

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

FINANCIAL STATEMENTS

Years Ended December 31, 2009 and 2008

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 statements of financial position of Walter S. Johnson Foundation (a California nonprofit private foundation) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years 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 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 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 audits provide 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Berger Lewis Accountancy Corporation".

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
August 6, 2010

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

STATEMENTS OF FINANCIAL POSITION

December 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| ASSETS: | | |
| Cash | \$ 110,316 | \$ 369,089 |
| Investments in Securities | 86,919,084 | 72,920,618 |
| Dividends Receivable | 62,896 | 145,469 |
| Accrued Interest Purchased | 27,696 | - |
| Receivable for Investments Sold | 5,572 | - |
| Federal Excise Tax Receivable | 31,820 | 63,035 |
| Deferred Federal Excise Tax Asset | - | 399,212 |
| Property and Equipment, Net | 17,420 | 27,073 |
| Other Assets | <u>37,616</u> | <u>24,246</u> |
| TOTAL ASSETS | <u>\$ 87,212,420</u> | <u>\$ 73,948,742</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES: | | |
| Accounts Payable and Accrued Liabilities | \$ 54,399 | \$ 104,169 |
| Grants Payable, Net | 2,080,375 | 3,769,198 |
| Payable for Investments Purchased | 34,263 | 33,773 |
| Deferred Federal Excise Tax Liability | <u>16,003</u> | <u>-</u> |
| Total Liabilities | <u>2,185,040</u> | <u>3,907,140</u> |
| Commitments - see Note 9 | | |
| NET ASSETS: | | |
| Unrestricted Net Assets | <u>85,027,380</u> | <u>70,041,602</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 87,212,420</u> | <u>\$ 73,948,742</u> |

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

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

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| INVESTMENT INCOME (LOSS): | | |
| Interest | \$ 4,149 | \$ 29,078 |
| Dividends | 2,230,206 | 2,762,392 |
| Income (Loss) from Investments in Limited Partnerships | 790,051 | 283,101 |
| Net Realized Loss on Sale of Investments | (4,921,567) | (10,601,458) |
| Net Unrealized Appreciation (Depreciation) on Investments | 20,760,772 | (23,625,922) |
| Other Income | 93,976 | 26,917 |
| Amortization of Bond Premium | <u>(3,533)</u> | <u>-</u> |
| Total Investment Income (Loss) | <u>18,954,054</u> | <u>(31,125,892)</u> |
| DIRECT EXPENSES: | | |
| Investment Related Expenses | 249,807 | 369,166 |
| Federal Excise Tax Expense (Benefit), Net | 440,830 | (447,130) |
| Current Income Taxes | <u>5,501</u> | <u>-</u> |
| Total Direct Expenses | <u>696,138</u> | <u>(77,964)</u> |
| Net Investment Income (Loss) | <u>18,257,916</u> | <u>(31,047,928)</u> |
| GRANTS AND EXPENSES: | | |
| Grants Authorized | 2,506,225 | 4,542,321 |
| Administrative Expenses | <u>765,913</u> | <u>950,595</u> |
| Total Grants and Expenses | <u>3,272,138</u> | <u>5,492,916</u> |
| CHANGE IN UNRESTRICTED NET ASSETS | 14,985,778 | (36,540,844) |
| UNRESTRICTED NET ASSETS, Beginning of Year | <u>70,041,602</u> | <u>106,582,446</u> |
| UNRESTRICTED NET ASSETS, End of Year | <u>\$ 85,027,380</u> | <u>\$ 70,041,602</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, 2009 and 2008

