

**THE ZELLERBACH FAMILY FOUNDATION**

---

**FINANCIAL STATEMENTS**

December 31, 2018 and 2017



# THE ZELLERBACH FAMILY FOUNDATION

---

## T A B L E O F C O N T E N T S

	<b>Page(s)</b>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Notes to Financial Statements	5–16



600 California Street, Suite 600, San Francisco, CA 94108

**Phone** (415) 421-5757    **Fax** (415) 288-6288    **Email** bpm@bpmcpa.com    **Web** bpmcpa.com

## 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, 2018 and 2017, 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 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 Zellerbach Family Foundation as of December 31, 2018 and 2017, 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.

BPM LLP

San Francisco, California  
July 1, 2019

# THE ZELLERBACH FAMILY FOUNDATION

## STATEMENTS OF FINANCIAL POSITION

As of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash	\$ 578,104	\$ 844,875
Investments, at fair value	129,151,068	139,526,273
Receivables from unsettled investment transactions	15,442	10,054
Right of use asset	1,488,373	1,699,733
Property and equipment, net	414,197	488,420
Other assets	<u>49,634</u>	<u>68,683</u>
Total assets	<u>\$ 131,696,818</u>	<u>\$ 142,638,038</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Grants payable	\$ 185,700	\$ 90,700
Accounts payable and accrued expenses	298,556	237,056
Lease liability	1,817,000	2,025,000
Deferred federal excise tax	<u>346,335</u>	<u>512,835</u>
Total liabilities	2,647,591	2,865,591
Net assets without donor restrictions	<u>129,049,227</u>	<u>139,772,447</u>
Total liabilities and net assets	<u>\$ 131,696,818</u>	<u>\$ 142,638,038</u>

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, 2018 and 2017

	2018	2017
Net investment income:		
Dividends, interest, and other income	\$ 721,148	\$ 594,708
Net realized and unrealized gain on investments	(4,639,448)	19,060,846
Net investment income before federal excise taxes	(3,918,300)	19,655,554
Federal excise and income tax expense	(45,000)	317,000
Net investment income	(3,873,300)	19,338,554
Support	-	500
Total investment income and support	(3,873,300)	19,339,054
Expenses:		
Program:		
Grants	4,738,000	4,547,190
Salaries and benefits	968,789	954,516
Occupancy	212,227	208,930
Depreciation	52,255	14,628
Office expenses	67,196	77,746
Professional services	33,719	100,094
Total program	6,072,186	5,903,104
General and administrative:		
Salaries and benefits	443,110	436,451
Occupancy	96,975	95,552
Depreciation	23,878	6,572
Office expenses	104,713	96,860
Moving expenses	-	43,940
Professional services	109,058	73,946
Total general and administrative	777,734	753,321
Total expenses	6,849,920	6,656,425
Change in net assets	(10,723,220)	12,682,629
Net assets without donor restrictions:		
Beginning of year	139,772,447	127,089,818
End of year	\$ 129,049,227	\$ 139,772,447

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Contributions	\$ -	\$ 500
Interest and dividends received	606,389	595,749
Grants paid	(4,643,000)	(4,336,490)
Cash paid for payroll and benefits	(1,393,352)	(1,442,597)
Cash paid for other administrative expenses	(620,025)	(714,696)
Cash paid for investment related expenses	(260,193)	(283,854)
Excise taxes paid	<u>(60,000)</u>	<u>(60,000)</u>
Net cash used in operating activities	<u>(6,370,181)</u>	<u>(6,241,388)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,910)	(227,562)
Purchases of investments	(4,200,000)	(6,800,000)
Proceeds from sales of investments	10,129,092	9,544,198
Capital calls for alternative investments	(3,596,083)	(3,583,325)
Distributions from alternative investments	<u>3,772,311</u>	<u>4,149,260</u>
Net cash provided by investing activities	<u>6,103,410</u>	<u>3,082,571</u>
Change in cash	(266,771)	(3,158,817)
Cash, beginning of year	<u>844,875</u>	<u>4,003,692</u>
Cash, end of year	<u>\$ 578,104</u>	<u>\$ 844,875</u>

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

# THE ZELLERBACH FAMILY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

---

### 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 in the San Francisco Bay Area. Funding priorities include the following program categories: immigrants and refugees, public social service systems, and promoting culture.

The Foundation receives partial funding for its community arts program from one other foundation 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: with donor restrictions and without donor restrictions.

**Net Assets with Donor Restrictions:** The part of net assets of the Foundation that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). At December 31, 2018 and 2017, the Foundation did not have any net assets with donor restrictions.

