

THE SOBRATO FAMILY FOUNDATION

DECEMBER 31, 2019 AND 2018

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

The Sobrato Family Foundation

Independent Auditors' Report and Financial Statements

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A Century Strong

Independent Auditors' Report

THE BOARD OF TRUSTEES
THE SOBRATO FAMILY FOUNDATION
Mountain View, 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, 2019 and 2018, the related statements of activities and changes in net assets, functional expenses, 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 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 audits 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, 2019 and 2018, 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
August 14, 2020

The Sobrato Family Foundation

Statement of Financial Position

<i>December 31,</i>	2019	2018
Assets		
Cash and cash equivalents	\$ 12,228,557	\$ 13,150,864
Investments	265,024,907	258,331,427
Interest and dividends receivable		275,203
Property held for sale	276,133,750	
Program and mission related investments, net	25,881,835	21,312,233
Property and equipment, net	19,923,888	20,396,363
Other assets	445,457	842,511
Total assets	\$ 599,638,394	\$ 314,308,601
Liabilities and Net Assets		
Liabilities:		
Grants payable, unconditional	\$ 6,767,718	\$ 8,553,650
Future in-kind rent obligations	5,931,520	8,662,302
Other liabilities	1,859,269	1,883,243
Total liabilities	14,558,507	19,099,195
Net Assets Without Donor Restrictions	585,079,887	295,209,406
Total net assets	585,079,887	295,209,406
Total liabilities and net assets	\$ 599,638,394	\$ 314,308,601

See accompanying notes to financial statements.

The Sobrato Family Foundation

Statement of Activities and Changes in Net Assets

<i>Years Ended December 31,</i>	2019	2018
Investment activity, contributions and other revenues:		
Investment income, net	\$ 55,292,787	\$ (13,972,869)
Contributions	275,875,000	88,300,000
Sales costs of donated land		(9,221,596)
Contributed services	1,471,831	811,270
Other income	2,642,849	2,183,791
In-kind rental income	4,193,865	4,416,012
Program related fees	2,213,568	2,312,394
Interest income, notes receivable	1,033,415	939,433
Total investment activity and other support	342,723,315	75,768,435
Program expenses:		
Education	9,993,746	9,636,161
Economic opportunity	3,320,833	3,788,988
Essential human services	5,235,608	6,220,037
Thriving nonprofits	3,892,904	11,351,828
Special initiatives	26,413,510	18,363,204
Total program expenses	48,856,601	49,360,218
Management and general	3,996,233	2,976,808
Total expenses	52,852,834	52,337,026
Change in net assets	289,870,481	23,431,409
Net Assets Without Donor Restrictions, beginning of year	295,209,406	271,777,997
Net Assets Without Donor Restrictions, ending of year	\$ 585,079,887	\$ 295,209,406

See accompanying notes to financial statements.

The Sobrato Family Foundation

Statement of Functional Expenses

Year Ended December 31, 2019

	Programs						Management and General	Total
	Education	Economic Opportunity	Essential Human Services	Thriving Nonprofits	Special Initiatives	Total Program		
Grants	\$ 5,417,000	\$ 3,115,000	\$ 5,033,800	\$ 1,693,082	\$ 25,337,500	\$ 40,596,382		\$ 40,596,382
Salary, benefits and payroll taxes	2,616,624	205,173	164,607	195,363	255,356	3,437,123	\$ 1,234,517	4,671,640
Outside services	1,542,048		30,000	532,032	744,554	2,848,634	2,252,143	5,100,777
Facilities	127,338		121	995,705	95	1,123,259	138,692	1,261,951
Advertising and marketing						-	126,000	126,000
Depreciation	2,299			466,804		469,103		469,103
Other expenses	288,437	660	7,080	9,918	76,005	382,100	244,881	626,981
	\$ 9,993,746	\$ 3,320,833	\$ 5,235,608	\$ 3,892,904	\$ 26,413,510	\$ 48,856,601	\$ 3,996,233	\$ 52,852,834

See accompanying notes to financial statements.

