THE ZELLERBACH FAMILY FOUNDATION

FINANCIAL STATEMENTS

December 31, 2015 and 2014

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Zellerbach Family Foundation
San Francisco, California

We have audited the accompanying financial statements of The Zellerbach Family Foundation, which comprise the statements of financial position as of December 31, 2015 and 2014, and 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 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 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 auditors' 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 auditors consider 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 Zellerbach Family Foundation as of December 31, 2015 and 2014, 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.

Burr Pilger Mayer, Inc.

San Francisco, California
July 11, 2016

THE ZELLERBACH FAMILY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash	$ 2,542,705	$ 962,447
Investments, at fair value	122,885,011	128,787,730
Receivables from unsettled investment transactions	38,020	3,968,183
Other assets, net	97,817	106,489
Total assets	$ 125,563,553	$ 133,824,849
LIABILITIES AND NET ASSETS		
Liabilities:		
Grants payable	$ 375,000	$ 995,000
Accounts payable and accrued expenses	192,511	157,639
Deferred federal excise tax	189,835	401,835
Total liabilities	757,346	1,554,474
Net assets - unrestricted	124,806,207	132,270,375
Total liabilities and net assets	$ 125,563,553	$ 133,824,849

The accompanying notes are an integral
part of these financial statements.

The Zellerbach Family Foundation

Statements of Activities and Changes in Net Assets

For the years ended December 31, 2015 and 2014

	2015	2014
Net investment income:		
Dividends, interest, and other income	$ 829,958	$ 774,589
Net realized and unrealized (loss) gain on investments	(942,219)	6,749,516
Investment management and advisory fees	(1,396,791)	(1,482,177)
Net investment (loss) income before federal excise taxes	(1,509,052)	6,041,928
Federal excise and income tax (benefit) expense	(34,600)	110,000
Net investment (loss) income	(1,474,452)	5,931,928
Expenses:		
Grants	4,200,750	4,781,379
Grant management	1,166,804	931,342
General and administrative	622,162	672,013
Total expenses	5,989,716	6,384,734
Change in net assets	(7,464,168)	(452,806)
Net assets - unrestricted:		
Beginning of year	132,270,375	132,723,181
End of year	$ 124,806,207	$ 132,270,375

The accompanying notes are an integral part of these financial statements.

THE ZELLERBACH FAMILY FOUNDATION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Interest and dividends received	$ 858,471	$ 763,031
Grants paid	(4,820,750)	(4,522,032)
Cash paid for payroll and benefits	(1,196,880)	(1,139,099)
Cash paid for other administrative expenses	(582,052)	(471,222)
Cash paid for investment related expenses	(393,029)	(411,672)
Excise taxes paid	(130,000)	(205,000)
Net cash used in operating activities	(6,264,240)	(5,985,994)
Cash flows from investing activities:		
Purchases of investments	(16,500,000)	(6,000,000)
Proceeds from sales of investments	22,577,982	9,713,362
Capital calls for alternative investments	(2,757,432)	(2,889,878)
Distributions from alternative investments	4,523,948	5,161,981
Net cash provided by investing activities	7,844,498	5,985,465
Change in cash	1,580,258	(529)
Cash, beginning of year	962,447	962,976
Cash, end of year	$ 2,542,705	$ 962,447
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets - unrestricted	$ (7,464,168)	$ (452,806)
Adjustments to reconcile change in net assets - unrestricted to net cash used in operating activities:		
Change in market value of investments	1,988,384	(5,689,391)
Depreciation and amortization	5,122	12,075
Changes in operating assets and liabilities:		
Other assets	3,549	(10,192)
Grants payable	(620,000)	260,000
Accounts payable and accrued expenses	34,873	(56,680)
Deferred federal excise taxes	(212,000)	(49,000)
Net cash used in operating activities	$ (6,264,240)	$ (5,985,994)

The accompanying notes are an integral
part of these financial statements.

1. Organization

The Zellerbach Family Foundation (the "Foundation") is a private family foundation established in 1956. The Foundation's mission is to be a catalyst for constructive social change by initiating and investing in efforts that strengthen families and communities. Funding priorities include the following program categories: immigrants and refugees, strengthening communities, public social service systems, community arts, youth development, and major community institutions.

The Foundation receives partial funding for its community arts program from two other foundations as described in Note 2.

The Foundation's administrative offices are located in San Francisco, California.

2. Significant Accounting Policies

Basis of Presentation and Description of Net Assets

The Foundation uses the accrual basis of accounting in accordance with U.S. generally accepted principles and reports information regarding its financial position and activities according to their classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets: The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets: The portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation. At December 31, 2015 and 2014, the Foundation did not have any temporarily restricted net assets.