**Net Assets without Donor Restrictions:** The part of net assets of the Foundation that is not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

#### *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.

#### *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 are recorded with net realized and unrealized gains (losses) on the statement of activities and changes in net assets and include direct fees paid to investment advisors, managers, and custodians, as well as estimated indirect fees netted against investment returns by investment managers.

Continued

# THE ZELLERBACH FAMILY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

---

### 2. Significant Accounting Policies, continued

#### *Investments*, continued

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.

#### *Property and Equipment*

The Foundation capitalizes all acquisitions for property and equipment in excess of \$500. Equipment and furnishings are stated at cost and depreciated over three to seven years using the straight-line method. Leasehold improvements are stated at cost and are amortized over the remaining life of the lease.

#### *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.

Continued



# THE ZELLERBACH FAMILY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

---

### 2. Significant Accounting Policies, continued

#### *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 7).

#### *Functional Expense Allocations*

Expenses are recorded as attributable to either grant support or administrative functions whenever possible. However, certain categories of expense are attributable to more than one function and therefore must be allocated on a reasonable basis. Salaries, benefits, occupancy and depreciation expenses are allocated on the basis of time and effort estimates made by the Foundation's management.

#### *Leases*

The Foundation determines if an arrangement is a lease at inception. The operating lease is included in right of use ("ROU") assets on the statement of financial position.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the lease does not provide an implicit rate, a risk-free discount rate is used and determined using a period comparable with that of the lease term. The ROU asset also includes any lease payments made and excludes lease incentives. Lease expenses for lease payments is recognized on a straight-line basis over the lease term. The Foundation elected the practical expedient as specified in FASB ASC 842-10-65-1(f), which allows the Foundation to not reassess the lease classification for any expired or existing leases.

#### *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.

Continued

# THE ZELLERBACH FAMILY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### 2. Significant Accounting Policies, continued

#### *Recent Accounting Pronouncements*

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The ASU changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about liquidity, financial performance, and cash flows. The main difference between previous GAAP and Topic 958 is that net assets will now be presented in two classes rather than three. Not-for-Profit entities will report amounts for net assets with donor restrictions and net assets without donor restrictions. For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Foundation has elected to early adopt ASU 2016-14 in 2016.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU revises standard that is aimed at increasing transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2019 with early adoption permitted. The Foundation has elected to early adopt ASU 2016-02 in 2017. In July 2018, the FASB issued ASU 2018-11, *Leases: Targeted Improvements*. The Foundation is not required to retrospectively apply ASU 2016-02 to prior years due to implementation of ASU 2018-11 in 2017.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. This update changed the criteria for determining whether a contribution is conditional from a probability-based approach to one focused on barriers in an arrangement. For nonpublic entities making contributions, the ASU is effective for annual reporting periods after December 15, 2019 with early adoption permitted. The Foundation is currently evaluating the impact that this guidance will have on its financial statements.

### 3. Investments

Investments at December 31, 2018 and 2017, consist of the following:

	2018	2017
Domestic equities and funds	\$ 16,415,902	\$ 19,735,126
Global equity funds	24,456,178	29,795,423
Emerging market funds	11,086,176	14,738,568
Private investments	35,024,332	30,513,671
Multi-strategy hedge funds	18,264,386	18,703,022
Inflation protection funds	6,762,842	7,689,721
Fixed income funds	17,141,252	18,350,742
	<u>\$ 129,151,068</u>	<u>\$ 139,526,273</u>

Continued

**THE ZELLERBACH FAMILY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**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, 2018:

	Total	Level 1	NAV
Domestic equities and funds:			
U.S. large cap	\$ 3,387,517	\$ 3,387,517	\$ -
Global equity funds:			
Global equity	4,734,030	4,734,030	-
Emerging markets	2,534,037	2,534,037	-
Inflation protection funds:			
Domestic real estate equity	1,296,710	1,296,710	-
Marketable natural resources	2,449,497	2,449,497	-
Fixed income funds:			
Domestic bonds	4,163,529	4,163,529	-
Domestic equities and funds:			
U.S. small cap	4,500,519	-	4,500,519
U.S. long/short equity exposure	8,527,866	-	8,527,866
Global equity funds:			
Global equity	5,089,869	-	5,089,869
International equity	12,923,975	-	12,923,975
International small cap	1,708,303	-	1,708,303
Emerging markets	8,552,139	-	8,552,139
Private investment funds:			
Venture capital/private equity	25,987,496	-	25,987,496
Private real estate/hard assets	9,036,836	-	9,036,836
Multi-strategy hedge funds	18,264,386	-	18,264,386
Inflation protection funds:			
Private natural resources	3,016,636	-	3,016,636
Fixed income funds:			
U.S. Government bonds	8,635,689	-	8,635,689
Absolute return	4,342,034	-	4,342,034
Total investments	\$ 129,151,068	\$ 18,565,320	\$ 110,585,748

