

# **Walter S. Johnson Foundation**

Financial Statements

December 31, 2014 and 2013



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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 2014 financial statements of Walter S. Johnson Foundation (a California nonprofit private foundation), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and cash flows for the year 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 2014 financial statements referred to above present fairly, in all material respects, the financial position of Walter S. Johnson Foundation as of December 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Prior Period Financial Statements**

The financial statements as of and for the year ended December 31, 2013 were audited by Berger Lewis Accountancy Corporation, whose practice became part of Armanino<sup>LLP</sup> as of January 1, 2015, and whose report dated November 7, 2014, expressed an unmodified opinion on those statements.

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

Armanino<sup>LLP</sup>  
San Jose, California

December 29, 2015

WALTER S. JOHNSON FOUNDATION  
 Statements of Financial Position  
 December 31, 2014 and 2013

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ASSETS

|                                   | 2014                 | 2013                 |
|-----------------------------------|----------------------|----------------------|
| Assets                            |                      |                      |
| Cash                              | \$ 387,813           | \$ 99,387            |
| Investments in securities         | 102,546,263          | 102,680,774          |
| Dividends and interest receivable | 18,897               | 23,322               |
| Income tax receivable             | 55,912               | 55,912               |
| Receivable for investments sold   | 172,858              | 185,253              |
| Federal excise tax receivable     | 14,414               | 13,431               |
| Property and equipment, net       | 187                  | 374                  |
| Other assets                      | 4,568                | 13,109               |
| Total assets                      | <u>\$103,200,912</u> | <u>\$103,071,562</u> |

LIABILITIES AND NET ASSETS

|  |                      |                      |
|--|----------------------|----------------------|
| Liabilities                              |                      |                      |
| Accounts payable and accrued liabilities | \$ 27,780            | \$ 26,468            |
| Payable for investments purchased        | 117,080              | 55,662               |
| Grants payable, net                      | 1,642,402            | 1,282,602            |
| Deferred federal excise tax liability    | 231,355              | 305,126              |
| Total liabilities                        | <u>2,018,617</u>     | <u>1,669,858</u>     |
| Commitments - see Note 9                 |                      |                      |
| Net assets                               |                      |                      |
| Unrestricted net assets                  | 101,182,295          | 101,401,704          |
| Total liabilities and net assets         | <u>\$103,200,912</u> | <u>\$103,071,562</u> |

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

WALTER S. JOHNSON FOUNDATION  
 Statements of Activities  
 Years Ended December 31, 2014 and 2013

|   | 2014                 | 2013                 |
|---|----------------------|----------------------|
| Investment income   |                      |                      |
| Interest  | \$ 46,374            | \$ 81,087            |
| Dividends   | 1,447,683            | 1,310,843            |
| Income from investments in limited partnerships           | 2,964,575            | 2,311,859            |
| Net realized gain on sale of investments                  | 4,734,355            | 2,856,749            |
| Net unrealized appreciation (depreciation) on investments | (3,688,543)          | 8,527,542            |
| Other income  | 1,845                | 31,423               |
| Accumulation of bond discount                             | <u>22,056</u>        | <u>7,051</u>         |
| Total investment income                                   | <u>5,528,345</u>     | <u>15,126,554</u>    |
| Direct expenses   |                      |                      |
| Investment related expenses                               | 678,397              | 674,702              |
| Federal excise tax expense, net                           | <u>95,246</u>        | <u>287,250</u>       |
| Total direct expenses                                     | <u>773,643</u>       | <u>961,952</u>       |
| Net investment income                                     | <u>4,754,702</u>     | <u>14,164,602</u>    |
| Grants and expenses                                       |                      |                      |
| Grants authorized   | 4,400,683            | 4,055,050            |
| Administrative expenses                                   | <u>573,428</u>       | <u>604,926</u>       |
| Total grants and expenses                                 | <u>4,974,111</u>     | <u>4,659,976</u>     |
| Change in unrestricted net assets                         | (219,409)            | 9,504,626            |
| Unrestricted net assets, beginning of year                | <u>101,401,704</u>   | <u>91,897,078</u>    |
| Unrestricted net assets, end of year                      | <u>\$101,182,295</u> | <u>\$101,401,704</u> |