The Sobrato Family Foundation

Statement of Functional Expenses

Year Ended December 31, 2018

	Programs						Management and General	Total
	Education	Economic Opportunity	Essential Human Services	Thriving Nonprofits	Special Initiatives	Total Program		
Grants	\$ 2,175,000	\$ 3,625,000	\$ 6,062,350	\$ 9,268,896	\$ 17,884,806	\$ 39,016,052		\$ 39,016,052
Salary, benefits and payroll taxes	4,526,841	158,835	156,643	160,845	179,386	5,182,550	\$ 1,202,184	6,384,734
Outside services	2,299,799			281,761	280,930	2,862,490	1,283,972	4,146,462
Facilities	242,764			913,544		1,156,308	172,329	1,328,637
Advertising and marketing	331		662		14,250	15,243	127,800	143,043
Depreciation	4,599			718,195		722,794	912	723,706
Other expenses	386,827	5,153	382	8,587	3,832	404,781	189,611	594,392
	\$ 9,636,161	\$ 3,788,988	\$ 6,220,037	\$ 11,351,828	\$ 18,363,204	\$ 49,360,218	\$ 2,976,808	\$ 52,337,026

See accompanying notes to financial statements.

The Sobrato Family Foundation

Statement of Cash Flows

<i>Years Ended December 31,</i>	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	\$ 289,870,481	\$ 23,431,409
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	469,103	723,706
Net realized and unrealized (gains) losses on investments	(51,106,438)	17,088,310
Sales costs of donated land		9,221,596
Contribution of property held for sale	(275,875,000)	(88,300,000)
Net realized and unrealized gain in connection with property held for sale	(258,750)	
Loss on sale of property and equipment	3,372	903
Changes in operating assets and liabilities:		
Interest and dividend receivable	275,203	(249,216)
Program and mission related investments, net	(4,569,602)	(1,593,957)
Other assets	397,054	(266,015)
Grants payable, unconditional	(1,785,932)	(640,200)
Future in-kind rent obligations	(2,730,782)	3,537,883
Other liabilities	(23,974)	(162,608)
Net cash used by operating activities	(45,335,265)	(37,208,189)
Cash Flows from Investing Activities:		
Acquisition of property and equipment		(238,704)
Proceeds from sale of property		79,078,404
Proceeds from sales of investments	77,507,777	49,096,890
Acquisition of investments	(33,094,819)	(84,028,012)
Net cash provided by investing activities	44,412,958	43,908,578
Net Change in Cash and Cash Equivalents	(922,307)	6,700,389
Cash and Cash Equivalents, beginning of the year	13,150,864	6,450,475
Cash and Cash Equivalents, end of year	\$ 12,228,557	\$ 13,150,864
Supplementary Disclosure of Cash Flows Information:		
Cash paid during the year for excise taxes	\$ 240,000	\$ 911,111

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 the nine Bay Area counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, Sonoma, and the Santa Cruz county.

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 Sobrato Early Academic Language ("SEAL") program.

The Foundation's five active programs are:

1. Education – Focused on improving educational outcomes for low-income and English Learner students currently in persistently underperforming schools, enabling students to pursue higher achievement towards a postsecondary degree as a means to economic self-sufficiency.
2. Economic Opportunity – Focused on expanding access to middle-skill jobs and career-potential opportunities to increase economic opportunity for low-income individuals and families to help them actively participate and contribute to a vibrant Silicon Valley across multiple generations.
3. Essential Human Services – 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, including the Sobrato Centers of Nonprofits.
5. Special Initiatives – Focused on philanthropic initiatives not specifically related to the four program areas listed above.

On July 1, 2019, the SEAL program became an independent nonprofit organization and continues to transform educational systems by providing professional development, curriculum support, and technical assistance for educators. During the first six months of 2019, the Foundation incurred approximately \$3,600,000 in expenses and generated approximately \$1,480,000 of revenue related to the SEAL Program. At the time of the transition, the Foundation became SEAL's fiscal sponsor for the California Department of Education pre-kindergarten program grant and continues to support SEAL as a grantee under its Education program.

The Sobrato Family Foundation

Notes to Financial Statements

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 and support organization at the Silicon Valley Community Foundation, 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).

b. Description of Net Assets

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

- *Net Assets Without Donor Restrictions* - the portion of net assets that is not restricted by donor-imposed stipulations. These net assets are intended for use for the Foundation by its management and Board of Trustees.
- *Net Assets With Donor Restrictions* - the portion of net assets for which use is limited by donor-imposed stipulations. The Foundation's net assets with donor restrictions are temporary in nature that either expire by passage of time or can be fulfilled and removed by actions of the Foundation. As of December 31, 2019 the Foundation did not have any net assets with donor restrictions.

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 Trustees. 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.