Continued

**THE ZELLERBACH FAMILY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2018 and 2017

**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, 2017:

	Total	Level 1	NAV
Global equity funds:			
Global equity	\$ 5,490,403	\$ 5,490,403	\$ -
Inflation protection funds:			
Domestic real estate equity	1,441,811	1,441,811	-
Marketable natural resources	3,280,020	3,280,020	-
Fixed income funds:			
Domestic bonds	5,202,984	5,202,984	-
Domestic equities and funds:			
U.S. small cap	6,154,654	-	6,154,654
U.S. large cap	3,545,697	-	3,545,697
U.S. long/short equity exposure	10,034,775	-	10,034,775
Global equity funds:			
Global equity	5,608,599	-	5,608,599
International equity	15,430,289	-	15,430,289
International small cap	3,266,132	-	3,266,132
Emerging markets	14,738,568	-	14,738,568
Private investment funds:			
Venture capital/private equity	24,806,615	-	24,806,615
Private real estate/hard assets	5,707,055	-	5,707,055
Multi-strategy hedge funds	18,703,022	-	18,703,022
Inflation protection funds:			
Private natural resources	2,697,891	-	2,697,891
Fixed income funds:			
U.S. Government bonds	8,565,238	-	8,565,238
Absolute return	4,582,520	-	4,582,520
Total investments	\$ 139,256,273	\$ 15,415,218	\$ 123,841,055

Continued

# THE ZELLERBACH FAMILY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### 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, 2018 and 2017:

Strategies	2018		2017		Redemption Frequency	Notice Period
	Number of Funds	Valuation	Number of Funds	Valuation		
Equity funds:						
Global and domestic equity (a)	10	\$ 41,302,671	10	\$ 56,463,214	Monthly	6–60 days
Non-redeemable global equity (b)	-	-	1	2,315,500	Quarterly	90 days
Alternative equity funds:						
Venture capital/private equity (c)	30	25,987,496	30	22,974,888	N/A	N/A
Private real estate/hard assets (d)	9	9,036,836	7	7,538,782	N/A	N/A
Multi-strategy hedge:						
Redeemable (e)	3	16,641,300	3	17,225,807	Quarterly/Annually Subject to lockup periods up to 3 years	60–95 days
Nonredeemable (f)	3	1,623,086	2	1,477,215	(f)	(f)
Inflation protection funds:						
Private natural resources (g)	2	3,016,636	2	2,697,891	N/A	N/A
Fixed income fund:						
U.S. Government bonds (h)	1	8,635,689	1	8,565,238	Daily	2 days
Emerging markets (i)	1	4,342,034	1	4,582,520	Monthly	60 days
Total	<u>59</u>	<u>\$ 110,585,748</u>	<u>57</u>	<u>\$ 123,841,055</u>		

- 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 which ended in March 2018.
- c) Venture capital and private equity funds invest in various companies, both domestic and international. These funds include fund of funds and a hedge fund. 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 \$11,290,916 and \$8,714,848 for 2018 and 2017, respectively.

Continued

# THE ZELLERBACH FAMILY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

---

### 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. These funds are fund of funds, except one, 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 \$3,737,770 and \$2,887,887 for 2018 and 2017, respectively.
- e) Redeemable multi-strategy hedge funds include one fund (\$5.8M) 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 (\$6.1M) that invests in long/short term offshore hedge funds and one fund of funds (\$4.8) 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 (\$1M) 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 (less than \$0.1M) in a pool of private investments. The proceeds from both of these funds will be distributed as the underlying investments are sold. In addition, this strategy includes one hedge fund drawdown vehicle. This fund (\$.6M) has a lockup period of 5 years from its 2017 commitment date, with unfunded commitments of \$1.4M and \$1.6M for 2018 and 2017, respectively.
- g) This strategy invests 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 \$0 for 2018 and 2017.
- 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 \$4,500,000 in a new global equities fund and sold all interests, valued at \$5,200,000, in a global equities fund and partial interests, valued at \$4,000,000, in four equities funds and a bond fund. The Foundation also executed an investment commitment \$3,500,000 with a new Chinese equities fund, of which \$2,100,000 in capital calls were drawn down. Additionally, the Foundation executed an investment commitment of \$1,000,000 with a new venture capital fund and paid capital calls of approximately \$2,000,000 on alternative investment commitments.

