

THE ZELLERBACH FAMILY FOUNDATION

FINANCIAL STATEMENTS

December 31, 2022 and 2021



THE ZELLERBACH FAMILY FOUNDATION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Zellerbach Family Foundation, which comprise the statements of financial position as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Zellerbach Family Foundation as of December 31, 2022 and 2021, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Zellerbach Family Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Zellerbach Family Foundation's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

To the Board of Directors of
The Zellerbach Family Foundation

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Zellerbach Family Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Zellerbach Family Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BPM LLP

San Jose, California
July 28, 2023

THE ZELLERBACH FAMILY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 3,342,990	\$ 6,763,204
Receivables from unsettled investment transactions	1,680,566	685,510
Investments, at fair value	149,223,115	178,322,448
Program-related investments	500,000	-
Operating lease right-of-use asset, net	507,563	775,021
Property and equipment, net	133,061	199,394
Other assets	55,369	49,634
	<u> </u>	<u> </u>
Total assets	<u>\$ 155,442,664</u>	<u>\$ 186,795,211</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Grants payable	\$ 375,000	\$ 444,000
Accounts payable and accrued expenses	378,238	223,631
Operating lease liability	644,000	975,000
Deferred federal excise tax	400,901	880,604
	<u> </u>	<u> </u>
Total liabilities	1,798,139	2,523,235
Net assets without donor restrictions	<u>153,644,525</u>	<u>184,271,976</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 155,442,664</u>	<u>\$ 186,795,211</u>

THE ZELLERBACH FAMILY FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended December 31, 2022 and 2021

	2022	2021
Net investment income:		
Dividends, interest, and other income	\$ 568,222	\$ 630,108
Net realized and unrealized (loss) gain on investments	(23,672,978)	34,927,931
Net investment (loss) income before federal excise taxes	(23,104,756)	35,558,039
Federal excise and income tax (benefit) expense	(324,100)	494,208
Net investment (loss) income	(22,780,656)	35,063,831
Support	100,000	81,000
Total investment income and support	(22,680,656)	35,144,831
Expenses:		
Program:		
Grants	5,555,300	5,395,900
Salaries and benefits	1,128,813	1,026,879
Occupancy	226,939	217,765
Depreciation	53,403	50,227
Memberships	24,090	25,139
Office expenses	40,794	28,608
Professional services	86,383	70,810
Total program	7,115,722	6,815,328
General and administrative:		
Salaries and benefits	466,103	462,153
Occupancy	93,706	95,159
Depreciation	22,051	21,948
Office expenses	81,126	61,502
Professional services	168,087	204,833
Total general and administrative	831,073	845,595
Total expenses	7,946,795	7,660,923
Change in net assets	(30,627,451)	27,483,908
Net assets without donor restrictions:		
Beginning of year	184,271,976	156,788,068
End of year	\$ 153,644,525	\$ 184,271,976

THE ZELLERBACH FAMILY FOUNDATION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Contributions	\$ 100,000	\$ 81,000
Interest and dividends received	561,509	628,250
Grants paid	(5,444,300)	(5,403,900)
Program-related investments paid	(500,000)	-
Cash paid for payroll and benefits	(1,571,328)	(1,480,753)
Cash paid for other administrative expenses	(823,060)	(750,836)
Cash paid for investment related expenses	(256,374)	(247,649)
Excise taxes paid	(171,926)	(189,492)
	<u>(8,105,479)</u>	<u>(7,363,380)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of property and equipment	(9,121)	(3,425)
Purchases of investments	(7,000,000)	(6,000,000)
Proceeds from sales of investments	7,831,475	8,143,054
Capital calls for alternative investments	(5,039,392)	(5,176,643)
Distributions from alternative investments	8,902,303	11,762,244
	<u>4,685,265</u>	<u>8,725,230</u>
Net cash provided by investing activities		
Change in cash and cash equivalents	(3,420,214)	1,361,850
Cash and cash equivalents, beginning of year	<u>6,763,204</u>	<u>5,401,354</u>
Cash and cash equivalents, end of year	<u>\$ 3,342,990</u>	<u>\$ 6,763,204</u>

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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.

In June 2021, the Foundation’s Board of Directors (the “Board”) approved a new strategic framework that takes a more integrated approach to its grantmaking to better address the systemic barriers that impede individuals and families from thriving and expand the opportunities available to them. The new framework promotes belonging, connection, and a shared sense of safety among people and communities in San Francisco, Alameda, and Contra Costa counties. Implementation began in January 2022.

