

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

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FINANCIAL STATEMENTS

Years Ended December 31, 2005 and 2004

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Walter S. Johnson Foundation (a California nonprofit private foundation) as of December 31, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Walter S. Johnson Foundation as of December 31, 2004, were audited by other auditors whose report dated April 27, 2005, expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Berger/Lewis Accountancy Corporation*

BERGER/LEWIS ACCOUNTANCY CORPORATION  
San Jose, California  
July 12, 2006

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

STATEMENTS OF FINANCIAL POSITION

December 31, 2005 and 2004

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	<u>2005</u>	<u>2004</u>
<b>ASSETS:</b>		
Cash	\$ -	\$ 33,432
Investments in Securities	105,963,666	104,077,271
Interest and Dividends Receivable	130,244	306,378
Receivable for Investments Sold	37,462	-
Furniture and Fixtures, Net	24,172	38,369
Other Assets	<u>26,714</u>	<u>20,503</u>
<b>TOTAL ASSETS</b>	<b><u>\$106,182,258</u></b>	<b><u>\$104,475,953</u></b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES:</b>		
Cash Overdraft	\$ 37,804	\$ -
Accounts Payable and Accrued Liabilities	133,222	141,906
Grants Payable, Net	2,881,586	2,745,637
Payable for Investments Purchased	6,316	144,330
Federal Excise Tax Payable	1,352	20,892
Deferred Federal Excise Tax	<u>225,525</u>	<u>292,802</u>
Total Liabilities	<u>3,285,805</u>	<u>3,345,567</u>
Commitments (Note 9)		
<b>NET ASSETS:</b>		
Unrestricted Net Assets	<u>102,896,453</u>	<u>101,130,386</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$106,182,258</u></b>	<b><u>\$104,475,953</u></b>

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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>INVESTMENT INCOME:</b>		
Interest	\$ 510,467	\$ 1,432,776
Dividends	1,973,134	1,122,243
Income from Investments in Limited Partnerships	337,687	-
Net Realized Gain on Sale of Investments	7,358,308	5,422,218
Net Unrealized Appreciation (Depreciation) on Investments	(3,363,828)	826,443
Other Income	<u>15,748</u>	<u>21,137</u>
Total Investment Income	<u>6,831,516</u>	<u>8,824,817</u>
<b>DIRECT EXPENSES:</b>		
Investment Related Expenses	347,312	331,649
Federal Excise Tax Expense, Net	<u>127,183</u>	<u>168,696</u>
Total Direct Expenses	<u>474,495</u>	<u>500,345</u>
Net Investment Income	<u>6,357,021</u>	<u>8,324,472</u>
<b>GRANTS AND EXPENSES:</b>		
Grants Authorized	3,755,253	3,396,082
Administrative Expenses	<u>835,701</u>	<u>719,198</u>
Total Grants and Expenses	<u>4,590,954</u>	<u>4,115,280</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	1,766,067	4,209,192
<b>UNRESTRICTED NET ASSETS, Beginning of Year</b>	<u>101,130,386</u>	<u>96,921,194</u>
<b>UNRESTRICTED NET ASSETS, End of Year</b>	<u>\$102,896,453</u>	<u>\$101,130,386</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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in Unrestricted Net Assets	\$ 1,766,067	\$ 4,209,192
Adjustments to Reconcile Change in Unrestricted Net Assets to Net Cash Used by Operating Activities:		
Net Gain on Sale of Investments	(7,358,308)	(5,422,218)
Net Unrealized (Appreciation) Depreciation on Investments	3,363,828	(826,443)
Depreciation	14,847	16,225
Deferred Federal Excise Tax	(67,277)	16,529
(Increase) Decrease in Assets:		
Interest and Dividends Receivable	176,134	59,502
Receivable for Investments Sold	(37,462)	-
Other Assets	(6,211)	3,156
Increase (Decrease) in Liabilities:		
Cash Overdraft	37,804	-
Accounts Payable and Accrued Liabilities	(8,684)	10,598
Grants Payable	135,949	(556,930)
Payable for Investments Purchased	(138,014)	-
Federal Excise Tax Payable	(19,540)	39,168
Net Cash Used by Operating Activities	<u>(2,140,867)</u>	<u>(2,451,221)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Furniture and Fixtures	(649)	(1,285)
Purchase of Investment Securities	(76,917,278)	(67,039,997)
Proceeds from Sale of Investment Securities	75,842,898	68,538,852
Sale (Purchase) of Short-Term Securities, Net	<u>3,182,464</u>	<u>713,521</u>
Net Cash Provided by Investing Activities	<u>2,107,435</u>	<u>2,211,091</u>
<b>NET DECREASE IN CASH</b>	<b>(33,432)</b>	<b>(240,130)</b>
<b>CASH, Beginning of Year</b>	<u>33,432</u>	<u>273,562</u>
<b>CASH, End of Year</b>	<u>\$ -</u>	<u>\$ 33,432</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash Paid for Federal Excise Taxes	<u>\$ 214,000</u>	<u>\$ 113,000</u>
Payables for Investments Purchased	<u>\$ 6,316</u>	<u>\$ 144,330</u>

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

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

NOTES TO FINANCIAL STATEMENTS

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NOTE 1 - GENERAL INFORMATION:

Walter S. Johnson Foundation (the "Foundation"), a nonprofit organization located in Menlo Park, 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 two main goals: ensuring the well-being of children and youth; and strengthening public education. By doing so, the Foundation aims to assist young people in their transition to adulthood.

