

Walter S. Johnson Foundation

Financial Statements

December 31, 2018 and 2017



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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Walter S. Johnson Foundation
San Francisco, California

We have audited the accompanying financial statements of Walter S. Johnson Foundation (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Walter S. Johnson 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.

Change in Accounting Principle

As described in Note 3 to the financial statements, the Foundation has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

November 22, 2019

Walter S. Johnson Foundation
 Statements of Financial Position
 December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 443,095	\$ 838,108
Investments	94,612,527	102,790,553
Dividends and interest receivable	43,879	39,080
Limited partnership distributions receivable	476,560	3,112,796
Federal excise tax receivable	85,027	75,381
Property and equipment, net	9,036	12,171
Other assets	5,559	5,942
Due from broker, net	28,548	-
Total assets	\$ 95,704,231	\$ 106,874,031
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 39,641	\$ 43,147
Grants payable, net	1,463,494	1,512,674
Deferred federal excise tax liability	69,441	295,989
Total liabilities	1,572,576	1,851,810
Commitments (Note 7)		
Net assets without donor restrictions	94,131,655	105,022,221
Total liabilities and net assets	\$ 95,704,231	\$ 106,874,031

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

Walter S. Johnson Foundation
 Statements of Activities
 For the Years Ended December 31, 2018 and 2017

	2018	2017
Investment income (loss)		
Interest	\$ 74,134	\$ 54,825
Dividends	1,920,558	1,645,120
Income from investments in limited partnerships	2,204,987	2,178,793
Net realized gain on sale of investments	1,880,475	649,905
Net unrealized appreciation (depreciation) on investments	(11,323,390)	8,907,145
Other income	4,327	435
Total investment income (loss)	(5,238,909)	13,436,223
Investment related expenses	590,603	588,740
Federal excise tax (benefit) expense, net	(186,116)	212,152
Unrelated business income tax	5,074	-
Net investment income (loss)	(5,648,470)	12,635,331
Functional expenses		
Program services	5,033,083	3,804,780
Management and general	209,013	194,205
Total functional expenses	5,242,096	3,998,985
Change in net assets	(10,890,566)	8,636,346
Net assets without donor restrictions, beginning of year	105,022,221	96,385,875
Net assets without donor restrictions, end of year	\$ 94,131,655	\$ 105,022,221

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

Walter S. Johnson Foundation
Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services	Management and General	Total
Grants authorized	\$ 4,500,820	\$ -	\$ 4,500,820
Foundation management services	385,236	20,267	405,503
Trustee management fees	109,777	79,494	189,271
Accounting services	-	90,144	90,144
Licenses and fees	37,250	160	37,410
Insurance	-	10,952	10,952
Legal services	-	3,552	3,552
Depreciation	-	3,135	3,135
Outside services	-	1,165	1,165
Administrative expenses	-	144	144
	\$ 5,033,083	\$ 209,013	\$ 5,242,096

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

Walter S. Johnson Foundation
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services	Management and General	Total
Grants authorized	\$ 3,289,177	\$ -	\$ 3,289,177
Foundation management services	378,100	19,900	398,000
Trustee management fees	99,978	72,398	172,376
Accounting services	-	81,690	81,690
Licenses and fees	37,525	160	37,685
Insurance	-	10,878	10,878
Legal services	-	5,256	5,256
Depreciation	-	2,654	2,654
Outside services	-	1,167	1,167
Administrative expenses	-	102	102
	\$ 3,804,780	\$ 194,205	\$ 3,998,985