The Sobrato Family Foundation

Notes to Financial Statements

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 individual investment managers and as reported by the Foundation's investment advisors. The year-end investment advisor's reporting is typically one quarter in arrears; however, the Foundation makes adjustments for known material transactions which have occurred subsequent to the investment advisor's report. 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.

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 and buildings 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. Program and Mission Related Investments

Program and mission 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 5.5%. This difference is amortized over the term of the notes.

The Sobrato Family Foundation

Notes to Financial Statements

h. 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 contributions without donor restrictions.

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.

i. 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.

j. 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.

k. 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 net assets without donor restrictions if the restrictions are met in the year the contribution is recognized. Contributions that are 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 net assets with donor restrictions and, when the restriction is met, then reclassified to net assets without donor restrictions and reported on the statement of activities and changes in net assets as net assets released from restrictions.

The Sobrato Family Foundation

Notes to Financial Statements

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 2019 and 2018 are from related parties.

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

l. Functional Expense Allocations

The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of functional expenses. Payroll related expenses are allocated based on the estimated time spent by each employee. All other expenses are charged directly to the program or supporting service.

m. 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.

n. 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.

The Sobrato Family Foundation

Notes to Financial Statements

o. Recent Accounting Pronouncements

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. The guidance clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. The amendments in this ASU related to contributions received are effective for the Foundation's fiscal year ending December 31, 2019, while the amendments related to contributions made are effective one year later. The adoption of this ASU for contributions received did not have a material effect on the Foundation's financial statements. The Foundation will adopt the changes from this ASU for contributions made to other organizations prospectively in 2020 and is currently evaluating the impact of this ASU on its financial statements related to contributions made.

p. Subsequent Events

The Foundation evaluated subsequent events from December 31, 2019 through August 14, 2020, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements, except as disclosed in Note 5 and as follows.

In 2019, the Foundation began contemplating expanding and restructuring several of its programs. In early 2020, the Redwood Shores Nonprofit Center was donated to The Sobrato Foundation at the Silicon Valley Community Foundation. The donation value was \$58,000,000; total assets and future in-kind rent obligations have decreased by roughly \$20,000,000 and \$6,000,000, respectively.

Also, in December 2019, a novel strain of coronavirus (COVID-19) was identified, and subsequent to year-end, the World Health Organization declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 pandemic has caused business disruption through mandated and voluntary closings of multiple businesses and organizations, although partial re-openings have since occurred.

The domestic and global investment markets initially experienced significant declines in value subsequent to year-end, resulting from uncertainty caused by the COVID-19 pandemic. While those declines have significantly reversed, the Foundation continues to monitor market events and conditions as they unfold and has established strategies to respond accordingly to expected increased market volatility. Additionally, in response to COVID-19, the Foundation has shifted resources in 2020 by providing rapid relief grants to those organizations most in need as well as abatement of common area maintenance charges for tenants at its non-profit centers.

The Sobrato Family Foundation

Notes to Financial Statements

Note 3 - Liquid Assets:

The Foundation's financial assets at December 31, 2019 and 2018 that are available to meet general expenditures over the next twelve months are as follows:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 12,228,557	\$ 13,150,864
Investments	265,024,907	258,331,427
Interest and dividends receivable		275,203
Program and mission related investments, net	25,881,835	21,312,233
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Total financial assets	303,135,299	293,069,727
Less amounts not available to be used within one year:		
Program and mission related investments, net	(18,469,346)	(19,012,322)
Private equity funds, included in investments	(39,433,649)	(45,173,849)
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Financial assets available to meet general expenditures over the next twelve months	\$ 245,232,304	\$ 228,883,556

The Foundation's goal is to maintain financial assets to meet all grant and operating needs. As financial obligations become due, investments are liquidated.

Note 4 - Investments:

Investments consist of the following as of December 31:

	2019	2018
Marketable securities - level 1 input	\$ 214,393,844	\$ 202,652,593
Private equity - net asset value (a)	39,433,649	45,173,849
Hedge fund - net asset value (b)	11,197,414	10,504,985
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Total alternative investments	50,631,063	55,678,834
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Total investments	\$ 265,024,907	\$ 258,331,427

- a) This category includes private equity funds that focus on buyout, growth equity and/or distressed debt. There were thirty-four individual funds in 2019 and 2018. 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 two and twelve years.