NOTE 2 - PROGRAM GRANTS:

The Foundation makes grants to the following types of programs:

Youth Programs - the youth programs seek to help underserved youth, ages 14-24; make successful transitions to adulthood. This is accomplished by supporting youth development principles, practices, and programs that help youth: build skills; make contributions to their community; form lasting, healthy relationships with peers and adults; and make decisions and participate actively in the youth organizations in which they are involved.

Education Programs - the education programs seek to prepare young people, ages 14-24, who are not on track to graduate or are first generation college-goers, to complete high school and obtain post-secondary credentials. The Foundation is particularly interested in cross-sector collaborations between school districts, local government, alternative education providers, community-based organizations, and community colleges that improve educational outcomes and options for off-track and out-of-school youth.

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.

Basis of Presentation - Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*.

WALTER S. JOHNSON FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

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 statement 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.

Furniture and Fixtures - Furniture and fixtures are recorded at cost. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets ranging from 5 to 10 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 for the years ended December 31, 2005 and 2004 consists of \$194,460 and \$152,167, respectively, and \$67,277 of deferred tax benefit and \$16,529 of deferred tax expense related to the net unrealized appreciation/depreciation on investments held at December 31, 2005 and 2004, respectively.

Advertising - The Foundation's policy is to expense advertising costs as the costs are incurred. There were no advertising costs for the years ended December 31, 2005 and 2004.



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NOTES TO FINANCIAL STATEMENTS  
(Continued)

NOTE 4 - INVESTMENTS:

Investments held at December 31, 2005 consisted of the following:

	<u>Fair Value</u>	<u>Cost</u>
Marketable Equity Securities	\$ 71,757,801	\$ 60,379,652
Fixed Income Fund	21,010,944	21,391,007
Limited Partnerships	11,557,646	11,279,483
Short-Term Investments	<u>1,637,275</u>	<u>1,637,275</u>
Total Investments	<u>\$105,963,666</u>	<u>\$ 94,687,417</u>

Investments held at December 31, 2004 consisted of the following:

	<u>Fair Value</u>	<u>Cost</u>
Marketable Equity Securities	\$ 67,645,442	\$ 53,399,827
Government Obligations	19,663,953	19,444,794
Corporate Bonds	9,600,092	9,324,836
Limited Partnerships	2,348,045	2,447,999
Short-Term Investments	<u>4,819,739</u>	<u>4,819,738</u>
Total Investments	<u>\$104,077,271</u>	<u>\$ 89,437,194</u>

NOTE 5 - FURNITURE AND FIXTURES:

The cost and related accumulated depreciation of furniture and fixtures at December 31, consisted of the following:

	<u>2005</u>	<u>2004</u>
Computers	\$ 22,889	\$ 22,239
Furniture and Fixtures	38,257	38,257
Computer Software	20,288	20,288
Leasehold Improvements	<u>41,877</u>	<u>41,877</u>
	123,311	122,661
Less: Accumulated Depreciation	<u>(99,139)</u>	<u>(84,292)</u>
Property and Equipment, Net	<u>\$ 24,172</u>	<u>\$ 38,369</u>

Depreciation expense for the years ended December 31, 2005 and 2004 was \$14,847 and \$16,225, respectively.

WALTER S. JOHNSON FOUNDATION  
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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 at December 31, are payable in the following years:

<u>Year Ending December 31,</u>	<u>2005</u>	<u>2004</u>
2005	\$ -	\$ 2,041,599
2006	2,145,602	635,625
2007	726,349	103,125
2008	<u>67,500</u>	<u>-</u>
	2,939,451	2,780,349
Less: Discount on Long-Term Grants Payable	<u>(57,865)</u>	<u>(34,712)</u>
Grants Payable, Net of Discount	<u>\$ 2,881,586</u>	<u>\$ 2,745,637</u>

NOTE 7 - DEFINED CONTRIBUTION PLAN AND DEFERRED COMPENSATION:

The Foundation has a defined contribution retirement plan under Internal Revenue Code Section 403(b). The plan covers all employees who meet the eligibility requirement. During 2005 and 2004 the Board of Trustees approved contributions of 10%-15% of qualified employees' salaries representing \$45,462 and \$44,070, respectively. Deferred compensation for retired employees at December 31, 2005 and 2004 was \$33,750 and \$35,250, respectively

NOTE 8 - PROVISION FOR FEDERAL EXCISE TAX:

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. During the years ended December 31, 2005 and 2004, the Foundation paid excise taxes at the rate of 2%. The provision for federal excise tax (based on a 2% rate) consists of a current provision on net investment income. A deferred excise tax provision is recognized on current net unrealized gains on investments.

For the years ended December 31, 2005 and 2004 federal excise tax expense consisted of the following:

	<u>2005</u>	<u>2004</u>
Current Federal Excise Tax	\$ 194,460	\$ 152,167
Deferred Federal Excise Tax	<u>(67,277)</u>	<u>16,529</u>
Federal Excise Tax Expense, Net	<u>\$ 127,183</u>	<u>\$ 168,696</u>

WALTER S. JOHNSON FOUNDATION  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

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NOTE 9 - COMMITMENTS:

The Foundation leases its office space under an operating lease which expires in September 2007. The lease includes an annual increase of 3% per year.

Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2006	\$ 88,532
2007	<u>59,961</u>
Total Future Minimum Lease Payments	<u>\$ 148,493</u>

Rental expense for the years ended December 31, 2005 and 2004 was \$87,192 and \$85,476, respectively.

The Foundation has commitments to invest an additional \$1,682,072 in two limited partnership investments. The timing of the capital calls will be determined by the General Partners of the partnerships.