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

WALTER S. JOHNSON FOUNDATION  
 Statements of Cash Flows  
 Years Ended December 31, 2014 and 2013

|   | 2014         | 2013         |
|---|--------------|--------------|
| Cash flows from operating activities  |              |              |
| Change in unrestricted net assets   | \$ (219,409) | \$ 9,504,626 |
| Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities |              |              |
| Net realized gain on sale of investments  | (4,734,355)  | (2,856,749)  |
| Net unrealized (appreciation) depreciation on investments   | 3,688,543    | (8,527,542)  |
| Depreciation  | 187          | 186          |
| Deferred federal excise tax expense (benefit)   | (73,771)     | 170,551      |
| Accumulation of bond discount   | (22,056)     | (7,051)      |
| Change in operating assets and liabilities  |              |              |
| Dividends and interest receivable   | 4,425        | 14,186       |
| Receivable for investments sold   | 12,395       | (177,756)    |
| Federal excise tax receivable   | (983)        | 116,699      |
| Other assets  | 8,541        | 1,867        |
| Accounts payable and accrued liabilities  | 1,312        | 3,293        |
| Payable for investments purchased   | 61,418       | 55,662       |
| Grants payable, net   | 359,800      | 215,089      |
| Net cash used in operating activities   | (913,953)    | (1,486,939)  |
| Cash flows from investing activities  |              |              |
| Purchase of investment securities   | (32,729,869) | (26,968,338) |
| Proceeds from sale of investment securities   | 39,306,317   | 28,438,810   |
| Proceeds from return of principal   | 20,236       | -            |
| Sale (purchase) of cash equivalents and money market funds, net                                     | (5,394,305)  | (133,913)    |
| Net cash provided by investing activities   | 1,202,379    | 1,336,559    |
| Net increase (decrease) in cash   | 288,426      | (150,380)    |
| Cash, beginning of year   | 99,387       | 249,767      |
| Cash, end of year   | \$ 387,813   | \$ 99,387    |
| <br><u>Supplemental disclosure of cash flows information</u>  |              |              |
| Cash paid for federal excise taxes  | \$ 170,000   | \$ -         |

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

WALTER S. JOHNSON FOUNDATION  
Notes to Financial Statements  
December 31, 2014 and 2013

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1. General Information

The Walter S. Johnson Foundation (WSJF or Foundation), 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.

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.

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  
Notes to Financial Statements  
December 31, 2014 and 2013

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3. Summary of Significant Accounting Policies (continued)

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 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 accounts.

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. 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, 2014 and 2013

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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 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, 2014 and 2013 consists of \$169,017 and \$116,699, respectively, and \$(73,771) and \$170,551 of deferred tax expense (benefit), respectively, related to the net unrealized appreciation (depreciation) on investments held at December 31, 2014 and 2013, 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, 2013, 2012 and 2011 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, 2013, 2012, 2011 and 2010 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.

WALTER S. JOHNSON FOUNDATION  
Notes to Financial Statements  
December 31, 2014 and 2013

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3. Summary of Significant Accounting Policies (continued)

Subsequent events

Management of the Foundation has evaluated events and transactions subsequent to December 31, 2014 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, 2014. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 29, 2015.

4. Investments in Securities

Fair value of assets measured on a recurring basis as of December 31, 2014 was as follows:

|   | <u>Fair Value</u>     | <u>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical Assets<br/>(Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs (Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs (Level 3)</u> |
|---|-----------------------|---|--|--|
| Money market investments                  | \$ 6,628,700          | \$ 6,628,700  | \$ -   | \$ -   |
| Equities                                  | 40,015,868            | 40,015,868  | -  | -  |
| Fixed income                              | 14,112,407            | 14,112,407  | -  | -  |
| Stadium Capital Partners                  | 8,143,273             | -   | -  | 8,143,273  |
| TIFF Absolute Return Pool<br>II           | 8,550,051             | -   | -  | 8,550,051  |
| CommonFund Partners                       | 4,705,755             | -   | -  | 4,705,755  |
| TIFF Partners IV, LLC                     | 485,209               | -   | -  | 485,209  |
| TIFF Private Equity<br>Partners 2008, LLC | 4,522,247             | -   | -  | 4,522,247  |
| South Ferry Capital<br>Partners           | 6,154,669             | -   | -  | 6,154,669  |
| Coliseum Capital Partners                 | <u>9,228,084</u>      | <u>-</u>  | <u>-</u>   | <u>9,228,084</u>   |
| Total investments in<br>securities        | <u>\$ 102,546,263</u> | <u>\$ 60,756,975</u>  | <u>\$ -</u>  | <u>\$ 41,789,288</u>                                     |

