

**Walter S. Johnson  
Foundation**

**Report on Audits of Financial Statements  
December 31, 2004 and 2003**

**Report of Independent Auditors**

To the Board of Trustees  
Walter S. Johnson Foundation

In our opinion, the accompanying statements of financial position and the related statements of activities and of cash flows, present fairly, in all material respects, the financial position of the Walter S. Johnson Foundation (the "Foundation") at December 31, 2004 and 2003, 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. 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 of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

April 27, 2005

**Walter S. Johnson Foundation**  
**Statements of Financial Position**  
**December 31, 2004 and 2003**

	2004	2003
<b>Assets</b>		
Cash	\$ 33,432	\$ 273,562
Investments in securities	104,077,271	99,896,656
Interest and dividends receivable	306,378	365,880
Federal excise tax receivable	-	18,276
Furniture and fixtures (net of accumulated depreciation of \$84,292 and \$80,577 in 2004 and 2003, respectively)	38,369	53,309
Other assets	20,503	23,659
Total assets	<u>\$ 104,475,953</u>	<u>\$ 100,631,342</u>
<b>Liabilities and net assets</b>		
Grants payable	\$ 2,745,637	\$ 3,302,567
Accounts payable and accrued liabilities	141,906	131,308
Payable for investments purchased	144,330	-
Federal excise tax payable	20,892	-
Deferred federal excise tax	292,802	276,273
Total liabilities	<u>3,345,567</u>	<u>3,710,148</u>
Commitments (Note 6)		
Total unrestricted net assets	<u>101,130,386</u>	<u>96,921,194</u>
Total liabilities and net assets	<u>\$ 104,475,953</u>	<u>\$ 100,631,342</u>

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

**Walter S. Johnson Foundation**  
**Statements of Activities**  
**Years Ended December 31, 2004 and 2003**

	2004	2003
<b>Investment income</b>		
Interest	\$ 1,432,776	\$ 1,401,498
Dividends	1,122,243	897,055
Net realized gain (loss) on sale of investments	5,422,218	(2,166,923)
Net unrealized appreciation on investments	826,443	20,155,882
Other income	21,137	40,023
Total investment income	8,824,817	20,327,535
Less		
Investment related expenses	(331,649)	(402,223)
Federal excise tax expense, net	(168,696)	(421,895)
Net investment income	8,324,472	19,503,417
<b>Grants and expenses</b>		
Grants authorized	3,396,082	3,802,830
Administrative expenses	719,198	755,065
Total grants and expenses	4,115,280	4,557,895
Change in unrestricted net assets	4,209,192	14,945,522
Unrestricted net assets, beginning of year	96,921,194	81,975,672
Unrestricted net assets, end of year	\$ 101,130,386	\$ 96,921,194

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

**Walter S. Johnson Foundation**  
**Statements of Cash Flows**  
**Years Ended December 31, 2004 and 2003**

	2004	2003
<b>Cash flows from operating activities</b>		
Change in unrestricted net assets	\$ 4,209,192	\$ 14,945,522
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities		
Net realized (gain) loss on sale of investments	(5,422,218)	2,166,923
Net unrealized appreciation in value of investments	(826,443)	(20,155,882)
Depreciation	16,225	16,262
Deferred federal excise tax	16,529	403,118
Change in assets and liabilities		
Interest and dividends receivable	59,502	(36,306)
Other assets	3,156	(3,595)
Grants payable	(556,930)	(1,184,581)
Accounts payable and accrued liabilities	10,598	26,776
Federal excise tax payable	39,168	18,778
Net cash used in operating activities	<u>(2,451,221)</u>	<u>(3,802,985)</u>
<b>Cash flows from investing activities</b>		
Purchase of furniture and fixtures	(1,285)	(2,774)
Purchase of investment securities	(67,039,997)	(68,997,514)
Proceeds from sale of investment securities	68,538,852	74,077,345
Sale (purchase) of short-term securities, net	713,521	(1,144,197)
Net cash provided by investing activities	<u>2,211,091</u>	<u>3,932,860</u>
Net (decrease) increase in cash	(240,130)	129,875
Cash, beginning of year	273,562	143,687
Cash, end of year	<u>\$ 33,432</u>	<u>\$ 273,562</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for federal excise taxes	\$ 113,000	\$ -
Payables for investments purchased	144,330	-

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

**Walter S. Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2004 and 2003**

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**1. Nature of Operations**

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 qualifying as exempt organizations under Section 501(c)(3) of the Internal Revenue Code.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The accompanying financial statements are 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.

**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.

Wells Fargo Bank, N.A., bank custodian for the Foundation, holds the Foundation's investment assets and executes all investment transactions on behalf of the Foundation. 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 five to ten years.

**Grants**

Grant requests are recorded as expense 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.

**Walter S. Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2004 and 2003**

Federal excise tax expense, related to taxable net investment income, for the years ended December 31, 2004 and 2003 consists of \$152,167 and \$18,777, respectively, and \$16,529 and \$403,118 of deferred tax expense related to the net unrealized appreciation/depreciation on investments held at December 31, 2004 and 2003, respectively.

**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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**3. Investments in Securities**

Investments consist of the following:

Description	December 31, 2004		December 31, 2003	
	Fair Value	Cost	Fair Value	Cost
Marketable equity securities	\$ 67,645,442	\$ 53,399,827	\$ 65,598,504	\$ 52,285,179
Government obligations	19,663,953	19,444,794	17,614,443	17,305,610
Corporate bonds	9,600,092	9,324,836	9,600,255	9,213,531
Limited partnerships	2,348,045	2,447,999	1,550,194	1,745,442
Short-term investments	4,819,739	4,819,738	5,533,260	5,533,260
Total investments	<u>\$ 104,077,271</u>	<u>\$ 89,437,194</u>	<u>\$ 99,896,656</u>	<u>\$ 86,083,022</u>

**4. Grants Payable**

The discounted value of grants authorized but unpaid at December 31, 2004 are payable in the following years:

	Amount
2005	\$ 2,041,599
2006	635,625
2007	103,125
Grants payable before discount	<u>2,780,349</u>
Less: discount	<u>(34,712)</u>
	<u>\$ 2,745,637</u>

**Walter S. Johnson Foundation**  
**Notes to Financial Statements**  
**December 31, 2004 and 2003**

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**5. 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 requirements. During 2004 and 2003 the Board of Trustees approved contributions of 10%-15% of qualified employees' salaries representing \$44,070 and \$40,930, respectively. For retired employees, total deferred compensation is \$35,250 and \$37,500 at December 31, 2004 and 2003, respectively.

**6. 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. Total future minimum rental payments under this lease are as follows:

	<b>Amount</b>
2005	\$ 86,460
2006	88,532
2007	59,961
	<u>\$ 234,953</u>

The rent expense for 2004 and 2003 was \$85,476 and \$84,148, respectively.

The Foundation has commitments to invest an additional \$7,594,072 in three limited partnership investments. The timing of the capital calls will be determined by the General Partners of the partnerships.