

Walter S. Johnson Foundation

Financial Statements

December 31, 2016 and 2015



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 13



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
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, 2016 and 2015, 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, 2016 and 2015, 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.

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

Armanino^{LLP}
San Jose, California

August 25, 2017

Walter S. Johnson Foundation
 Statements of Financial Position
 December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash	\$ 1,066,445	\$ 1,678,283
Investments	98,060,258	97,242,195
Dividends and interest receivable	49,606	34,147
Income tax receivable	10,776	25,776
Receivable for investments sold	115,927	124,295
Federal excise tax receivable	113,614	141,639
Property and equipment, net	9,329	-
Other assets	5,391	5,873
Total assets	\$ 99,431,346	\$ 99,252,208
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 39,208	\$ 35,604
Grants payable, net	2,888,497	2,863,366
Deferred federal excise tax liability	117,766	52,172
Total liabilities	3,045,471	2,951,142
Commitment and contingency (Note 7)		
Unrestricted net assets	96,385,875	96,301,066
Total liabilities and net assets	\$ 99,431,346	\$ 99,252,208

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

Walter S. Johnson Foundation
 Statements of Activities
 For the Years Ended December 31, 2016 and 2015

	2016	2015
Investment income		
Interest	\$ 65,886	\$ 40,684
Dividends	1,450,053	1,664,519
Income from investments in limited partnerships	1,844,118	2,988,771
Net realized gain (loss) on sale of investments	(713,065)	6,280,186
Net unrealized appreciation (depreciation) on investments	3,279,707	(8,959,154)
Accumulation of bond discount	(18,409)	(14,768)
Other income	38	-
Total investment income	5,908,328	2,000,238
Direct expenses		
Investment related expenses	564,709	607,574
Federal excise tax expense (benefit), net	93,619	(76,408)
Total direct expenses	658,328	531,166
Net investment income	5,250,000	1,469,072
Grants and expenses		
Grants authorized	4,448,631	5,682,466
Administrative expenses	716,560	667,835
Total grants and expenses	5,165,191	6,350,301
Change in unrestricted net assets	84,809	(4,881,229)
Unrestricted net assets, beginning of year	96,301,066	101,182,295
Unrestricted net assets, end of year	\$ 96,385,875	\$ 96,301,066

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, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in unrestricted net assets	\$ 84,809	\$ (4,881,229)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized (gain) loss on sale of investments	713,065	(6,280,186)
Net unrealized (appreciation) depreciation on investments	(3,279,707)	8,959,154
Depreciation	848	187
Deferred federal excise tax (benefit) expense	65,594	(179,183)
Accumulation of bond discount	18,409	14,768
Changes in operating assets and liabilities		
Dividends and interest receivable	(15,459)	(15,252)
Income tax receivable	15,000	30,136
Receivable for investments sold	8,368	48,563
Federal excise tax receivable	28,025	(127,225)
Other assets	482	(1,303)
Accounts payable and accrued liabilities	3,604	7,824
Payable for investments purchased	-	(117,080)
Grants payable, net	25,131	1,220,964
Net cash used in operating activities	(2,331,831)	(1,319,862)
Cash flows from investing activities		
Purchase of investments	(19,681,359)	(60,647,347)
Proceeds from sale of investments	21,155,336	57,685,946
Purchase of computer	(10,177)	-
Proceeds from return of principal	243,107	91,261
Sale (purchase) of cash equivalents and money market funds, net	13,086	5,480,472
Net cash provided by investing activities	1,719,993	2,610,332
Net increase (decrease) in cash	(611,838)	1,290,470
Cash, beginning of year	1,678,283	387,813
Cash, end of year	\$ 1,066,445	\$ 1,678,283

Supplemental disclosure of cash flow information

Cash paid during the year for excise tax	\$ -	\$ 230,000
--	------	------------

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

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2016 and 2015

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 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, and 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 unrestricted because they are not subject to donor-imposed restrictions.

