereafter	8,695,659
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Subtotal	19,845,228
Less unamortized discount for below market rates	(1,841,421)
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Total	\$ 18,003,807

As of December 31, 2017, the Foundation has an unfunded capital commitment for two equity investments of \$1,375,000.

The Sobrato Family Foundation

Notes to Financial Statements

Note 7 - Contributions Receivable from Charitable Lead Trusts:

Contributions receivable from charitable lead trusts at December 31, 2016 are due from trusts which were created by two members of the Sobrato family who are Directors of the Foundation. The trusts require annual distributions to be made to the Foundation until 2017. At December 31, 2017, all remaining future trust distributions have been received.

Note 8 - Property and Equipment:

Property and equipment consists of the following at December 31:

	2017	2016
Land	\$ 5,625,537	\$ 5,554,700
Building	17,266,881	17,266,881
Interior	446,566	446,566
Furniture and fixtures	14,640	14,640
Equipment	544,124	311,451
	23,897,748	23,594,238
Less: accumulated depreciation	(3,015,480)	(2,241,637)
Property and equipment, net	\$ 20,882,268	\$ 21,352,601

Depreciation expense for the years ended December 31, 2017 and 2016 was \$773,844 and \$723,676, respectively.

Note 9 - Grants Payable:

Unconditional grants payable at December 31, 2017 are expected to be paid as follows:

2018	\$ 6,851,550
2019	2,342,300
Total	\$ 9,193,850

Conditional grants, payable if conditions are met and which are not recorded on the statement of financial position, as of December 31, 2017 and 2016, are \$0 and \$1,205,400, respectively.

The Sobrato Family Foundation

Notes to Financial Statements

Note 10 - Future In-Kind Rent Obligations:

As discussed in Note 2(1), future in-kind rent obligations represent future rent concessions for tenants of the Sobrato Center for Nonprofits facility located in Redwood Shores, California. As of December 31, 2017, the anticipated amortization of this liability (realization of in-kind rental income on the statement of activities and changes in net assets) is approximately as follows:

2018	\$ 1,141,000
2019	1,304,000
2020	1,070,000
2021	1,008,000
2022	601,000
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Total future in-kind rent obligations	\$ 5,124,000

Note 11 - Temporarily Restricted Net Assets:

For the year ending December 31, 2016, contributions receivable from charitable lead trusts of \$329,394 are temporarily restricted due to the timing in which they will be received. There were no temporarily restricted net assets as of December 31, 2017. Net assets released from restrictions, which represent annual distributions received at December 31, 2017 and 2016 are \$329,394 and \$531,118, respectively.

Note 12 - Federal Excise Taxes and Distribution Requirements:

The Foundation is classified as a private foundation and is subject to federal excise tax of 2% of its net investment income for tax purposes. The Foundation is eligible to reduce its tax liability from 2% to 1% of net investment income if a certain level of distribution is attained. A provision has been made in 2017 and 2016 with an excise tax rate of 1%.

The Foundation is subject to distribution requirements of the Internal Revenue Code. Accordingly, it must distribute within one year after the end of each fiscal year 5% of the fair value of its investment assets, as defined in the Internal Revenue code. The investments includable for the 5% distribution requirement are based on their average monthly balances and are exclusive of those investments deemed to be held for charitable activities. In determining qualifying distributions, grant payments are considered on a cash basis as well as certain other expenses. The Foundation believes that it has complied in all material respects with the distribution requirements through December 31, 2017.

The Sobrato Family Foundation

Notes to Financial Statements

Note 13 - Retirement Plan:

The Foundation has a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code (the Plan). The Plan is funded by the Foundation and maintained by an independent trustee. Employees are considered eligible for contributions on the first of the month after hire date. The vesting period is two years and the Foundation matches up to 10% of the employee's compensation, up to a cap of \$12,000.

The Foundation contributes to the Plan for all eligible employees, as defined, on a monthly basis. Employer contributions related to the Plan were \$244,129 and \$124,616, for the years ended December 31, 2017 and 2016, respectively.

Note 14 - Related Party Transactions:

During 2017 and 2016, the Foundation made unconditional grants to related organizations, where members of the Foundation's Board of Directors are also Board members of the grantee organizations. Grants paid to related organizations for the years ended December 31, 2017 and 2016 were approximately \$11,395,000 and \$2,368,000, respectively.

For the years ending December 31, 2017 and 2016, 56% and 46%, respectively, of total grant expense was granted to Silicon Valley Community Foundation, the parent entity of the Sobrato Foundation, a related party. Related Board members recused themselves from the Foundation's Board discussion and vote on such grants.

Direct charitable in-kind expense consists of Foundation program personnel contributing services to The Sobrato Foundation, a related party, where a Foundation Director also serves as a member of The Sobrato Foundation Board and another Foundation Director serves as a Board member of its parent entity, the Silicon Valley Community Foundation. The value of these granted services was approximately \$315,000 and \$236,000 for the years ended December 31, 2017 and 2016, respectively. In conjunction with the contributed services, the Foundation employees perform these services from the Foundation's office. The value of the contributed facilities was not material to the financial statements for the years ended December 31, 2017 and 2016.

As discussed in Note 5, the Foundation has notes receivable which have been paid in full in 2017 from the Sobrato 2000 Grandchildren's Trust created by two members of the Board of Directors of the Foundation.

As discussed in Note 7, the Foundation has contributions receivable which have been paid in full in 2017 from charitable lead trusts, which are receivable from trusts which were created by two members of the Board of Directors of the Foundation.

For the years ending December 31, 2017 and 2016, the Foundation received contributed in-kind administrative services and rent from a related party in the amount of \$697,096 and \$695,207, respectively.

The Sobrato Family Foundation

Notes to Financial Statements

Note 15 - Concentrations of Credit Risk

Financial instruments, which potentially subject the Foundation to credit risk, consist primarily of cash and cash equivalents, investments, notes receivables and program related investments. The Foundation maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments and money market funds. At times, such amounts might exceed Federal Deposit Insurance Corporation limits. The Foundation's investments have been placed with high quality financial institutions. The Foundation monitors these investments in accordance with its investment policy.

The credit risk in notes receivable is mitigated by the fact that the notes are with related parties and bear interest. The credit risk in program related investments is mitigated by the fact that the loans are made to local organizations and are evaluated by the Foundation based on its knowledge of the organizations. The Foundation does not believe that it is exposed to any significant credit risks.