The Sobrato Family Foundation

Notes to Financial Statements

- 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:

	2019	2018
Realized (losses) gains, net	\$ (347,612)	\$ 5,074,714
Unrealized gain (losses), net	51,454,050	(22,163,024)
Dividend income	5,776,171	4,526,547
Management fees	(902,161)	(416,602)
Excise tax expense on investment income	(687,661)	(994,504)
Total investment income, net	\$ 55,292,787	\$ (13,972,869)

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

2019	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	\$ 39,433,649	\$ 8,829,512	N/A	N/A
Hedge fund	11,197,414	249,063	Quarterly	60 Days
	\$ 50,631,063	\$ 9,078,575		

2018	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity	\$ 45,173,849	\$ 9,779,934	N/A	N/A
Hedge fund	10,504,985		Quarterly	60 Days
	\$ 55,678,834	\$ 9,779,934		

The Sobrato Family Foundation

Notes to Financial Statements

Note 5 - Property Held for Sale:

Property held for sale consists of three properties that were donated to the Foundation by related parties during 2019 and for which the intent was to sell the property in the short term. The appraised value of the properties at the time of the donations were \$275,875,000. In January 2020 and February 2020, two of the properties were sold for a total of \$292,975,000. Total costs associated with the sale of the two properties were \$24,179,179, inclusive of rent credits offered to buyer in the amount of roughly \$22,000,000. The remaining property is currently available for sale and on the market for \$5,150,000.

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 and 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:

	2019	2018
Loans, net	\$ 23,526,653	\$ 19,109,540
Equity	2,355,182	2,202,693
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	\$ 25,881,835	\$ 21,312,233

There were eight and seven loans outstanding at December 31, 2019 and 2018, respectively. Each loan is secured by a deed of trust of certain property.

Repayment of the loans outstanding at December 31, 2019, is expected to be as follows:

2020	\$ 3,358,797
2021	982,730
2022	1,744,477
2023	5,206,461
2024	7,518,687
Thereafter	7,470,512
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Subtotal	26,281,664
Less unamortized discount for below market rates	(2,755,009)
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Total	\$ 23,526,655

The Sobrato Family Foundation

Notes to Financial Statements

As of December 31, 2019, the Foundation has an unfunded capital commitment for two equity investments of \$750,000.

Note 7 - Property and Equipment:

Property and equipment consists of the following at December 31:

	2019	2018
Land	\$ 5,625,537	\$ 5,625,537
Building	17,266,881	17,266,881
Interior	446,566	446,566
Furniture and fixtures	91,738	91,738
Equipment	611,775	651,696
	24,042,497	24,082,419
Less: accumulated depreciation	(4,118,609)	(3,686,056)
Property and equipment, net	\$ 19,923,888	\$ 20,396,363

Depreciation expense for the years ended December 31, 2019 and 2018 was \$469,103 and \$723,707, respectively.

Note 8 - Grants Payable:

Unconditional grants payable at December 31, 2019 are expected to be paid as follows:

2020	\$ 6,464,468
2021	303,250
Total	\$ 6,767,718

The Sobrato Family Foundation

Notes to Financial Statements

Note 9 - Future In-Kind Rent Obligations:

As discussed in Note 2(j), future in-kind rent obligations represent future rent concessions for tenants of the Sobrato Center for Nonprofits facility located in Redwood Shores, California. Also, as discussed in Note 2(p), the Sobrato Center for Nonprofits was donated to the Silicon Valley Community Foundation in 2020.

Note 10 - 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 2019 and 2018 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, 2019.

Note 11 - 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 \$286,287 and \$343,719, for the years ended December 31, 2019 and 2018, respectively.

The Sobrato Family Foundation

Notes to Financial Statements

Note 12 - Related Party Transactions:

During 2019 and 2018, the Foundation made unconditional grants to related organizations, where members of the Foundation's Board of Trustees are also Board members of the grantee organizations. Grants paid to related organizations for the years ended December 31, 2019 and 2018 were approximately \$24,859,000 and \$17,847,000, respectively. For the years ending December 31, 2019 and 2018, 56% and 39%, 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.

Foundation program personnel contribute services to The Sobrato Foundation, a related party, where a Foundation Director also serves as a member of The Sobrato Foundation Board. The value of these granted services was approximately \$326,000 and \$307,000 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018.

For the years ending December 31, 2019 and 2018, the Foundation received contributed in-kind administrative services and rent from a related party in the amount of \$1,471,831 and \$811,270, respectively.

Note 13 - Concentrations of Credit Risk:

Financial instruments, which potentially subject the Foundation to credit risk, consist primarily of cash and cash equivalents, investments, 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 program and mission 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.