| | 2009 | 2008 |
|--|---------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in Unrestricted Net Assets | \$ 14,985,778 | \$ (36,540,844) |
| Adjustments to Reconcile Change in Unrestricted Net Assets to Net Cash Used by Operating Activities: | | |
| Net Realized Loss on Sale of Investments | 4,921,567 | 10,601,458 |
| Net Unrealized (Appreciation) Depreciation on Investments | (20,760,772) | 23,625,922 |
| Depreciation | 9,653 | 9,723 |
| Deferred Federal Excise Tax Expense (Benefit) | 415,216 | (472,518) |
| Amortization of Bond Premium | 3,533 | - |
| (Increase) Decrease in Assets: | | |
| Dividends Receivable | 82,572 | 8,636 |
| Accrued Interest Purchased | (27,696) | - |
| Receivable for Investments Sold | (5,572) | 11,244 |
| Federal Excise Tax Receivable | 31,215 | (63,035) |
| Other Assets | (13,370) | (3,246) |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable and Accrued Liabilities | (49,771) | (34,191) |
| Grants Payable, Net | (1,688,823) | 151,408 |
| Payable for Investments Purchased | 490 | (316,228) |
| Federal Excise Tax Payable | - | (11,677) |
| Net Cash Used by Operating Activities | (2,095,980) | (3,033,348) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of Property and Equipment | - | (10,041) |
| Purchase of Investment Securities | (73,777,698) | (44,930,211) |
| Proceeds from Sale of Investment Securities | 75,092,849 | 49,522,988 |
| Sale (Purchase) of Cash Equivalents and Money Market Funds, Net | 522,056 | (1,263,269) |
| Net Cash Provided by Investing Activities | 1,837,207 | 3,319,467 |
| NET INCREASE (DECREASE) IN CASH | (258,773) | 286,119 |
| CASH, Beginning of Year | 369,089 | 82,970 |
| CASH, End of Year | \$ 110,316 | \$ 369,089 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash Paid for Federal Excise Taxes | \$ 0 | \$ 100,100 |
| Payables for Investments Purchased | \$ 34,263 | \$ 33,773 |

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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION:

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 Accounting Standards Codification (ASC) 958 (formerly Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*).

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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 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 adopted the provisions of ASC 820-10 (formerly SFAS No. 157, *Fair Value Measurements*). Under ASC 820-10, 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."

ASC 820-10 establishes a hierarchy 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 Organization'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 lives of the assets ranging from 5 to 10 years.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

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, 2009 and 2008 consists of \$25,614 and \$25,388, respectively, and \$415,216 of deferred tax expense and \$472,518 of deferred tax benefit, respectively, related to the net unrealized appreciation or depreciation on investments held at December 31, 2009 and 2008, respectively.

In June 2006, the FASB issued ASC 740-10 (formerly Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, (FIN 48)). ASC 740-10 provides guidance on recognition and measurement of uncertainties in income taxes recognized in financial statements by prescribing a more-likely-than-not recognition threshold and measurement attribute of tax positions taken or expected to be taken on a tax return.

Effective January 1, 2009 the Foundation implemented the new accounting requirements associated with uncertainty in income taxes using the provisions of FASB ASC 740-10. Accordingly, an entity shall initially recognize the financial statement effects of a tax position when it is more-likely-than-not, based on the technical merits, that the position will be sustained upon examination. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

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, 2009 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, 2009. Subsequent events have been evaluated through the date the financial statements became available to be issued, August 6, 2010.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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

Recent Accounting Pronouncements -

FASB Accounting Standards Codification - On July 1, 2009, the Financial Accounting Standards Board (FASB) issued FASB Accounting Standards Codification (ASC) 105-10, *Generally Accepted Accounting Principles* (GAAP) (Codification). ASC 105-10 establishes the exclusive authoritative reference for U.S. GAAP for us in financial statements, except for SEC rules and interpretive releases, which are also authoritative for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. The Foundation has included the references to the Codification, as appropriate, in these financial statements.

NOTE 4 - INVESTMENTS IN SECURITIES:

Fair value of assets measured on a recurring basis as of December 31, 2009 was as follows:

| | <u>Fair Value</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|--|----------------------|---|--|--|
| Money Market Investments | \$ 1,490,970 | \$ 1,490,970 | \$ - | \$ - |
| Equities | 25,274,373 | 25,274,373 | - | - |
| Fixed Income | 29,079,872 | 29,079,872 | - | - |
| Blackrock Mutual Fund - High Yield Bond | 4,534,230 | 4,534,230 | - | - |
| Stadium Capital Partners Stadium Relative Value Partners | 4,439,786 | 4,182,278 | 257,508 | - |
| Marathon Fund | 2,730,530 | 2,730,530 | - | - |
| TIFF Absolute Return Pool II | 7,632,462 | 7,594,159 | 38,303 | - |
| CommonFund Partners | 6,707,437 | 861,470 | 595,459 | 5,250,508 |
| TIFF Partners IV, LLC | 2,633,891 | 2,803 | - | 2,631,088 |
| TIFF Private Equity Partners 2008, LLC | 1,548,722 | 52,347 | - | 1,496,375 |
| | <u>846,811</u> | <u>6,859</u> | <u>-</u> | <u>839,952</u> |
| Total Investments in Securities | <u>\$ 86,919,084</u> | <u>\$ 75,809,891</u> | <u>\$ 891,270</u> | <u>\$ 10,217,923</u> |

