

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

FINANCIAL STATEMENTS

Years Ended December 31, 2013 and 2012

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

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FOUNDERS

Alexander W. Berger (1916-2005)
Griffith R. Lewis (1930-2012)

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Walter S. Johnson Foundation
(A California Nonprofit Private Foundation)
San Francisco, California

We have audited the accompanying financial statements of Walter S. Johnson Foundation (a California nonprofit private foundation), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities 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, 2013 and 2012, 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.



BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
November 7, 2014

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WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
ASSETS:		
Cash	\$ 99,387	\$ 249,767
Investments in Securities	102,680,774	92,625,991
Dividends Receivable	23,322	37,508
Income Tax Receivable	55,912	55,912
Receivable for Investments Sold	185,253	7,497
Federal Excise Tax Receivable	13,431	130,130
Property and Equipment, Net	374	560
Other Assets	<u>13,109</u>	<u>14,976</u>
TOTAL ASSETS	<u>\$103,071,562</u>	<u>\$ 93,122,341</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Accounts Payable and Accrued Liabilities	\$ 26,468	\$ 23,175
Payable for Investments Purchased	55,662	-
Grants Payable, Net	1,282,602	1,067,513
Deferred Federal Excise Tax Liability	<u>305,126</u>	<u>134,575</u>
Total Liabilities	<u>1,669,858</u>	<u>1,225,263</u>
Commitments - See Note 9		
NET ASSETS:		
Unrestricted Net Assets	<u>101,401,704</u>	<u>91,897,078</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$103,071,562</u>	<u>\$ 93,122,341</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
INVESTMENT INCOME:		
Interest	\$ 81,087	\$ 104,354
Dividends	1,310,843	1,225,539
Income from Investments in Limited Partnerships	2,311,859	748,347
Net Realized Gain (Loss) on Sale of Investments	2,856,749	(302,231)
Net Unrealized Appreciation on Investments	8,527,542	9,409,913
Other Income	31,423	2,970
Accumulation of Bond Discount	<u>7,051</u>	<u>4,813</u>
Total Investment Income	<u>15,126,554</u>	<u>11,193,705</u>
DIRECT EXPENSES:		
Investment Related Expenses	674,702	602,916
Federal Excise Tax Expense, Net	<u>287,250</u>	<u>202,379</u>
Total Direct Expenses	<u>961,952</u>	<u>805,295</u>
Net Investment Income	<u>14,164,602</u>	<u>10,388,410</u>
GRANTS AND EXPENSES:		
Grants Authorized	4,055,050	3,329,395
Administrative Expenses	<u>604,926</u>	<u>586,037</u>
Total Grants and Expenses	<u>4,659,976</u>	<u>3,915,432</u>
CHANGE IN UNRESTRICTED NET ASSETS	9,504,626	6,472,978
UNRESTRICTED NET ASSETS, Beginning of Year	<u>91,897,078</u>	<u>85,424,100</u>
UNRESTRICTED NET ASSETS, End of Year	<u>\$101,401,704</u>	<u>\$ 91,897,078</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Unrestricted Net Assets	\$ 9,504,626	\$ 6,472,978
Adjustments to Reconcile Change in Unrestricted Net Assets to Net Cash Used by Operating Activities:		
Net Realized (Gain) Loss on Sale of Investments	(2,856,749)	302,231
Net Unrealized Appreciation on Investments	(8,527,542)	(9,409,913)
Depreciation	186	476
Loss on Disposal of Equipment	-	1,658
Deferred Federal Excise Tax Expense	170,551	188,198
Accumulation of Bond Discount	(7,051)	(4,813)
(Increase) Decrease in Assets:		
Dividends Receivable	14,186	(33,461)
Income Tax Receivable	-	(2,000)
Receivable for Investments Sold	(177,756)	(7,497)
Federal Excise Tax Receivable	116,699	(65,819)
Other Assets	1,867	2,454
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Liabilities	3,293	(1,575)
Payable for Investments Purchased	55,662	-
Grants Payable, Net	215,089	(824,087)
Net Cash Used by Operating Activities	(1,486,939)	(3,381,170)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Investment Securities	(26,968,338)	(40,648,835)
Proceeds from Sale of Investment Securities	28,438,810	44,796,303
Sale (Purchase) of Cash Equivalents and Money Market Funds, Net	(133,913)	(720,899)
Proceeds from Return of Capital	-	7,049
Net Cash Provided by Investing Activities	1,336,559	3,433,618
NET INCREASE (DECREASE) IN CASH	(150,380)	52,448
CASH, Beginning of Year	249,767	197,319
CASH, End of Year	\$ 99,387	\$ 249,767
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Federal Excise Taxes	\$ -	\$ 80,000
Cash Paid for Current Income Taxes	\$ -	\$ 2,000

The Accompanying Notes are an Integral Part of these Financial Statements.