The Foundation receives partial funding for its community arts program from one other private foundation and one community foundation, as described in Note 2.

The Foundation’s administrative office is 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 accounting principles generally accepted in the United States of America (“U.S. GAAP”) 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 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).

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). When restrictions are satisfied in the same accounting period as the receipt of the contribution, the Foundation reports both the revenue and related expense in the net assets without donor restrictions class. As of December 31, 2022 and 2021, the Foundation did not have any net assets with donor restrictions.

Cash and Cash Equivalents

Cash and cash 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.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

2. Significant Accounting Policies, continued

Investments, continued

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 statements 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.

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.

Program-Related Investments

Program-Related Investments (“PRIs”) is funding which specifically furthers the Foundation’s charitable purpose. In October 2022, the Foundation extended a five-year interest free PRI loan of \$500,000. Monitoring is performed annually to determine if an allowance is necessary regarding collectability. The Foundation deemed no allowance was necessary for the year December 31, 2022. As of December 31, 2022, the Foundation does not have any impaired loans.

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 a liability in an orderly transaction between market participants at the measurement date.

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.

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 NAV per share to represent fair value for reporting purposes when the criteria for using this method are met.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

2. Significant Accounting Policies, continued

Property and Equipment

The Foundation capitalizes all acquisitions for property and equipment in which per unit prices are 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. 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. Conditional grants are recognized as grant expense in the period in which the recipient meets certain criteria or barriers.

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 charities or 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. During 2022 and 2021, the Foundation also received support for this program from a community foundation, which is recorded as support and grant expense on the statements of activities and changes in net assets.

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).

In December 2019, the Consolidated Appropriations Act (the "2020 Act") was enacted. The 2020 Act includes a number of changes to existing U.S. tax laws that impact the Foundation, most notably a flat excise tax of 1.39% was applied to net investment income for tax years beginning after December 31, 2019. The deferred federal excise tax liability for December 31, 2022 and 2021 was at the 1.39% rate per the 2020 Act (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.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

2. Significant Accounting Policies, continued

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 statements 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 Foundation elected the practical expedient at the time of implementation. The ROU asset also includes any lease payments made and excludes lease incentives. Lease expenses for lease payments are recognized on a straight-line basis over the lease term.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

3. Investments

Investments consisted of the following as of December 31:

	<u>2022</u>	<u>2021</u>
Global equity funds	\$ 43,110,040	\$ 51,616,142
Domestic equities and funds	16,246,006	19,023,012
Inflation protection funds	5,764,995	5,227,220
Private investments	50,232,412	64,664,647
Multi-strategy hedge funds	16,692,295	22,522,927
Fixed income funds	<u>17,177,367</u>	<u>15,268,500</u>
	<u>\$ 149,223,115</u>	<u>\$ 178,322,448</u>

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 as of December 31, 2022:

	Total	Level 1	NAV
Cash equivalents:			
Money market fund	\$ 472,013	\$ 472,013	\$ -
Investments:			
Global equity funds:			
Emerging markets	\$ 8,543,477	\$ 1,181,708	\$ 7,361,769
Global equity	15,476,292	-	15,476,292
International equity	19,090,271	-	19,090,271
Domestic equities and funds:			
U.S. long/short equity exposure	10,623,702	4,005,137	6,618,565
U.S. small cap	5,622,304	-	5,622,304
Inflation protection funds:			
Marketable natural resources	1,346,262	1,346,262	-
Private natural resources	4,418,733	-	4,418,733
Private investment funds:			
Venture capital/private equity	42,203,312	-	42,203,312
Private real estate/hard assets	8,029,100	-	8,029,100
Multi-strategy hedge funds	16,692,295	-	16,692,295
Fixed income funds:			
Domestic bonds	9,144,346	5,275,250	3,869,096
U.S. Government bonds	8,033,021	-	8,033,021
Total investments	\$ 149,223,115	\$ 11,808,357	\$ 137,414,758

