

**Walter S. Johnson Foundation**

Financial Statements

December 31, 2017 and 2016



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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 financial statements of Walter S. Johnson Foundation (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, 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, 2017 and 2016, 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<sup>LLP</sup>  
San Jose, California

August 23, 2018

Walter S. Johnson Foundation  
Statements of Financial Position  
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 838,108	\$ 1,066,445
Investments	102,790,553	98,060,258
Dividends and interest receivable	39,080	49,606
Income tax receivable	-	10,776
Limited partnership distributions receivable	3,112,796	115,927
Federal excise tax receivable	75,381	113,614
Property and equipment, net	12,171	9,329
Other assets	5,942	5,391
Total assets	\$ 106,874,031	\$ 99,431,346
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 43,147	\$ 39,208
Grants payable, net	1,512,674	2,888,497
Deferred federal excise tax liability	295,989	117,766
Total liabilities	1,851,810	3,045,471
Commitments (Note 7)		
Unrestricted net assets	105,022,221	96,385,875
Total liabilities and net assets	\$ 106,874,031	\$ 99,431,346

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

Walter S. Johnson Foundation  
 Statements of Activities  
 For the Years Ended December 31, 2017 and 2016

	2017	2016
Investment income		
Interest	\$ 71,835	\$ 65,886
Dividends	1,645,120	1,450,053
Income from investments in limited partnerships	2,178,793	1,844,118
Net realized gain (loss) on sale of investments	649,905	(713,065)
Net unrealized appreciation on investments	8,890,135	3,261,298
Other income	435	38
Total investment income	13,436,223	5,908,328
Direct expenses		
Investment related expenses	588,740	564,709
Federal excise tax expense, net	212,152	93,619
Total direct expenses	800,892	658,328
Net investment income	12,635,331	5,250,000
Grants and expenses		
Grants authorized	3,289,177	4,448,631
Administrative expenses	709,808	716,560
Total grants and expenses	3,998,985	5,165,191
Change in unrestricted net assets	8,636,346	84,809
Unrestricted net assets, beginning of year	96,385,875	96,301,066
Unrestricted net assets, end of year	\$105,022,221	\$ 96,385,875

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, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in unrestricted net assets	\$ 8,636,346	\$ 84,809
Adjustments to reconcile change in net assets to net cash used in operating activities		
Net realized (gain) loss on sale of investments	(649,905)	713,065
Net unrealized appreciation on investments	(8,890,135)	(3,261,298)
Depreciation	2,654	848
Deferred federal excise tax expense	178,143	65,594
Changes in operating assets and liabilities		
Dividends and interest receivable	10,526	(15,459)
Income tax receivable	10,776	15,000
Federal excise tax receivable	38,233	28,025
Other assets	(551)	482
Accounts payable and accrued liabilities	3,939	3,604
Grants payable, net	(1,375,823)	25,131
Net cash used in operating activities	(2,035,797)	(2,340,199)
Cash flows from investing activities		
Purchase of investments	(29,513,821)	(19,681,359)
Limited partnership distributions receivable	(2,996,869)	8,368
Proceeds from sale of investments	34,710,656	21,155,336
Purchase of computer	(5,496)	(10,177)
Proceeds from return of principal	112,482	243,107
Sale (purchase) of cash equivalents and money market funds, net	(499,492)	13,086
Net cash provided by investing activities	1,807,460	1,728,361
Net decrease in cash and cash equivalents	(228,337)	(611,838)
Cash and cash equivalents, beginning of year	1,066,445	1,678,283
Cash and cash equivalents, end of year	\$ 838,108	\$ 1,066,445

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

Walter S. Johnson Foundation  
Notes to Financial Statements  
December 31, 2017 and 2016

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, 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  
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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 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.

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.



Walter S. Johnson Foundation  
Notes to Financial Statements  
December 31, 2017 and 2016

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 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.

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, 2017 and 2016 was \$34,009 and \$28,025, respectively. The deferred tax expense was \$178,143 and \$65,594, respectively, related to the net unrealized appreciation on investments held at December 31, 2017 and 2016, respectively.

Walter S. Johnson Foundation  
Notes to Financial Statements  
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2016, 2015 and 2014 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, 2016, 2015, 2014, and 2013 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, 2017 for potential recognition or disclosure in the financial statements through August 23, 2018, the date the financial statements were available to be issued. No subsequent events have occurred that would have a material impact on the presentation of the Foundation's financial statements.

Walter S. Johnson Foundation  
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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, 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 by level, within the fair value hierarchy, 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
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
Stadium Capital Partners	-	-	9,019,142	9,019,142
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>

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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	Total
Balance, 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, 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>

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	Stadium Capital Partners	Coliseum Capital Partners	Total
Balance, December 31, 2015	\$ 8,185,987	\$ 4,297,504	\$ 256,864	\$ 4,329,690	\$ 8,949,613	\$ 10,303,655	\$ 36,323,313
Realized gain (loss)	217,326	497,587	(191,675)	214,077	465,992	517,531	1,720,838
Change in unrealized appreciation (depreciation)	(375,381)	(73,847)	234,872	(11,536)	(396,463)	(662,583)	(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>(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>\$ 9,019,142</u>	<u>\$ 10,158,603</u>	<u>\$ 35,032,806</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, 2017 and 2016

4. INVESTMENTS (continued)

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	1,135,142	1,135,142
	\$ 98,060,258	\$ 92,171,950

5. PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation of property and equipment consisted of the following:

	2017	2016
Computers	\$ 15,673	\$ 10,177
Less: accumulated depreciation	(3,502)	(848)
	\$ 12,171	\$ 9,329

Depreciation expense for the years ended December 31, 2017 and 2016 was \$2,654 and \$848, 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,	2017	2016
2017	\$ -	\$ 2,790,000
2018	1,435,000	100,000
2019	80,000	-
	1,515,000	2,890,000
Less: discount on long-term grants payable	(2,326)	(1,503)
	\$ 1,512,674	\$ 2,888,497

Walter S. Johnson Foundation  
Notes to Financial Statements  
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7. COMMITMENTS

Investments

The Foundation has commitments to invest an additional \$6,103,472 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, 2017 and 2016, 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, 2017 and 2016 totaled approximately \$161,000 and \$159,000, respectively.

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 for the year ended December 31, 2017 totaled approximately \$20,000.

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 2017 and 2016) 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.

Federal excise tax expense consisted of the following:

	2017	2016
Current federal excise tax expense	\$ 34,009	\$ 28,025
Deferred federal excise tax expense	178,143	65,594
	\$ 212,152	\$ 93,619

Walter S. Johnson Foundation  
Notes to Financial Statements  
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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, 2017 and 2016, the Foundation had net operating loss carryforwards for tax purposes of approximately \$69,000 and \$101,000 available to offset unrelated business income. These carryforwards will begin to expire in 2026 if not previously utilized.