WALTER S. JOHNSON FOUNDATION  
Notes to Financial Statements  
December 31, 2014 and 2013

4. Investments in Securities (continued)

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

|  | TIFF Absolute<br>Return Pool II | CommonFund<br>Partners | TIFF Partners<br>IV, LLC | TIFF Private<br>Equity Partners<br>2008, LLC | Coliseum<br>Capital<br>Partners | South Ferry<br>Capital<br>Partners | Stadium<br>Capital<br>Partners | Total                |
|--|---------------------------------|------------------------|--------------------------|--|---------------------------------|------------------------------------|--------------------------------|----------------------|
| Balance as of 12/31/13                                 | \$ 8,880,694                    | \$ 4,876,889           | \$ 1,001,907             | \$ 3,163,298                                 | \$ 8,264,181                    | \$ 6,235,504                       | \$ 8,682,986                   | \$ 41,105,459        |
| Realized gain  | 254,799                         | 502,153                | 390,886                  | 413,904                                      | 875,947                         | 173,818                            | 193,602                        | 2,805,109            |
| Change in unrealized<br>appreciation<br>(depreciation) | (71,152)                        | 39,471                 | (443,773)                | 1,390,366                                    | 87,956                          | (254,653)                          | (733,315)                      | 14,900               |
| Net contributions<br>(distributions)                   | <u>(514,290)</u>                | <u>(712,758)</u>       | <u>(463,811)</u>         | <u>(445,321)</u>                             | <u>-</u>                        | <u>-</u>                           | <u>-</u>                       | <u>(2,136,180)</u>   |
| Balance as of 12/31/14                                 | <u>\$ 8,550,051</u>             | <u>\$ 4,705,755</u>    | <u>\$ 485,209</u>        | <u>\$ 4,522,247</u>                          | <u>\$ 9,228,084</u>             | <u>\$ 6,154,669</u>                | <u>\$ 8,143,273</u>            | <u>\$ 41,789,288</u> |

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

|   | Fair Value            | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs (Level 2) | Significant<br>Unobservable<br>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             | -  | -  | 8,682,986                                       |
| TIFF Absolute Return Pool<br>II           | 8,880,694             | -  | -  | 8,880,694                                       |
| CommonFund Partners                       | 4,876,889             | -  | -  | 4,876,889                                       |
| TIFF Partners IV, LLC                     | 1,001,907             | -  | -  | 1,001,907                                       |
| TIFF Private Equity<br>Partners 2008, LLC | 3,163,298             | -  | -  | 3,163,298                                       |
| South Ferry Capital<br>Partners           | 6,235,504             | -  | -  | 6,235,504                                       |
| Coliseum Capital Partners                 | <u>8,264,181</u>      | <u>-</u>   | <u>-</u>   | <u>8,264,181</u>                                |
| Total investments in<br>securities        | <u>\$ 102,680,774</u> | <u>\$ 61,575,315</u>   | <u>\$ -</u>  | <u>\$ 41,105,459</u>                            |

WALTER S. JOHNSON FOUNDATION  
Notes to Financial Statements  
December 31, 2014 and 2013

