

THE ZELLERBACH FAMILY FOUNDATION

FINANCIAL STATEMENTS

December 31, 2020 and 2019



THE ZELLERBACH FAMILY FOUNDATION

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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, 2020 and 2019, 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, 2020 and 2019, 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 16, 2021

THE ZELLERBACH FAMILY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

As of December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 5,401,354	\$ 1,016,487
Investments, at fair value	151,943,700	141,444,851
Receivables from unsettled investment transactions	615,474	12,610
Right of use asset	1,028,005	1,264,226
Property and equipment, net	268,144	338,790
Other assets	<u>49,634</u>	<u>49,634</u>
 Total assets	 <u><u>\$ 159,306,311</u></u>	 <u><u>\$ 144,126,598</u></u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Grants payable	\$ 452,000	\$ 565,000
Accounts payable and accrued expenses	192,408	239,292
Lease liability	1,281,000	1,560,000
Deferred federal excise tax	<u>592,835</u>	<u>400,335</u>
 Total liabilities	 2,518,243	 2,764,627
 Net assets without donor restrictions	 <u>156,788,068</u>	 <u>141,361,971</u>
 Total liabilities and net assets	 <u><u>\$ 159,306,311</u></u>	 <u><u>\$ 144,126,598</u></u>

THE ZELLERBACH FAMILY FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended December 31, 2020 and 2019

Net investment income:		
Dividends, interest, and other income	\$ 669,907	\$ 662,387
Net realized and unrealized gain on investments	<u>22,339,623</u>	<u>19,037,474</u>
Net investment income before federal excise taxes	23,009,530	19,699,861
Federal excise and income tax expense	<u>322,677</u>	<u>235,938</u>
Net investment income	22,686,853	19,463,923
Support	<u>30,000</u>	<u>30,000</u>
Total investment income and support	<u>22,716,853</u>	<u>19,493,923</u>
Expenses:		
Program:		
Grants	5,025,775	5,074,520
Salaries and benefits	983,577	966,138
Occupancy	221,046	219,144
Depreciation	53,990	53,018
Memberships	35,038	44,088
Office expenses	25,696	39,262
Professional services	<u>47,955</u>	<u>32,446</u>
Total program	<u>6,393,077</u>	<u>6,428,616</u>
General and administrative:		
Salaries and benefits	443,987	419,373
Occupancy	87,321	92,541
Depreciation	21,328	22,389
Office expenses	51,911	80,425
Professional services	<u>293,132</u>	<u>137,835</u>
Total general and administrative	<u>897,679</u>	<u>752,563</u>
Total expenses	<u>7,290,756</u>	<u>7,181,179</u>
Change in net assets	15,426,097	12,312,744
Net assets without donor restrictions:		
Beginning of year	<u>141,361,971</u>	<u>129,049,227</u>
End of year	<u>\$ 156,788,068</u>	<u>\$ 141,361,971</u>

THE ZELLERBACH FAMILY FOUNDATION

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Contributions	\$ 55,000	\$ 30,000
Interest and dividends received	607,567	582,822
Grants paid	(5,313,775)	(4,695,220)
Cash paid for payroll and benefits	(1,373,511)	(1,371,430)
Cash paid for other administrative expenses	(800,314)	(692,676)
Cash paid for investment related expenses	(250,256)	(250,685)
Excise taxes paid	(85,677)	(241,202)
	<u>(7,160,966)</u>	<u>(6,638,391)</u>
Net cash used in operating activities		
	<u>(7,160,966)</u>	<u>(6,638,391)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(4,672)	-
Purchases of investments	(14,300,000)	(16,300,000)
Proceeds from sales of investments	22,989,231	21,956,902
Capital calls for alternative investments	(3,439,906)	(3,250,784)
Distributions from alternative investments	6,301,180	4,670,656
	<u>11,545,833</u>	<u>7,076,774</u>
Net cash provided by investing activities		
	<u>11,545,833</u>	<u>7,076,774</u>
Change in cash	4,384,867	438,383
Cash and cash equivalents, beginning of year	<u>1,016,487</u>	<u>578,104</u>
Cash and cash equivalents, end of year	<u>\$ 5,401,354</u>	<u>\$ 1,016,487</u>

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 private foundation and one community 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 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. At December 31, 2020 and 2019, 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.

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.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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.

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

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. Conditional grants are recognized as grant expense in the period in which the recipient meets certain criteria or barriers.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 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 2019, the Foundation also received support for this program from a community foundation, which is recorded as support and grant expense on the statement 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% will be applied to net investment income for tax years beginning after December 31, 2019. The deferred federal excise tax liability was adjusted from a 2% rate to a 1.39% rate as of December 31, 2019, to reflect the changes from 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.

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.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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.

Change in Accounting Principle

In June 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 has adopted ASU 2018-08, as a resource provider, for the year ended December 31, 2020. The adoption of ASU 2018-08 had no impact on the Foundation’s financial statements.