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

Walter S. Johnson Foundation
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (10,890,566)	\$ 8,636,346
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized gain on sale of investments	(1,880,475)	(649,905)
Net unrealized (appreciation) depreciation on investments	11,323,390	(8,907,145)
Depreciation	3,135	2,654
Deferred federal excise tax (benefit) expense	(226,470)	178,143
Changes in operating assets and liabilities		
Dividends and interest receivable	(4,799)	10,526
Income tax receivable	-	10,776
Federal excise tax receivable	(9,646)	38,233
Other assets	383	(551)
Due from broker, net	(28,548)	-
Accounts payable and accrued liabilities	(3,506)	3,939
Grants payable, net	(49,180)	(1,375,823)
Other current liabilities	(80)	-
Net cash used in operating activities	(1,766,362)	(2,052,807)
Cash flows from investing activities		
Purchase of investments	(35,975,130)	(29,496,811)
Proceeds from sale of investments	33,199,515	34,710,656
Limited partnership distributions receivable	2,636,236	(2,996,869)
Proceeds from return of principal	124,699	112,482
Sale (purchase) of cash equivalents and money market funds, net	1,386,029	(499,492)
Purchase of computer	-	(5,496)
Net cash provided by investing activities	1,371,349	1,824,470
Net decrease in cash and cash equivalents	(395,013)	(228,337)
Cash and cash equivalents, beginning of year	838,108	1,066,445
Cash and cash equivalents, end of year	\$ 443,095	\$ 838,108

Supplemental disclosures of cash flow information

Cash paid during the year for		
Cash paid for federal excise taxes	\$ 50,000	\$ -
Cash paid for unrelated business income tax	\$ 5,074	\$ -

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

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2018 and 2017

1. GENERAL INFORMATION

The Walter S. Johnson Foundation (Foundation), a nonprofit private foundation organization located in San Francisco, California, provides grants to organizations primarily in Northern California and Nevada, that qualify as public charities under Section 501(c)(3) of the Internal Revenue Code. The grants reflect the Foundation's goal to assist disadvantaged and transition-aged foster youth to become successful adults by promoting positive change to the policies and systems that serve them and supporting high impact and promising practices in the following areas:

- Provision of supportive services, and
- Promotion of success in college and career

2. PROGRAM GRANTS

Through its grants, the Foundation:

- ***Supports systemic change through policy reform initiatives***, including legislative and administrative action;
- ***Partners with strategic thinkers*** to support programs and policies designed to put youth on a successful path toward a sustainable future;
- ***Collaborates with other funders*** to engage and build meaningful partnerships;
- Leverages the unique and independent role of philanthropy to ***provide nimble funding for creative, strategic and timely solutions; and***
- ***Supports organizational improvements*** across infrastructure, communications, data collection, and analysis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of Walter S. Johnson Foundation have been prepared on the accrual basis of accounting and in conformity with accounting principles generally accepted in the United States of America applicable to nonprofit organizations.

The Foundation has not accepted outside donations and therefore there are no donor-imposed restrictions. The net assets and revenues, expenses, gains and losses of the Foundation are classified and reported as net assets without donor restrictions because they are not subject to donor-imposed restrictions.

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU makes certain improvements to current reporting requirements, including:

- 1) Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
- 2) Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Methods used to allocate costs among program and support functions.
- 3) Reporting investment return net of external and direct internal investment expenses.

The Organization adopted the provisions of ASU 2016-14 in 2018 and applied the amendments on a retrospective basis for all years presented, except that the prior year comparative period was omitted as permitted by ASU 2016-14.

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 that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with a maturity of three months or less. The Foundation maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash and cash equivalent accounts.

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are carried at fair value, which is primarily based upon quoted market prices. Realized gains or losses on the sales of investments are determined based upon the specific costs of securities sold. Unrealized appreciation or depreciation in the value of investments is recognized in the statements of activities as the change in the difference between market values between periods. Investments in limited partnerships are valued at fair value by the general partner after considering the nature of the underlying portfolios, liquidity and market conditions. The Foundation's portfolio is diversified throughout many industries and geographies. The Foundation reviews and evaluates the valuation methods and assumptions used in determining the fair value of the limited partnership investments. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

Fair value measurements

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."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Foundation's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis over the estimated useful life of the assets which is 5 years.