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 as of December 31, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>NAV</u>
Cash equivalents:			
Money market fund	\$ 3,972,013	\$ 3,972,013	\$ -
Investments:			
Global equity funds:			
Emerging markets	\$ 1,488,619	\$ 1,488,619	\$ -
Global equity	18,463,319	-	18,463,319
International equity	21,790,494	-	21,790,494
Emerging markets	9,873,710	-	9,873,710
Domestic equities and funds:			
U.S. long/short equity exposure	12,823,691	5,114,877	7,708,814
U.S. small cap	6,199,321	-	6,199,321
Inflation protection funds:			
Marketable natural resources	3,963,938	3,963,938	-
Private natural resources	1,263,282	-	1,263,282
Private investment funds:			
Venture capital/private equity	51,231,006	-	51,231,006
Private real estate/hard assets	13,433,641	-	13,433,641
Multi-strategy hedge funds	22,522,927	-	22,522,927
Fixed income funds:			
Domestic bonds	6,084,496	6,084,496	-
U.S. Government bonds	9,184,004	-	9,184,004
Total investments	<u>\$ 178,322,448</u>	<u>\$ 16,651,930</u>	<u>\$ 161,670,518</u>

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 prepares their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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

Net Asset Value Disclosure, continued

The following table lists investments by major category as of December 31, 2022 and 2021:

Strategies	2022		2021		Redemption Frequency	Notice Period
	Number of Funds	Valuation	Number of Funds	Valuation		
Equity funds:						
Global and domestic equity (a)	7	\$ 43,813,519	7	\$ 51,517,805	Monthly	6–30 days
Non-redeemable global equity (b)	3	10,355,681	3	12,517,853	(b)	(b)
Alternative equity funds:						
Venture capital/private equity (c)	41	42,203,312	38	51,231,006	N/A	N/A
Private real estate/hard assets (d)	12	8,029,100	12	13,433,641	N/A	N/A
Multi-strategy hedge:						
Redeemable (e)	4	13,307,759	4	19,834,248	Quarterly/ Redemptions scheduled into 2023	60–95 days
Nonredeemable (f)	1	3,384,535	1	2,688,679	(f)	(f)
Inflation protection funds:						
Private natural resources (g)	2	4,418,733	1	1,263,282	N/A	N/A
Fixed income fund:						
U.S. Government bonds (h)	1	8,033,021	1	9,184,004	Daily	2 days
Private Bonds (i)	1	3,869,098	0	-	Monthly with lockup period into 2023	10 days
Total	72	\$ 137,414,758	67	\$ 161,670,518		

- (a) This strategy seeks to obtain long-term returns through pooled funds invested in domestic, international, and global equities.
- (b) This strategy includes a Chinese equities fund with a two and one half-year lockup period that ended in August 2021, a European equities fund with a series of lockup periods that extend through June 2023 and a global equities fund with a three-year lockup period that ends in May 2023.
- (c) Venture capital and private equity funds invest in various companies, both domestic and international. These funds (except for two) are fund of funds. 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 \$14,634,201 and \$11,750,062 for the years ended December 31, 2022 and 2021, respectively.
- (d) This strategy invests in both domestic and international natural resources and real estate funds. These funds 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 \$3,989,538 and \$5,151,954 for the years ended December 31, 2022 and 2021, respectively.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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

Net Asset Value Disclosure, continued

- (e) Redeemable multi-strategy hedge funds include one fund (\$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 (\$1.6M) that invests in long/short term offshore hedge funds and one fund of funds (\$1.2M) that invests in long/short and absolute return hedge funds, both of which are in the process of being fully redeemed via quarterly redemptions scheduled through mid-2023.
- (f) Non-redeemable multi-strategy hedge funds included one hedge fund drawdown vehicle with a lockup period of five years from its 2017 commitment date, with no unfunded commitments as of December 31, 2022 and 2021.
- (g) This strategy invests in royalty interests primarily in natural gas fields in the continental U.S. and carbon credits in California. At the end of 2021, there were two natural gas funds that merged into one fund, which was kept as an ongoing investment.
- (h) This fund invests in intermediate and long-term United States Government bonds.
- (i) This investment buys closed end taxable bond funds at a discount.

Subsequent to year-end, the Foundation invested \$3,500,000 to a hedge fund that specializes in event-driven/merger arbitrage, long/short equity, volatility trading, credit and convertible arbitrage, and committed \$1,500,000 to a new venture capital that invests in early-stage technology companies. Additionally, the Foundation paid capital calls of approximately \$1,900,000 on alternative investment commitments.