3. Investments

Investments at December 31, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
Domestic equities and funds	\$ 15,675,471	\$ 18,892,879
Global equity funds	35,346,658	27,906,751
Emerging market funds	12,451,417	12,138,992
Private investments	46,237,201	39,102,128
Multi-strategy hedge funds	21,802,184	19,186,488
Inflation protection funds	6,805,032	6,945,038
Fixed income funds	13,625,737	17,272,575
	<u>\$ 151,943,700</u>	<u>\$ 141,444,851</u>

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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, 2020:

	Total	Level 1	NAV
Cash equivalents:			
Money market fund	\$ 4,971,963	\$ 4,971,963	\$ -
Investments:			
Global equity funds:			
Emerging markets	\$ 1,555,397	\$ 1,555,397	\$ -
Inflation protection funds:			
Domestic real estate equity	1,476,522	1,476,522	-
Marketable natural resources	3,206,334	3,206,334	-
Fixed income funds:			
Domestic bonds	4,222,320	4,222,320	-
Domestic equities and funds:			
U.S. long/short equity exposure	10,242,218	3,917,838	6,324,380
U.S. small cap	5,433,254	-	5,433,254
Global equity funds:			
Global equity	15,775,073	-	15,775,073
International equity	19,571,585	-	19,571,585
Emerging markets	10,896,020	-	10,896,020
Private investment funds:			
Venture capital/private equity	37,886,754	-	37,886,754
Private real estate/hard assets	8,350,447	-	8,350,447
Multi-strategy hedge funds	21,802,184	-	21,802,184
Inflation protection funds:			
Private natural resources	2,122,176	-	2,122,176
Fixed income funds:			
U.S. Government bonds	9,403,416	-	9,403,416
Total investments	\$ 151,943,700	\$ 14,378,411	\$ 137,565,289

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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, 2019:

	Total	Level 1	NAV
Investments:			
Global equity funds:			
Emerging markets	2,810,315	\$ 2,810,315	\$ -
Inflation protection funds:			
Domestic real estate equity	1,613,896	1,613,896	-
Marketable natural resources	2,486,501	2,486,501	-
Fixed income funds:			
Domestic bonds	3,856,224	3,856,224	-
Domestic equities and funds:			
U.S. large cap	3,836,414	3,836,414	-
U.S. long/short equity exposure	9,581,984	4,409,000	5,172,984
U.S. small cap	5,474,480	-	5,474,480
Global equity funds:			
Global equity	11,266,208	-	11,266,208
International equity	14,766,416	-	14,766,416
International small cap	1,874,128	-	1,874,128
Emerging markets	9,328,677	-	9,328,677
Private investment funds:			
Venture capital/private equity	30,284,019	-	30,284,019
Private real estate/hard assets	8,818,109	-	8,818,109
Multi-strategy hedge funds	19,186,488	-	19,186,488
Inflation protection funds:			
Private natural resources	2,844,642	-	2,844,642
Fixed income funds:			
U.S. Government bonds	13,416,350	-	13,416,350
Absolute return	-	-	-
Total investments	\$ 141,444,851	\$ 19,012,350	\$ 122,432,501

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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, 2020 and 2019:

Strategies	2020		2019		Redemption Frequency	Notice Period
	Number of Funds	Valuation	Number of Funds	Valuation		
Equity funds:						
Global and domestic equity (a)	7	\$ 45,788,615	8	\$ 42,290,456	Monthly	6-30 days
Non-redeemable global equity (b)	3	12,211,699	2	5,592,437	(b)	(b)
Alternative equity funds:						
Venture capital/private equity (c)	33	37,652,964	33	30,284,019	N/A	N/A
Private real estate/hard assets (d)	10	8,584,235	9	8,818,109	N/A	N/A
Multi-strategy hedge:						
Redeemable (e)	3	20,307,138	3	18,351,816	Quarterly/ Redemptions scheduled into 2023	60 days
Nonredeemable (f)	1	1,495,046	2	834,672	(f)	(f)
Inflation protection funds:						
Private natural resources (g)	2	2,122,176	2	2,844,642	N/A	N/A
Fixed income fund:						
U.S. Government bonds (h)	1	9,403,416	1	13,416,350	Daily	2 days
Total	60	\$ 137,565,289	60	\$ 122,432,501		

- 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 ends in August 2021 and a European equities fund with two year lockup periods than end in February 2021 and June 2023. Unfunded commitments for the Chinese fund were \$700,000 for 2019.
- 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 \$10,623,380 and \$9,450,868 for 2020 and 2019, respectively.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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, six of which are fund of funds and three which are private partnerships. 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 \$2,724,786 and \$3,218,723 for 2020 and 2019, respectively.
- e) Redeemable multi-strategy hedge funds include one fund (\$6.6M) that engages primarily in event driven investments and in the securities of issuers that are experiencing financial distress, which is redeemable quarterly. This strategy also includes one fund of funds (\$8.4M) that invests in long/short term offshore hedge funds and one fund of funds (\$5.3M) 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 includes one hedge fund drawdown vehicle with a lockup period of five years from its 2017 commitment date, with unfunded commitments of \$1.1M for 2019.
- g) This strategy invests in royalty interests primarily in natural gas fields in the continental United States. Both funds are in the process of being liquidated, with full cash distribution expected within one year.
- h) This fund invests in intermediate and long-term United States Government bonds.