Grants

Grant requests are recorded as expenses in the year they are approved by the Trustees. Grants are authorized subject to certain conditions, and failure of the recipients to meet these conditions may result in cancellation or refund of the grants.

Taxes

The Foundation has received notification from the Internal Revenue Service and the State of California that it qualifies as an exempt organization as defined in Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, respectively, and is, accordingly, exempt from income tax except for income tax on unrelated business taxable income.

The Foundation is a private foundation as defined in Section 509 of the Internal Revenue Code. It is subject to excise tax on net investment income as provided in Section 4940 of the Internal Revenue Code. The Foundation is also required under Section 4942 of the Internal Revenue Code to distribute certain minimum amounts within specified periods.

Federal excise tax expense related to taxable net investment income (loss) for the years ended December 31, 2018 and 2017 was \$40,354 and \$34,009, respectively. The deferred tax (benefit) expense was \$(226,470) and \$178,143, respectively, related to the net unrealized appreciation (depreciation) on investments held at December 31, 2018 and 2017, respectively. Unrelated business income tax for the year ended December 31, 2018 was \$5,074.

Uncertain income tax positions

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Foundation in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Foundation's federal returns for the years ended December 31, 2017, 2016 and 2015 could be subject to examination by federal taxing authorities, generally for three years after they are filed. The Foundation's state returns for the years ended December 31, 2017, 2016, 2015 and 2014 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2018 and 2017

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassifications

Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation. These reclassifications had no effect on the change in net assets for the prior year.

Subsequent events

Management of the Foundation has evaluated events and transactions subsequent to December 31, 2018 for potential recognition or disclosure in the financial statements available to be issued November 22, 2019. The Foundation did have a subsequent event that required recognition or disclosure in the financial statements for the year ended December 31, 2018 as disclosed in Note 8. Subsequent events have been evaluated through the date the financial statements became available to be issued.

4. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money Market Investments	\$ 248,605	\$ -	\$ -	\$ 248,605
Equities	47,106,946	-	-	47,106,946
Fixed Income	18,117,196	-	-	18,117,196
TIFF Absolute Return Pool II	-	-	6,813,701	6,813,701
Commonfund Partners	-	-	2,694,772	2,694,772
TIFF Partners IV, LLC	-	-	85,531	85,531
TIFF Private Equity Partners 2008, LLC	-	-	3,605,250	3,605,250
Stadium Capital Partners	-	-	3,354,362	3,354,362
Coliseum Capital Partners	-	-	10,495,436	10,495,436
Everside Founders Fund	-	-	2,090,728	2,090,728
	<u>\$ 65,472,747</u>	<u>\$ -</u>	<u>\$ 29,139,780</u>	<u>\$ 94,612,527</u>

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2018 and 2017

4. INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments at fair value as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money Market Investments	\$ 1,634,634	\$ -	\$ -	\$ 1,634,634
Equities	53,448,766	-	-	53,448,766
Fixed Income	17,311,795	-	-	17,311,795
TIFF Absolute Return Pool II	-	-	7,406,959	7,406,959
Commonfund Partners	-	-	3,363,794	3,363,794
TIFF Partners IV, LLC	-	-	148,577	148,577
TIFF Private Equity Partners 2008, LLC	-	-	4,267,151	4,267,151
Stadium Capital Partners	-	-	5,373,979	5,373,979
Coliseum Capital Partners	-	-	9,746,084	9,746,084
Everside Founders Fund	-	-	88,814	88,814
	<u>\$ 72,395,195</u>	<u>\$ -</u>	<u>\$ 30,395,358</u>	<u>\$ 102,790,553</u>

The following table sets forth a summary of changes in the fair value of Level 3 investments for the year ended December 31, 2018:

	TIFF Absolute Return Pool II	Commonfund Partners	TIFF Partners IV, LLC	TIFF Private Equity Partners 2008, LLC	Stadium Capital Partners	Coliseum Capital Partners	Everside Founders Fund, LP	Total
Balance at December 31, 2017	\$ 7,406,959	\$ 3,363,794	\$ 148,577	\$ 4,267,151	\$ 5,373,979	\$ 9,746,084	\$ 88,814	\$ 30,395,358
Realized gain (loss)	208,827	645,491	21,737	1,215,949	117,268	(11,534)	(106,496)	2,091,242
Change in unrealized appreciation (depreciation)	(369,177)	(245,939)	(58,211)	(589,944)	(514,178)	760,886	89,193	(927,370)
Net contributions (distributions)	<u>(432,908)</u>	<u>(1,068,574)</u>	<u>(26,572)</u>	<u>(1,287,906)</u>	<u>(1,622,707)</u>	<u>-</u>	<u>2,019,217</u>	<u>(2,419,450)</u>
Balance at December 31, 2018	<u>\$ 6,813,701</u>	<u>\$ 2,694,772</u>	<u>\$ 85,531</u>	<u>\$ 3,605,250</u>	<u>\$ 3,354,362</u>	<u>\$ 10,495,436</u>	<u>\$ 2,090,728</u>	<u>\$ 29,139,780</u>

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2018 and 2017

4. INVESTMENTS (continued)

The following table sets forth a summary of changes in the fair value of Level 3 investments for the year ended December 31, 2017:

	TIFF Absolute Return Pool II	Commonfund Partners	TIFF Partners IV, LLC	TIFF Private Equity Partners 2008, LLC	Stadium Capital Partners	Coliseum Capital Partners	Everside Founders Fund, LP	Total
Balance at December 31, 2016	\$ 7,557,727	\$ 3,900,015	\$ 194,873	\$ 4,202,446	\$ 9,019,142	\$ 10,158,603	\$ -	\$ 35,032,806
Realized gain (loss)	216,927	707,102	(21,201)	337,627	483,008	369,063	-	2,092,526
Change in unrealized appreciation (depreciation)	87,278	(51,593)	28,292	210,007	(228,171)	321,730	(11,186)	356,357
Net contributions (distributions)	<u>(454,973)</u>	<u>(1,191,730)</u>	<u>(53,387)</u>	<u>(482,929)</u>	<u>(3,900,000)</u>	<u>(1,103,312)</u>	<u>100,000</u>	<u>(7,086,331)</u>
Balance at December 31, 2017	<u>\$ 7,406,959</u>	<u>\$ 3,363,794</u>	<u>\$ 148,577</u>	<u>\$ 4,267,151</u>	<u>\$ 5,373,979</u>	<u>\$ 9,746,084</u>	<u>\$ 88,814</u>	<u>\$ 30,395,358</u>

Investments held at fair value and cost as of December 31, 2018 consisted of the following:

	Fair Value	Cost
Marketable equity securities	\$ 47,106,946	\$ 48,686,054
Fixed income funds	18,117,196	19,034,388
Limited partnerships	29,139,780	23,171,417
Cash equivalents and money market funds	<u>248,605</u>	<u>248,605</u>
	<u>\$ 94,612,527</u>	<u>\$ 91,140,464</u>

Investments held at fair value and cost as of December 31, 2017 consisted of the following:

	Fair Value	Cost
Marketable equity securities	\$ 53,448,766	\$ 45,425,301
Fixed income funds	17,311,795	17,435,540
Limited partnerships	30,395,358	23,499,625
Cash equivalents and money market funds	<u>1,634,634</u>	<u>1,634,634</u>
	<u>\$ 102,790,553</u>	<u>\$ 87,995,100</u>

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2018 and 2017

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2018	2017
Computers	\$ 15,673	\$ 15,673
Less: accumulated depreciation	(6,637)	(3,502)
	\$ 9,036	\$ 12,171

Depreciation expense for the years ended December 31, 2018 and 2017 was \$3,135 and \$2,654, respectively.