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION:

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

NOTE 2 - PROGRAM GRANTS:

The Foundation makes grants to the following types of programs:

Transition-Aged Foster Youth - To ensure a successful transition to adulthood, WSJF partners with state and county social service agencies, post-secondary institutions, community-based organizations, and other foundations to create an integrated system of services for current and former foster youth aged 14 to 24.

Education and Career Strategies for Disadvantaged Youth - WSJF works with middle and high school programs, and post-secondary institutions, primarily community colleges, to address barriers to educational access and college completion, and supports nonprofit and government agencies providing academic success, job readiness training and employment opportunities.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting - 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.

Accordingly, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets and revenues, expenses, gains and losses of the Foundation are classified and reported as unrestricted because they are not subject to donor-imposed restrictions.

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 revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 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 the cost and market value 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.

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.

Property and Equipment - Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis over the estimated useful live 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.

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 23701d 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, 2013 and 2012 consists of \$116,699 and \$14,181, respectively, and \$170,551 and \$188,198 of deferred tax expense, respectively, related to the net unrealized appreciation on investments held at December 31, 2013 and 2012, respectively.

Uncertainty in Income Taxes - 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, 2012, 2011 and 2010 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, 2012, 2011, 2010 and 2009 could be subject to examination by state taxing authorities, generally for four years after they are filed.

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, 2013 for potential recognition or disclosure in the financial statements. The Foundation did not have subsequent events that required recognition or disclosure in the financial statements for the fiscal year ended December 31, 2013. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 7, 2014.

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - INVESTMENTS IN SECURITIES:

Fair value of assets measured on a recurring basis as of December 31, 2013 was as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Investments	\$ 1,234,395	\$ 1,234,395	\$ -	\$ -
Equities	41,506,463	41,506,463	-	-
Fixed Income	18,834,457	18,834,457	-	-
Stadium Capital Partners	8,682,986	8,672,671	10,315	-
TIFF Absolute Return Pool II	8,880,694	1,332,104	-	7,548,590
CommonFund Partners	4,876,889	1,819	-	4,875,070
TIFF Partners IV, LLC	1,001,907	43,935	-	957,972
TIFF Private Equity Partners 2008, LLC	3,163,298	39,725	-	3,123,573
South Ferry Capital Partners	6,235,504	3,304,818	2,244,781	685,905
Coliseum Capital Partners	8,264,181	6,212,020	1,150,539	901,622
Total Investments in Securities	<u>\$ 102,680,774</u>	<u>\$ 81,182,407</u>	<u>\$ 3,405,635</u>	<u>\$ 18,092,732</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	TIFF Absolute Return Pool II	CommonFund Partners	TIFF Partners IV, LLC	TIFF Private Equity Partners 2008, LLC	Coliseum Capital Partners	South Ferry Capital Partners	TOTAL
Balance as of 12/31/12	\$ 7,864,246	\$ 4,341,909	\$ 1,050,575	\$ 2,781,440	\$ 466,881	\$ -	\$ 16,505,051
Realized Gain (Loss)	927,462	180,828	175,811	211,669	-	(3,772)	1,491,998
Change in Unrealized Appreciation	408,054	412,181	24,802	327,485	24,998	62,561	1,260,081
Net Purchases (Sales)	(1,651,172)	-	(43,935)	(39,725)	409,743	627,116	(697,973)
Net Contributions (Distributions)	-	(64,219)	(249,281)	(157,296)	-	-	(470,796)
Net Transfers In/Out of Level 3	-	4,371	-	-	-	-	4,371
Balance as of 12/31/13	<u>\$ 7,548,590</u>	<u>\$ 4,875,070</u>	<u>\$ 957,972</u>	<u>\$ 3,123,573</u>	<u>\$ 901,622</u>	<u>\$ 685,905</u>	<u>\$ 18,092,732</u>

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - INVESTMENTS IN SECURITIES (Continued):

Fair value of assets measured on a recurring basis as of December 31, 2012 was as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Investments	\$ 1,100,482	\$ 1,100,482	\$ -	\$ -
Equities	34,229,551	34,229,551	-	-
Fixed Income	20,755,712	20,755,712	-	-
Stadium Capital Partners	8,156,087	8,153,762	2,325	-
TIFF Absolute Return Pool II	7,864,246	-	-	7,864,246
CommonFund Partners	4,348,099	5,832	358	4,341,909
TIFF Partners IV, LLC	1,050,575	-	-	1,050,575
TIFF Private Equity Partners 2008, LLC	2,781,440	-	-	2,781,440
South Ferry Capital Partners	5,473,902	1,485,190	3,988,712	-
Coliseum Capital Partners	<u>6,865,897</u>	<u>5,005,239</u>	<u>1,393,777</u>	<u>466,881</u>
Total Investments in Securities	<u>\$ 92,625,991</u>	<u>\$ 70,735,768</u>	<u>\$ 5,385,172</u>	<u>\$ 16,505,051</u>