4. Investments in Securities (continued)

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

|  | TIFF Absolute<br>Return Pool II | CommonFund<br>Partners | TIFF Partners<br>IV, LLC | TIFF Private<br>Equity Partners<br>2008, LLC | Coliseum<br>Capital<br>Partners | South Ferry<br>Capital<br>Partners | Stadium<br>Capital<br>Partners | Total                |
|--|---------------------------------|------------------------|--------------------------|--|---------------------------------|------------------------------------|--------------------------------|----------------------|
| Balance as of 12/31/12                                 | \$ 7,864,246                    | \$ 4,348,099           | \$ 1,050,575             | \$ 2,781,440                                 | \$ 6,865,897                    | \$ 5,473,902                       | \$ 8,156,087                   | \$ 36,540,246        |
| Realized gain  | 118,116                         | 180,828                | 175,811                  | 211,669                                      | 517,028                         | 601,586                            | 224,211                        | 2,029,249            |
| Change in unrealized<br>appreciation<br>(depreciation) | 1,165,323                       | 412,181                | 24,802                   | 327,485                                      | 881,256                         | 160,016                            | 1,402,688                      | 4,373,751            |
| Net contributions<br>(distributions)                   | <u>(266,991)</u>                | <u>(64,219)</u>        | <u>(249,281)</u>         | <u>(157,296)</u>                             | <u>-</u>                        | <u>-</u>                           | <u>(1,100,000)</u>             | <u>(1,837,787)</u>   |
| Balance as of 12/31/13                                 | <u>\$ 8,880,694</u>             | <u>\$ 4,876,889</u>    | <u>\$ 1,001,907</u>      | <u>\$ 3,163,298</u>                          | <u>\$ 8,264,181</u>             | <u>\$ 6,235,504</u>                | <u>\$ 8,682,986</u>            | <u>\$ 41,105,459</u> |

Investments in securities held at fair value and cost as of December 31, 2014 consisted of the following:

|   | <u>Fair Value</u>    | <u>Cost</u>          |
|---|----------------------|----------------------|
| Marketable equity securities            | \$ 40,015,868        | \$ 34,248,326        |
| Fixed income funds                      | 14,112,407           | 15,987,874           |
| Limited partnerships                    | 41,789,288           | 34,113,608           |
| Cash equivalents and money market funds | <u>6,628,700</u>     | <u>6,628,700</u>     |
| Total investments in securities         | <u>\$102,546,263</u> | <u>\$ 90,978,508</u> |

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

|   | <u>Fair Value</u>    | <u>Cost</u>          |
|---|----------------------|----------------------|
| 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 | <u>1,234,395</u>     | <u>1,234,395</u>     |
| Total investments in securities         | <u>\$102,680,774</u> | <u>\$ 87,424,477</u> |

WALTER S. JOHNSON FOUNDATION  
Notes to Financial Statements  
December 31, 2014 and 2013

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5. Property and Equipment

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

|                                | 2014   | 2013   |
|--------------------------------|--------|--------|
| Computers                      | \$ 934 | \$ 934 |
| Less: accumulated depreciation | (747)  | (560)  |
| Property and equipment, net    | \$ 187 | \$ 374 |

Depreciation expense for the years ended December 31, 2014 and 2013 was \$187 and \$186, 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 as of December 31, are payable in the following years:

|  | 2014         | 2013         |
|--|--------------|--------------|
| <u>Year ending December 31:</u>            |              |              |
| 2014                                       | \$ -         | \$ 985,000   |
| 2015                                       | 1,347,000    | 300,000      |
| 2016                                       | 300,000      | -            |
|  | 1,647,000    | 1,285,000    |
| Less: discount on long-term grants payable | (4,598)      | (2,398)      |
| Grants payable, net of discount            | \$ 1,642,402 | \$ 1,282,602 |

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.

WALTER S. JOHNSON FOUNDATION  
Notes to Financial Statements  
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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 2014 and 2013) 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.

For the years ended December 31, 2014 and 2013 federal excise tax expense consisted of the following:

|   | <u>2014</u>      | <u>2013</u>       |
|---|------------------|-------------------|
| Current federal excise tax expense            | \$ 169,017       | \$ 116,699        |
| Deferred federal excise tax expense (benefit) | <u>(73,771)</u>  | <u>170,551</u>    |
| Federal excise tax expense, net               | <u>\$ 95,246</u> | <u>\$ 287,250</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, 2014 and 2013, the Foundation had no unrelated business taxable income resulting in unrelated business income taxes.

9. Commitments

Investments

The Foundation has commitments to invest an additional \$1,921,472 in five limited partnership investments. The timing of the capital calls will be determined by the General Partners of the partnerships.

10. Related Party Transactions

During the years ended December 31, 2014 and 2013 the Foundation held investments in Coliseum Capital Partners (see Note 4). The managing partner of Coliseum Capital Partners is the son of a Trustee of the Foundation. Investment management fees paid to Coliseum Capital Partners for the years ended December 31, 2014 and 2013 totaled approximately \$129,000 and 127,000.