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - INVESTMENTS IN SECURITIES (Continued):

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

| | TIFF Absolute Return Pool II | CommonFund Partners | TIFF Partners IV, LLC | TIFF Private Equity Partners 2008, LLC | TOTAL |
|---|---------------------------------|------------------------|--------------------------|---|----------------------|
| Balance as of 12/31/08 | \$ 4,499,349 | \$ 2,164,686 | \$ 1,307,214 | \$ 393,776 | \$ 8,365,025 |
| Realized Gain (Loss) | 202,720 | (109,150) | 177,089 | 1,547 | 272,206 |
| Change in Unrealized Appreciation (Depreciation) | 2,115,273 | 252,306 | 141,568 | (22,152) | 2,486,995 |
| Net Purchases (Sales) | (547,971) | - | - | - | (547,971) |
| Net Contributions (Distributions) | - | 339,076 | (129,496) | 466,781 | 676,361 |
| Net Transfers In/Out of Level 3 | (1,018,863) | (15,830) | - | - | (1,034,693) |
| Balance as of 12/31/09 | <u>\$ 5,250,508</u> | <u>\$ 2,631,088</u> | <u>\$ 1,496,375</u> | <u>\$ 839,952</u> | <u>\$ 10,217,923</u> |

Fair value of assets measured on a recurring basis as of December 30, 2008 was as follows:

| | <u>Fair Value</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|--|----------------------|---|--|--|
| Money Market Investments | \$ 2,013,026 | \$ 2,013,026 | \$ - | \$ - |
| Equities | 28,922,409 | 28,922,409 | - | - |
| Fixed Income | 17,003,226 | 17,003,226 | - | - |
| Blackrock Mutual Fund - High Yield Bond | 5,949,179 | 5,949,179 | - | - |
| Stadium Capital Partners | 1,799,746 | 1,799,746 | - | - |
| Stadium Relative Value Partners | 1,556,338 | 1,556,338 | - | - |
| Russell 2000 Index Fund | 353,033 | 353,033 | - | - |
| Marathon Fund | 5,895,648 | 5,895,648 | - | - |
| TIFF Absolute Return Pool II | 5,523,440 | 1,024,091 | - | 4,499,349 |
| CommonFund Partners | 2,164,686 | - | - | 2,164,686 |
| TIFF Partners IV, LLC | 1,319,476 | 12,262 | - | 1,307,214 |
| TIFF Private Equity Partners 2008, LLC | 420,411 | 26,635 | - | 393,776 |
| Total Investments in Securities | <u>\$ 72,920,618</u> | <u>\$ 64,555,593</u> | <u>\$ -</u> | <u>\$ 8,365,025</u> |

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - INVESTMENTS IN SECURITIES (Continued):

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

| | TIFF Absolute Return Pool II | CommonFund Partners | TIFF Partners IV, LLC | TIFF Private Equity Partners 2008, LLC | TOTAL |
|-----------------------------------|---------------------------------|------------------------|--------------------------|---|---------------------|
| Balance as of 12/31/07 | \$ 6,100,106 | \$ 2,372,204 | \$ 2,043,258 | \$ - | \$ 10,515,568 |
| Realized Gain | 82,668 | 2,886 | 322,990 | 51 | 408,595 |
| Change in Unrealized Depreciation | (1,779,194) | (417,629) | (770,407) | (42,633) | (3,009,863) |
| Net Purchases | 95,769 | - | (288,627) | 436,358 | 243,500 |
| Capital Contributions | - | 513,900 | - | - | 513,900 |
| Net Operating Income (Loss) | - | (114,196) | - | - | (114,196) |
| Cash Distributions | - | (192,479) | - | - | (192,479) |
| Balance as of 12/31/08 | <u>\$ 4,499,349</u> | <u>\$ 2,164,686</u> | <u>\$ 1,307,214</u> | <u>\$ 393,776</u> | <u>\$ 8,365,025</u> |

Investments in securities held at fair value and cost as of December 31, 2009 consisted of the following:

| | <u>Fair Value</u> | <u>Cost</u> |
|---|----------------------|----------------------|
| Marketable Equity Securities | \$ 37,441,064 | \$ 38,251,414 |
| Fixed Income Funds | 29,079,866 | 29,087,419 |
| Limited Partnerships | 18,907,177 | 17,289,111 |
| Cash Equivalents and Money Market Funds | <u>1,490,977</u> | <u>1,490,977</u> |
| Total Investments in Securities | <u>\$ 86,919,084</u> | <u>\$ 86,118,921</u> |