Subsequent to year-end, the Foundation invested \$3,000,000 in a new long/short equities hedge fund, an additional \$2,000,000 in an existing fixed income fund and an additional \$1,000,000 in existing hedge fund. The Foundation sold all interests, valued at \$1,600,000, in a REIT index fund and sold partial interests, valued at \$1,000,000 in a global equity fund. The Foundation also received scheduled redemptions of \$1,213,107 from a fund of fund hedge fund. Additionally, the Foundation paid capital calls of approximately \$2,400,000 on alternative investment commitments.

5. Property and Equipment

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

	2020	2019
Furniture and fixtures	\$ 156,866	\$ 152,194
Leasehold improvements	414,345	414,345
	571,211	566,539
Less accumulated depreciation and amortization	(303,067)	(227,749)
Total	<u>\$ 268,144</u>	<u>\$ 338,790</u>

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

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, 2020, cash and liquid short-term investments comprised 3% of total investments, another 9% of investments were redeemable on a daily basis and an additional 39% of investments were redeemable on a monthly or quarterly basis. Approximately 48% of investments had liquidity restrictions in excess of one year.

As of December 31, 2019, cash and liquid short-term investments comprised 3% of total investments, another 11% of investments were redeemable on a daily basis and an additional 43% of investments were redeemable on a monthly or quarterly basis. Approximately 43% 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>2020</u>	<u>2019</u>
Financial assets, at year end	\$ 157,960,528	\$ 142,473,948
Less those unavailable for general expenditures within one year:		
Investments with liquidity restrictions	<u>(76,378,397)</u>	<u>(60,559,298)</u>
Financial assets available to meet cash needs for general expenditures within on year	<u>\$ 81,582,131</u>	<u>\$ 81,914,650</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. Through 2019, private foundations were 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. Beginning with the tax year 2020, the excise tax rate for private foundations was changed to 1.39%.

For the years ended December 31, 2020 and 2019, the excise tax rates were 1.39% and 2%, respectively, 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. As they were historically calculated based on a 2% rate, a one-time downward adjustment of \$155,000 to the Foundation's deferred tax liability was made on December 31, 2019 to reflect the change in rate from 2% to 1.39%.

As of December 31, 2020 and 2019, the Foundation had federal net operating loss carryforwards associated with unrelated business income of approximately \$275,000 and \$200,000, respectively.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

7. Excise and Income Taxes, continued

The provision for current and deferred federal excise taxes for the years ended December 31, 2020 and 2019 was as follows:

	2020	2019
Current federal excise tax	\$ 120,677	\$ 181,938
Deferred federal excise tax	202,000	54,000
Total	<u>\$ 322,677</u>	<u>\$ 235,938</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 2020 and 2019, but has approximately \$1,700,000 and \$2,100,000, 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, 2020 and 2019 were \$452,000 and \$565,000, respectively. Grants payable as of December 31, 2020 are expected to be paid in the following year.

9. Commitments and Contingencies

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. Maturities of lease liabilities are as follows:

Year ending December 31:	
2021	\$ 351,110
2022	361,637
2023	372,487
2024	<u>285,605</u>
Total lease payments	1,370,839
Less discount	<u>(89,839)</u>
	<u>\$ 1,281,000</u>

Operating lease cost including common area charges was approximately \$308,000 and \$311,000 for the years ended December 31, 2020 and 2019, respectively.

THE ZELLERBACH FAMILY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

9. Commitments, continued

Investments

As described in Note 4, the Foundation had capital commitments for investments totaling approximately \$13,332,166 and \$14,469,591 as of December 31, 2020 and 2019, respectively.

COVID-19

The Foundation is currently evaluating the impact of the COVID-19 virus on the Foundation's operations and has concluded that while it is reasonably possible that the virus could have a negative effect on the fair value of the Foundation's investments, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 \$148,861 and \$148,521 to the plan during 2020 and 2019, 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, 2020 and 2019, the Foundation held investments in excess of the SIPC insurance limits.

As of December 31, 2020 and 2019, investments in two funds represented approximately 12% and 18% of total investments, respectively.

The Foundation maintains cash with one major financial institution. As of December 31, 2020, 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, 2020 through July 16, 2021, 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 or subsequent events which would require disclosure, other than those disclosed in Note 4.