Permanently Restricted Net Assets: The portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. At December 31, 2015 and 2014, the Foundation did not have any permanently restricted net assets.

Cash and Equivalents

Cash and equivalents consist of cash and short-term commercial paper with maturities of three months or less at date of purchase.

Continued

2. Significant Accounting Policies, continued

Investments

The Foundation reports investments at fair value. Realized gains and losses resulting from sales of securities are calculated on an adjusted cost based on the trade date for publicly traded investments or upon closing of the transaction for private investments. Dividend and interest income and other partnership income from alternative investments are accrued when earned. The fair value of alternative investments, global and fixed income funds is further described under the fair value measurement policy below.

Investment transactions are recorded on a trade-date basis. Receivables or payables from unsettled investment transactions represents cash received subsequent to year-end for sales or purchases of investments consummated prior to year-end. Investment management and advisory fees on the statement of activities and changes in net assets include direct fees paid to investment advisors, managers, and custodians, as well as estimated indirect fees netted against investment returns by investment managers.

Investments, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Fair Value Measurements

The Foundation carries certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date. In addition, the Foundation reports certain investments using the Net Asset Value ("NAV") per share as determined by investment managers under the so-called "practical expedient." The practical expedient allows net asset value per share to represent fair value for reporting purposes when the criteria for using this method are met.

Fair value measurement standards also require the Foundation to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique. The Foundation classifies its financial assets and liabilities according to three levels, and maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date, without adjustment. This category includes active exchange traded money market funds, actively managed fixed income, and equity securities whose values are based on quoted market prices.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange 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.

Level 3 – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment.

Continued

2. Significant Accounting Policies, continued

Fair Value of Financial Instruments

The estimated fair value of the Foundation's financial instruments not measured at fair value on a recurring basis (including accounts payable, accrued expenses, and grants payable) approximates their carrying values due to their short length to maturity.

Grants

Grants are expensed when the unconditional promise to give is approved by the Board of Directors. Grants are authorized subject to certain restrictions, and failure of the recipients to meet these restrictions may result in cancellations or refunds. Grant refunds are recorded as a reduction of grant expense at the time the grant is refunded to the Foundation.

Community Arts Program

The Foundation is participating in and administering a collaborative funding initiative with other organizations to support the community arts program to ensure the availability of a wide variety of art experiences, to promote multicultural community art, encourage new artists, and improve the capacity to perform and develop new audiences. Only 501(c)(3) organizations are eligible for grants. The Foundation records amounts received and paid on behalf of the other participating foundations as agency transactions. Therefore, no revenue or expense is recorded for the amounts received from the other participating foundations or for their share of the grants.

Excise and Income Taxes

The Foundation is a private foundation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from California franchise and/or income taxes under Section 23701(d) of the Revenue and Taxation Code. In addition, the Foundation may be subject to tax on unrelated business income, if any, generated by its investments.

The Foundation is subject to federal excise tax on its investment income. A provision for federal excise tax is accrued. Deferred taxes are recorded on the unrealized gain on investments (see Note 5).

Functional Expense Allocations

Expenses are allocated among grants management and general and administrative classifications on the basis of activity based estimates made by the Foundation's management. Grant management includes the expenses other than grants and investment expenses that relate to the Foundation's operations.

2. Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

The 2014 Statement of Cash Flows includes certain amounts that have been reclassified and differ from how they were presented the prior year. These reclassifications include a change to the direct method of presentation, changes to estimated investment fees, transactions within custodial accounts, net vs. gross capital calls and receivables from an unsettled investment transaction.

3. Investments

Investments at December 31, 2015 and 2014, consist of the following:

	2015	2014
Cash equivalents	$ 287,357	$ 1,571,069
Domestic equities and funds	17,804,132	18,917,369
Global equity funds	37,194,458	36,670,145
Private investments	25,254,526	25,099,971
Hedge funds	20,184,543	24,020,716
Inflation protection funds	7,424,091	7,510,141
Fixed income funds	14,735,904	14,998,319
	$ 122,885,011	$ 128,787,730

Continued

4. Fair Value Measurement and Net Asset Value Disclosure

Fair Value Disclosure

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2015:

	Total	Level 1
Cash equivalents	$ 287,357	$ 287,357
Domestic equities and funds:		
U.S. small cap	5,847,913	5,847,913
Alternative equity funds:		
Multi-strategy hedge	2,768,412	2,768,412
Inflation protection funds:		
Domestic real estate equity	1,841,415	1,841,415
Marketable natural resources	2,688,514	2,688,514
Fixed income funds:		
Domestic bonds	2,161,070	2,161,070
	15,594,681	$ 15,594,681
Investments valued using net asset value:		
Equity funds:		
Global and domestic equity	6,874,819	
U.S. long/short equity exposure	5,081,401	
Global equity funds:		
Global equity	10,487,404	
International equity	12,806,530	
International small cap	3,360,157	
Emerging markets	10,540,367	
Private investment funds:		
Venture capital/private equity	20,562,665	
Private real estate/hard assets	4,691,861	
Alternative equity funds:		
Multi-strategy hedge	-	
Inflation protection funds:		
Private natural resources	2,894,162	
Fixed income funds:		
U.S. Government bonds	8,493,192	
Absolute return	4,081,642	
Total investments valued using net asset value	89,874,200	
	$ 105,468,881	

Continued

4. Fair Value Measurement and Net Asset Value Disclosure, continued

Fair Value Disclosure, continued

The table below presents the balances of assets measured at fair value on a recurring basis at December 31, 2014:

	Total	Level 1
Cash equivalents	$ 1,571,069	$ 1,571,069
Domestic equities and funds:		
U.S. small cap	6,169,070	6,169,070
U.S. large cap	5,904,477	5,904,477
Inflation protection funds:		
Marketable natural resources	4,013,765	4,013,765
Fixed income funds:		
Domestic bonds	3,164,487	3,164,487
	20,822,868	$ 20,822,868
Investments valued using net asset value:		
Domestic equities and funds:		
U.S. large cap	6,843,822	
Global equity funds:		
Global equity	11,051,224	
International equity	13,569,419	
International small cap	3,156,959	
Emerging markets	8,892,543	
Private investment funds:		
Venture capital/private equity	18,966,848	
Private real estate/hard assets	6,133,123	
Alternative equity funds:		
Multi-strategy hedge	24,020,716	
Inflation protection funds:		
Private natural resources	3,496,376	
Fixed income funds:		
U.S. Government bonds	7,441,916	
Absolute return	4,391,916	
Total investments valued using net asset value	107,964,862	
	$ 128,787,730	

Continued

4. Fair Value Measurement and Net Asset Value Disclosure, continued

Net Asset Value Disclosure

The Foundation uses the NAV as a practical expedient to determine the fair value of all the underlying investments which do not have readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments by major category as of December 31, 2015 and 2014:

	2015		2014			
Strategies	Number of Funds	Valuation	Number of Funds	Valuation	Redemption Frequency	Notice Period
Equity funds:						
Global and domestic equity (a)	8	$ 47,480,038	7	$ 43,513,967	Monthly	6–60 days
Non-redeemable global equity (b)	1	1,670,640	-	-		
Alternative equity funds:						
Venture capital/private equity (c)	26	20,562,665	23	18,966,848	N/A	N/A
Private real estate/hard assets (d)	6	4,691,861	5	6,133,123	N/A	N/A
Multi-strategy hedge:						
Redeemable (e)	3	15,553,705	5	20,050,474	Quarterly/Annually Subject to lockup periods up to 3 years	15–95 days
Nonredeemable (f)	2	1,862,425	2	3,970,242	N/A	N/A
Inflation protection funds:						
Private natural resources (g)	2	2,894,162	2	3,496,376	N/A	N/A
Fixed income fund:						
U.S. Government bonds (h)	1	8,493,192	1	7,441,916	Daily	2 days
Emerging markets (i)	1	4,081,642	1	4,391,916	Monthly	60 days
Total	50	$ 107,290,330	46	$ 107,964,862		

a) This strategy seeks to obtain long-term returns through pooled funds invested in domestic, international, and global equities.

b) This is a European equities fund with a three-year lockup period from the date of purchase in March 2015.

c) Venture capital and private equity funds invest in various companies, both domestic and international. All but one of these funds are fund of funds. The partnerships typically have a legal life span of 10–12 years with very limited redemption rights for the Limited Partners. Liquidity is expected in the form of distributions from the funds when the underlying assets are sold. It is estimated that the underlying assets will be redeemed over the next 12 years. Unfunded commitments were $7,267,006 and $8,554,437 for 2015 and 2014, respectively.

Continued

4. Fair Value Measurement and Net Asset Value Disclosure, continued

Net Asset Value Disclosure, continued

d) This strategy invests in both domestic and international natural resources and real estate funds. All of these funds are fund of funds that cannot generally be redeemed and liquidity is expected in the form of distributions from the funds when the underlying assets are sold over the life of the partnerships, which is estimated to be over the next 12+ years. Unfunded commitments were $4,183,214 and $2,657,050 for 2015 and 2014, respectively.

e) Redeemable multi-strategy hedge funds include one fund ($4.9M) that engages primarily in event driven investments and in the securities of issuers that are experiencing financial distress which is redeemable quarterly. These funds also include one fund of funds ($6.0M) that invests in long/short term offshore hedge funds and one fund of funds ($4.6M) that invests in long/short and absolute return hedge funds. Both of these funds comprise a series of share classes which are redeemable in three year intervals.