Continued

# THE ZELLERBACH FAMILY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### 5. Property and Equipment

Property and equipment are summarized as follows as of December 31:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 152,194	\$ 150,284
Leasehold improvements	<u>414,345</u>	<u>414,345</u>
	566,539	564,629
Less accumulated depreciation and amortization	<u>(152,342)</u>	<u>(76,209)</u>
Total	<u>\$ 414,197</u>	<u>\$ 488,420</u>

Depreciation and amortization expense for the years ended December 31, 2018 and 2017, was \$76,133 and \$21,200, respectively.

### 6. Liquidity

The Foundation has a goal to maintain cash and liquid short-term investments on hand at an allocation of at least 2% of total investments, which covers approximately five months of normal operating expenses. In addition, as part of its liquidity management, the Foundation structures its financial assets to be available for regular quarterly rebalancing redemptions that align with the timing of quarterly grant disbursements.

As of December 31, 2018, cash and liquid short-term investments comprised 4% of total investments, another 11% of investments were redeemable on a daily basis and an additional 46% of investments were redeemable on a monthly or quarterly basis. Approximately 39% of investments had liquidity restrictions in excess of one year.

As of December 31, 2017, cash and liquid short-term investments comprised 4% of total investments, another 7% of investments were redeemable on a daily basis and an additional 54% of investments were redeemable on a monthly or quarterly basis. Approximately 35% of investments had liquidity restrictions in excess of one year.

The Foundation's financial assets available within one year of financial statement date for general expenditure are as follows:

	<u>2018</u>	<u>2017</u>
Financial assets, at year end	\$ 129,744,614	\$ 140,381,202
Less those unavailable for general expenditures within one year:		
Investments with liquidity restrictions	<u>(50,547,232)</u>	<u>(48,868,287)</u>
Financial assets available to meet cash needs for general expenditures within on year	<u>\$ 79,197,382</u>	<u>\$ 91,512,915</u>

Continued

# THE ZELLERBACH FAMILY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### 7. 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, 2018 and 2017, the excise tax rates were 2% for both years. Deferred excise taxes arise primarily from unrealized tax basis gains on investments and are calculated based on a 2% rate.

Estimated tax provisions, both current and deferred, are recorded at the 2% rate during the current year. Adjustments between estimated and actual tax expense, including any adjustments between the 2% and 1% rate, are made to deferred taxes in the subsequent year in which the tax return is filed. The 2017 current federal excise tax provision includes a downward adjustment for meeting the 1% rate requirements in 2016.

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.

The provision for current and deferred federal excise taxes for the years ended December 31, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Current federal excise tax	\$ 121,500	\$ 44,000
Deferred federal excise tax	<u>(166,500)</u>	<u>273,000</u>
Total	<u>\$ (45,000)</u>	<u>\$ 317,000</u>

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 2018 and 2017, but has approximately \$1,900,000 and \$1,700,000, respectively, of undistributed income that must be distributed the following year.

### 8. 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, 2018 and 2017 were \$185,700 and \$90,700, respectively. Grants payable as of December 31, 2018 are expected to be paid in the following year.

Continued



# THE ZELLERBACH FAMILY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

### 9. Commitments

#### *Operating Leases*

The Foundation leases office facilities under a non-cancelable operating lease agreement which expires in September 2024, with an option to extend an additional five years. Future minimum undiscounted lease payments under the lease are as follows:

Year ending December 31:	
2019	\$ 330,947
2020	340,873
2021	351,110
2022	361,637
2023	372,487
Thereafter	<u>285,605</u>
Total lease payments	2,042,659
Less discount	<u>(225,659)</u>
	<u>\$ 1,817,000</u>

Operating lease cost including common area charges was approximately \$309,000 and \$304,000 for the years ended December 31, 2018 and 2017, respectively.

#### *Investments*

As described in Note 4, the Foundation had capital commitments for investments totaling approximately \$16,428,686 and \$13,202,735 as of December 31, 2018 and 2017, respectively.

### 10. 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 \$152,431 and \$143,752 to the plan during 2018 and 2017, respectively.

### 11. 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, 2018 and 2017, the Foundation held investments in excess of the SIPC insurance limits.

Continued

# THE ZELLERBACH FAMILY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

---

### 11. Concentrations of Risk, continued

As of December 31, 2018 and 2017, investments in three funds represented approximately 20% and 22% of total investments, respectively.

The Foundation maintains cash with one major financial institution. As of December 31, 2018, the Foundation was in excess of the federal depository insurance limit of \$250,000.

### 12. 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, 2018 through July 1, 2019, 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 subsequent events have occurred which would require disclosure, other than those disclosed in Note 4.