Investments in securities held at fair value and cost as of December 30, 2008 consisted of the following:

| | <u>Fair Value</u> | <u>Cost</u> |
|---|----------------------|----------------------|
| Marketable Equity Securities | \$ 41,120,269 | \$ 57,778,696 |
| Fixed Income Funds | 17,003,226 | 17,369,811 |
| Limited Partnerships | 12,784,097 | 15,719,694 |
| Cash Equivalents and Money Market Funds | <u>2,013,026</u> | <u>2,013,026</u> |
| Total Investments in Securities | <u>\$ 72,920,618</u> | <u>\$ 92,881,227</u> |

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

NOTE 5 - PROPERTY AND EQUIPMENT:

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

| | 2009 | 2008 |
|--------------------------------|-----------|-----------|
| Computers | \$ 21,245 | \$ 21,245 |
| Furniture and Fixtures | 30,087 | 31,345 |
| Computer Software | 35,173 | 36,898 |
| Leasehold Improvements | 41,877 | 41,877 |
| | 128,382 | 131,365 |
| Less: Accumulated Depreciation | (110,962) | (104,292) |
| Property and Equipment, Net | \$ 17,420 | \$ 27,073 |

Depreciation expense for the years ended December 31, 2009 and 2008 was \$9,653 and \$9,723, respectively.

NOTE 6 - GRANTS PAYABLE:

Grants payable in more than one year are discounted to their present value at the time the grants are made using risk-free interest rates. Grants payable as of December 31, are payable in the following years:

| | 2009 | 2008 |
|--|--------------|--------------|
| <u>Year Ending December 31:</u> | | |
| 2009 | \$ - | \$ 2,955,750 |
| 2010 | 1,702,250 | 869,500 |
| 2011 | 405,625 | 87,500 |
| 2012 | 37,500 | - |
| | 2,145,375 | 3,912,750 |
| Less: Discount on Long-Term Grants Payable | (65,000) | (143,552) |
| Grants Payable, Net of Discount | \$ 2,080,375 | \$ 3,769,198 |

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

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 2009 and 2008 the Board of Trustees approved contributions of 10%-15% of qualified employees' salaries representing \$43,251 and \$61,361, respectively. Deferred compensation for retired employees as of December 31, 2009 and 2008 was \$28,500 and \$30,750, respectively.

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

Federal Excise Taxes:

The Internal Revenue Code imposes an excise tax on private foundations equal to 2% percent of net investment income, which is defined as interest, dividends and net realized gains less operating and capital losses on partnership investments and expenses incurred in the production of income. The tax is reduced to 1% percent for foundations that meet certain distribution requirements. During the year ended December 31, 2009, the Foundation had an excise tax credit carried over from 2008, during which it paid excise taxes at the rate of 2%. The provision for federal excise tax (based on a 1% rate) 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, 2009 and 2008 federal excise tax expense (benefit) consisted of the following:

| | <u>2009</u> | <u>2008</u> |
|---|-------------------|---------------------|
| Current Federal Excise Tax Expense | \$ 25,614 | \$ 25,388 |
| Deferred Federal Excise Tax Expense (Benefit) | <u>415,216</u> | <u>(472,518)</u> |
| Federal Excise Tax Expense (Benefit), Net | <u>\$ 440,830</u> | <u>\$ (447,130)</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 year ended December 31, 2009 the Foundation had unrelated business income resulting in unrelated business income taxes at 15% totaling \$5,501.

NOTE 9 - COMMITMENTS:

Operating Lease

The Foundation leases its office space under an operating lease which expires in December 2011.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 9 - COMMITMENTS (Continued):

Future minimum lease payments are as follows:

| <u>Year Ending December 31:</u> | <u>Amount</u> |
|-------------------------------------|-------------------|
| 2010 | \$ 59,007 |
| 2011 | <u>60,823</u> |
| Total Future Minimum Lease Payments | <u>\$ 119,830</u> |

Rental expense for the years ended December 31, 2009 and 2008 was \$62,792 and \$61,418, respectively.

Investments

The Foundation has commitments to invest an additional \$7,355,972 in six limited partnership investments. The timing of the capital calls will be determined by the General Partners of the partnerships.