f) Non-redeemable multi-strategy hedge includes a fund ($3.9M) that invests in bank holding company stock and debt auctioned by the U.S. Department of Treasury under the Trouble Asset Relief Program ("TARP") and small position ($0.1M) in a pool of private investments. The proceeds from both of these funds will be distributed as the underlying investments are sold.

g) This strategy invests in in royalty interests primarily in natural gas fields in the continental United States. These investments cannot be redeemed and distributions are received quarterly as royalty interest is generated. Unfunded commitments were $50,000 and $230,000 for 2015 and 2014, respectively.

h) This fund invests in intermediate and long-term United States Government bonds.

i) This emerging markets fund seeks exposure to currencies of emerging market countries by investing in money market instruments, including short-duration currency forwards and local currency debt. Currency forwards are the predominant investments and typically represent 60–70% of the portfolio.

Subsequent to year-end, the Foundation invested $3,000,000 in one new equities fund and sold partial interests, valued at $3,000,000, in one existing equities fund. Additionally, the Foundation executed investment commitments of $3,000,000 with two new funds and paid capital calls of approximately $1,600,000 on investment commitments.

5. Excise and Income Taxes

In accordance with the applicable provisions of the Internal Revenue Code, the Foundation is a private foundation and qualifies as a tax-exempt organization. Private foundations are liable for an excise tax of 2% (1% if minimum payout requirements prescribed by the Internal Revenue Code are met) on net investment income, excluding unrealized gains, as defined. For the years ended December 31, 2015 and 2014, the excise tax rates were 2%. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated based on a 2% rate.

Current federal excise taxes payable and unrelated business income taxes payable are included in accounts payable and accrued expenses in the statement of financial position.

Continued

5. Excise and Income Taxes, continued

The provision for current and deferred federal excise taxes for the years ended December 31, 2015 and 2014 was as follows:

	2015	2014
Current federal excise tax	$ 61,400	$ 159,000
Deferred federal excise tax	(96,000)	(49,000)
Total	$ (34,600)	$ 110,000

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. The investments includable for the 5% distribution requirement are based on average monthly balances and are exclusive of those assets deemed to be held for charitable activities or other program-related investments. In determining qualifying distributions, grant payments are considered on a cash basis and certain expenses are considered as qualifying distributions. The Foundation complied with the distribution requirements for 2015 and 2014.

6. Grants Payable

Grants are expensed when the unconditional promise to give is approved by the Board of Directors. Total grants payable as of December 31, 2015 and 2014 were $375,000 and $995,000, respectively. Grants payable as of December 31, 2015 are expected to be paid in the following year.

7. Commitments

Operating Leases

The Foundation leases office facilities under a non-cancelable operating lease agreement which expires in September 2017. Future minimum lease payments under the lease are as follows:

Year ending December 31:	
2016	$ 263,981
2017	200,723
	$ 464,704

Rental expense including common area charges was approximately $258,000 and $228,000 for the years ended December 31, 2015 and 2014, respectively.

Investments

As described in Note 4, the Foundation had capital commitments for investments totaling approximately $11,500,220 and $11,441,000 as of December 31, 2015 and 2014, respectively.

Continued

8. Retirement Plans

The Foundation maintains a defined contribution retirement plan. Under the plan, employees are allowed to contribute amounts up to statutory limits and, for employees working more than 1,000 hours per year and who have attained 21 years of age, the Foundation contributes 15% of employee compensation, as defined, to the plan. Vesting occurs after the second covered year of service. Employees are not required to make a contribution. The Foundation contributed $136,687 and $104,272 to the plan during 2015 and 2014, respectively.

9. Concentrations of Risk

Investments in general are exposed to various risks, such as interest rate, credit and overall market volatility. Adverse economic conditions either nationwide or internationally may result in a reduction of the investments carrying amount. The maximum loss on the investments would be the carrying amount in the financial statements less amounts insured by the Securities Investor Protection Corporation ("SIPC"). As of December 31, 2015 and 2014, the Foundation held investments in excess of the SIPC insurance limits.

As of December 31, 2015 and 2014, investments in three funds represented approximately 24% and 22% of total investments, respectively.

The Foundation maintains cash with one major financial institution. As of December 31, 2015, the Foundation was in excess of the federal depository insurance limit of $250,000.

10. Subsequent Events

The management of the Foundation has reviewed the changes in net assets for the period of time from its fiscal year ended December 31, 2015 through July 11, 2016, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements and no subsequent events have occurred which would require disclosure, other than those disclosed in Note 5.