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2016 and 2015

3. SUMMARY OF 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 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

Cash includes 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.

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

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 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, 2016 and 2015 was \$28,025 and \$102,775, respectively. The deferred tax benefit (expense) was \$65,594 and (\$179,183), respectively, related to the net unrealized appreciation (depreciation) on investments held at December 31, 2016 and 2015, respectively.

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty 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, 2015, 2014 and 2013 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, 2015, 2014, 2013, and 2012 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Subsequent events

Management of the Foundation has evaluated events and transactions subsequent to December 31, 2016 for potential recognition or disclosure in the financial statements. The Foundation did have a subsequent event that required recognition or disclosure in the financial statements for the year ended December 31, 2016 as disclosed in Note 8. Subsequent events have been evaluated through the date the financial statements became available to be issued, August 25, 2017.

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2016 and 2015

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money Market Investments	\$ 1,135,142	\$ -	\$ -	\$ 1,135,142
Equities	43,415,082	-	-	43,415,082
Fixed Income	18,477,228	-	-	18,477,228
Stadium Capital Partners	-	-	9,019,142	9,019,142
TIFF Absolute Return Pool II	-	-	7,557,727	7,557,727
CommonFund Partners	-	-	3,900,015	3,900,015
TIFF Partners IV, LLC	-	-	194,873	194,873
TIFF Private Equity Partners 2008, LLC	-	-	4,202,446	4,202,446
Coliseum Capital Partners	-	-	10,158,603	10,158,603
	<u>\$ 63,027,452</u>	<u>\$ -</u>	<u>\$ 35,032,806</u>	<u>\$ 98,060,258</u>

The following table sets forth by level, within the fair value hierarchy, Foundation's investments at fair value as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Money Market Investments	\$ 1,148,228	\$ -	\$ -	\$ 1,148,228
Equities	41,808,590	-	-	41,808,590
Fixed Income	17,962,064	-	-	17,962,064
Stadium Capital Partners	-	-	8,949,613	8,949,613
TIFF Absolute Return Pool II	-	-	8,185,987	8,185,987
CommonFund Partners	-	-	4,297,504	4,297,504
TIFF Partners IV, LLC	-	-	256,864	256,864
TIFF Private Equity Partners 2008, LLC	-	-	4,329,690	4,329,690
Coliseum Capital Partners	-	-	10,303,655	10,303,655
	<u>\$ 60,918,882</u>	<u>\$ -</u>	<u>\$ 36,323,313</u>	<u>\$ 97,242,195</u>

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2016 and 2015

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, 2016:

	TIFF Absolute Return Pool II	CommonFund Partners	TIFF Partners IV, LLC	TIFF Private Equity Partners 2008, LLC	Coliseum Capital Partners	South Ferry Capital Partners	Stadium Capital Partners	Total
Balance, December 31, 2015	\$ 8,185,987	\$ 4,297,504	\$ 256,864	\$ 4,329,690	\$ 10,303,655	\$ -	\$ 8,949,613	\$ 36,323,313
Realized gain (loss)	217,326	497,587	(191,675)	214,077	517,531	-	465,992	1,720,838
Change in unrealized appreciation (depreciation)	(375,381)	(73,847)	234,872	(11,536)	(662,583)	-	(396,463)	(1,284,938)
Net contributions (distributions)	<u>(470,205)</u>	<u>(821,229)</u>	<u>(105,188)</u>	<u>(329,785)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,726,407)</u>
Balance, December 31, 2016	<u>\$ 7,557,727</u>	<u>\$ 3,900,015</u>	<u>\$ 194,873</u>	<u>\$ 4,202,446</u>	<u>\$ 10,158,603</u>	<u>\$ -</u>	<u>\$ 9,019,142</u>	<u>\$ 35,032,806</u>

The following table sets forth a summary of changes in the fair value of Level 3 investments for the year ended December 31, 2015:

	TIFF Absolute Return Pool II	CommonFund Partners	TIFF Partners IV, LLC	TIFF Private Equity Partners 2008, LLC	Coliseum Capital Partners	South Ferry Capital Partners	Stadium Capital Partners	Total
Balance, December 31, 2014	\$ 8,550,051	\$ 4,705,755	\$ 485,209	\$ 4,522,247	\$ 9,228,084	\$ 6,154,669	\$ 8,143,273	\$ 41,789,288
Realized gain (loss)	241,788	558,510	(421,474)	547,172	520,543	24,520	1,374,927	2,845,986
Change in unrealized appreciation (depreciation)	(95,811)	(86,924)	363,692	1,212	555,028	(31,162)	(568,587)	137,448
Net contributions (distributions)	<u>(510,041)</u>	<u>(879,837)</u>	<u>(170,563)</u>	<u>(740,941)</u>	<u>-</u>	<u>(6,148,027)</u>	<u>-</u>	<u>(8,449,409)</u>
Balance, December 31, 2015	<u>\$ 8,185,987</u>	<u>\$ 4,297,504</u>	<u>\$ 256,864</u>	<u>\$ 4,329,690</u>	<u>\$ 10,303,655</u>	<u>\$ -</u>	<u>\$ 8,949,613</u>	<u>\$ 36,323,313</u>

Investments held at fair value and cost as of December 31, 2016 consisted of the following:

	Fair Value	Cost
Marketable equity securities	\$ 43,415,082	\$ 42,118,719
Fixed income funds	18,477,228	20,413,473
Limited partnerships	35,032,806	28,504,616
Cash equivalents and money market funds	<u>1,135,142</u>	<u>1,135,142</u>
	<u>\$ 98,060,258</u>	<u>\$ 92,171,950</u>

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2016 and 2015

4. INVESTMENTS (continued)

Investments held at fair value and cost as of December 31, 2015 consisted of the following:

	Fair Value	Cost
Marketable equity securities	\$ 41,808,590	\$ 44,049,032
Fixed income funds	17,962,064	20,926,149
Limited partnerships	36,323,313	28,510,185
Cash equivalents and money market funds	1,148,228	1,148,228
	\$ 97,242,195	\$ 94,633,594

5. PROPERTY AND EQUIPMENT

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

Property and equipment consist of the following:

	2016	2015
Computers	\$ 10,177	\$ 934
Less: accumulated depreciation	(848)	(934)
	\$ 9,329	\$ -

Depreciation expense for the years ended December 31, 2016 and 2015 was \$848 and \$187, 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,	2016	2015
2016	\$ -	\$ 2,743,500
2017	2,790,000	125,000
2018	100,000	-
	2,890,000	2,868,500
Less: discount on long-term grants payable	(1,503)	(5,134)
	\$ 2,888,497	\$ 2,863,366

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2016 and 2015

7. COMMITMENTS AND CONTINGENCIES

Investments

The Foundation has commitments to invest an additional \$1,350,972 in five 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, 2016 and 2015 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, 2016 and 2015 totaled approximately \$159,000 and \$145,000, respectively.

Subsequent to December 31, 2016, the Foundation entered into a \$5,000,000 commitment with Everside Founders Fund, LP (the "Fund"). The son of a Trustee of the Foundation has a voting interest and a profit interest in the Fund's management company and general partner.

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 2016 and 2015) 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, 2016 and 2015 federal excise tax expense consisted of the following:

	2016	2015
Current federal excise tax expense	\$ 28,025	\$ 102,775
Deferred federal excise tax expense (benefit)	65,594	(179,183)
	\$ 93,619	\$ (76,408)

Walter S. Johnson Foundation
Notes to Financial Statements
December 31, 2016 and 2015

9. PROVISION FOR FEDERAL EXCISE / UNRELATED BUSINESS INCOME TAXES
(continued)

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, 2016 and 2015, the Foundation had no unrelated business taxable income resulting in unrelated business income taxes.