5. Property and Equipment, Net

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

	2022	2021
Furniture and fixtures	\$ 164,474	\$ 158,347
Leasehold improvements	414,345	414,345
	578,819	572,692
Less: accumulated depreciation and amortization	(445,758)	(373,298)
Total	<u>\$ 133,061</u>	<u>\$ 199,394</u>

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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, 2022, cash and liquid short-term investments comprised 2% of total investments, another 5% of investments were redeemable on a daily basis and an additional 37% of investments were redeemable on a monthly or quarterly basis. Approximately 55% of investments had liquidity restrictions in excess of one year.

As of December 31, 2021, cash and liquid short-term investments comprised 4% of total investments, another 5% of investments were redeemable on a daily basis and an additional 38% of investments were redeemable on a monthly or quarterly basis. Approximately 53% of investments had liquidity restrictions in excess of one year.

The Foundation's financial assets available within one year of the financial statement date for general expenditure are as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Financial assets, at year end	\$ 154,246,671	\$ 185,771,162
Less those unavailable for general expenditures within one year:		
Investments with liquidity restrictions	<u>(72,260,459)</u>	<u>(81,134,461)</u>
Financial assets available to meet cash needs for general expenditures within on year	<u>\$ 81,986,212</u>	<u>\$ 104,636,701</u>

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. Beginning with the tax year 2020, the excise tax rate for private foundations was changed to 1.39%.

For the years ended December 31, 2022 and 2021, the excise tax rates were at 1.39%, and estimated tax provisions, both current and deferred, were recorded at the 1.39% rate. Deferred excise taxes arise primarily from unrealized tax basis gains on investments. Adjustments between estimated and actual tax expense are made to deferred taxes in the subsequent year in which the tax return is filed.

As of December 31, 2022 and 2021, the Foundation had federal net operating loss carryforwards associated with unrelated business income of approximately \$99,000 and \$96,000, respectively.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

7. Excise and Income Taxes, continued

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

	2022	2021
Current federal excise tax expense	\$ 189,400	\$ 179,558
Deferred federal excise tax (benefit) expense	(513,500)	314,650
Total	<u>\$ (324,100)</u>	<u>\$ 494,208</u>

The Foundation is subject to the 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 the years ended December 31, 2022 and 2021, but has approximately \$2,500,000 and \$2,700,000, 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. Total grants payable as of December 31, 2022 and 2021 were \$375,000 and \$444,000, respectively. Grants payable as of December 31, 2022 are expected to be paid in the following year.

9. Commitments and Contingencies

Operating Lease

The Foundation leases office space under a non-cancelable operating lease agreement which expires in September 2024, with an option to extend an additional five years.

The total ROU asset, net of accumulated amortization, was \$507,563 and \$775,021 for the years ended December 31, 2022 and 2021, respectively. The current portion of lease liability was \$359,000 and the long-term portion of lease liability was \$285,000 as of December 31, 2022.

The aggregate future minimum lease payments under the non-cancellable operating lease as of December 1, are as follows:

Year ending December 31:		
2023	\$	372,487
2024		<u>285,605</u>
Total lease payments		658,092
Less: discount		<u>(14,092)</u>
	\$	<u>644,000</u>

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

9. Commitments and Contingencies, continued

Operating Lease, continued

Operating lease cost including common area charges was approximately \$321,000 and \$313,000 for the years ended December 31, 2022 and 2021, respectively. Cash paid for amounts included in operating cash flows from operating leases was \$361,637 and \$351,110 for the years ended December 31, 2022 and 2021, respectively. The remaining lease term is 2 years and the discount rate is 5% as of December 31, 2022.

Investments

As described in Note 4, the Foundation had capital commitments for investments totaling approximately \$22,623,739 and \$16,902,105 as of December 31, 2022 and 2021, respectively.

10. Retirement Plans

The Foundation maintains a defined contribution retirement plan (the "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 \$173,466 and \$152,135 to the Plan for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, the Foundation held investments in excess of the SIPC insurance limits.

As of December 31, 2022 and 2021, investments in two funds represented approximately 12% and 11% of total investments.

The Foundation maintains cash with one major financial institution. As of December 31, 2022, the Foundation was in excess of the federal depository insurance limit of \$2,620,977.

12. Subsequent Events

In accordance with accounting standards affecting disclosures of subsequent events, the Foundation evaluated subsequent events for recognition and disclosure through July 28, 2023, the date which these financial statements were available to be issued. Management concluded that, other than disclosed in Note 4, no material subsequent events have occurred since December 31, 2022 that require recognition or disclosure in the financial statements.