6. GRANTS PAYABLE

Grants payable in more than one year are discounted to their present value at the time the grants are made using risk-free interest rates.

Grants payable are payable in the following years:

Year ending December 31,	2018	2017
2018	\$ -	\$ 1,435,000
2019	1,465,000	80,000
	1,465,000	1,515,000
Less: discount on long-term grants payable	(1,506)	(2,326)
	\$ 1,463,494	\$ 1,512,674

7. COMMITMENTS

Investments

The Foundation had commitments to invest an additional \$3,944,406 in six limited partnership investments. The timing of the capital calls will be determined by the General Partners of the Partnerships.

8. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2018 and 2017, the Foundation held investments in Coliseum Capital Partners (see Note 4). The managing partner of Coliseum Capital Partners is the son of a former Trustee of the Foundation. Investment management fees paid to Coliseum Capital Partners for the years ended December 31, 2018 and 2017 totaled approximately \$156,000 and \$161,000, respectively.

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2018 and 2017

8. RELATED PARTY TRANSACTIONS (continued)

The Foundation also held an investment in Everside Founders Fund, LP (the "Fund"). The son of a former Trustee of the Foundation has a voting interest and a profit interest in the Fund's management company and general partner. Investment management fees paid to Everside Founders Fund, LP for the years ended December 31, 2018 and 2017 totaled approximately \$50,000 and \$20,000, respectively. Subsequent to December 31, 2018, the Foundation entered into a \$5,000,000 capital commitment with Everside Founders, Fund II, LP.

9. PROVISION FOR FEDERAL EXCISE / UNRELATED BUSINESS INCOME TAXES

Federal excise taxes

The Internal Revenue Code imposes an excise tax on private foundations equal to 2% of net investment income, which is defined as interest, dividends and net realized gains less operating and capital losses on partnership investments and expenses incurred in the production of income. The tax is reduced to 1% percent for foundations that meet certain distribution requirements. The provision for federal excise tax (based on a 1% rate for 2018 and 2017) consists of a current provision on net investment income. A deferred excise tax provision of 2% is recognized on current net unrealized gains or losses on investments.

For the years ended December 31, 2018 and 2017 federal excise tax (benefit) expense consisted of the following:

	2018	2017
Current federal excise tax expense	\$ 40,354	\$ 34,009
Deferred federal excise tax (benefit) expense	(226,470)	178,143
	\$ (186,116)	\$ 212,152

Unrelated business income taxes

In accordance with Section 511(a)(1) of the Internal Revenue Code, the Foundation is subject to corporate tax rates on net income earned from unrelated business activities. During the years ended December 31, 2018 and 2017, the Foundation had net operating loss carryforwards for tax purposes of approximately \$85,000 and \$69,000 available to offset unrelated business income. These carryforwards will begin to expire in 2026 if not previously utilized.

In accordance with the California Revenue and Taxation code and the codes of other states, the Foundation is subject to state corporate tax rates on net income earned from unrelated business activities. During the years ended December 31, 2018 and 2017, the Foundation had net operating loss carryforwards for California tax purposes of \$83,000 and \$103,000, respectively.

Unrelated business income tax for the years ended December 31, 2018 and 2017 were \$5,074 and \$0, respectively.

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2018 and 2017

10. LIQUIDITY AND FUNDS AVAILABLE

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

There are certain limitations on availability of long-term investment funds totaling \$19,247,418 which are subject to certain lockup restrictions. The Foundation would not be able to access these funds to support general expenditures within one-year from the statement of financial position.

The Foundation's financial assets available within one year of December 31, 2018 to meet general expenditures include:

Cash and cash equivalents	\$ 443,095
Investments	94,612,527
Dividends and interest receivable	43,879
Limited partnership distributions receivable	476,560
Less: amounts unavailable for general expenditures within one year	<u>(19,247,418)</u>
	<u>\$ 76,328,643</u>