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

	TIFF Absolute Return Pool II	CommonFund Partners	TIFF Partners IV, LLC	TIFF Private Equity Partners 2008, LLC	Coliseum Capital Partners	TOTAL
Balance as of 12/31/11	\$ 7,083,655	\$ 3,795,735	\$ 1,232,360	\$ 2,276,047	\$ 948,640	\$ 15,336,437
Realized Gain	1,963,814	217,170	243,226	96,613	2,257	2,523,080
Change in Unrealized Appreciation (Depreciation)	780,951	145,103	(58,408)	65,619	(341,231)	592,034
Net Purchases (Sales)	(1,964,174)	-	-	-	-	(1,964,174)
Net Contributions (Distributions)	-	394,685	(366,603)	343,161	(142,785)	228,458
Net Transfers In/Out of Level 3	-	(210,784)	-	-	-	(210,784)
Balance as of 12/31/12	<u>\$ 7,864,246</u>	<u>\$ 4,341,909</u>	<u>\$ 1,050,575</u>	<u>\$ 2,781,440</u>	<u>\$ 466,881</u>	<u>\$ 16,505,051</u>

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - INVESTMENTS IN SECURITIES (Continued):

Investments in securities held at fair value and cost as of December 31, 2013 consisted of the following:

	Fair Value	Cost
Marketable Equity Securities	\$ 41,506,463	\$ 33,167,652
Fixed Income Funds	18,834,457	19,565,053
Limited Partnerships	41,105,459	33,457,377
Cash Equivalents and Money Market Funds	1,234,395	1,234,395
Total Investments in Securities	\$102,680,774	\$ 87,424,477

Investments in securities held at fair value and cost as of December 31, 2012 consisted of the following:

	Fair Value	Cost
Marketable Equity Securities	\$ 34,229,551	\$ 31,187,345
Fixed Income Funds	20,755,712	20,343,493
Limited Partnerships	36,540,246	33,265,915
Cash Equivalents and Money Market Funds	1,100,482	1,100,482
Total Investments in Securities	\$ 92,625,991	\$ 85,897,235

NOTE 5 - PROPERTY AND EQUIPMENT:

The cost and related accumulated depreciation of property and equipment as of December 31, consisted of the following:

	2013	2012
Computers	\$ 934	\$ 934
Less: Accumulated Depreciation	(560)	(374)
Property and Equipment, Net	\$ 374	\$ 560

Depreciation expense for the years ended December 31, 2013 and 2012 was \$186 and \$476, respectively.

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 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 as of December 31, are payable in the following years:

<u>Year Ending December 31:</u>	<u>2013</u>	<u>2012</u>
2013	\$ -	\$ 1,070,000
2014	985,000	-
2015	<u>300,000</u>	<u>-</u>
	1,285,000	1,070,000
Less: Discount on Long-Term Grants Payable	<u>(2,398)</u>	<u>(2,487)</u>
Grants Payable, Net of Discount	<u>\$ 1,282,602</u>	<u>\$ 1,067,513</u>

NOTE 7 - DEFINED CONTRIBUTION PLAN AND DEFERRED COMPENSATION:

The Foundation had a defined contribution retirement plan under Internal Revenue Code Section 403(b) that it contributed to for covered employees through March 2010. In April 2010, the Foundation became a co-employer with a professional employment firm and contributed to a defined contribution retirement plan under Internal Revenue Code Section 401(k). Both plans covered all employees who met the eligibility requirements. Starting January 1, 2011, the Foundation was managed by a foundation management company and no longer had its own employees.

NOTE 8 - 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% percent 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 2% rate for 2013 and a 1% rate for 2012) consists of a current provision on net investment income. A deferred excise tax provision is recognized on current net unrealized gains or losses on investments.

WALTER S. JOHNSON FOUNDATION
(A California Nonprofit Private Foundation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 8 - PROVISION FOR FEDERAL EXCISE / UNRELATED BUSINESS INCOME TAXES
(Continued):

For the years ended December 31, 2013 and 2012 federal excise tax expense consisted of the following:

	<u>2013</u>	<u>2012</u>
Current Federal Excise Tax Expense	\$ 116,699	\$ 14,181
Deferred Federal Excise Tax Expense	<u>170,551</u>	<u>188,198</u>
Federal Excise Tax Expense, Net	<u>\$ 287,250</u>	<u>\$ 202,379</u>

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, 2013 and 2012, the Foundation had no unrelated business taxable income resulting in unrelated business income taxes.

NOTE 9 - COMMITMENTS:

Investments

The Foundation has commitments to invest an additional \$2,516,472 in five limited partnership investments. The timing of the capital calls will be determined by the General Partners of the partnerships.