

**THEODORE R. AND VIVIAN M. JOHNSON
SCHOLARSHIP FOUNDATION, INC.**

REPORT ON AUDITS OF FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

THEODORE R. AND VIVIAN M. JOHNSON SCHOLARSHIP FOUNDATION, INC.

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Report of Independent Accountants

Board of Directors
Theodore R. and Vivian M. Johnson Scholarship Foundation, Inc.

We have audited the accompanying statements of net assets – modified cash basis of the Theodore R. and Vivian M. Johnson Scholarship Foundation, Inc. (the Foundation) as of December 31, 2006 and 2005, and the related statements of changes in net assets – modified cash basis and cash flows – modified cash basis 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.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Theodore R. and Vivian M. Johnson Scholarship Foundation, Inc. as of December 31, 2006 and 2005, and the changes in its net assets, and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Templeton & Company, LLP

West Palm Beach, Florida
August 28, 2007

THEODORE R. AND VIVIAN M. JOHNSON SCHOLARSHIP FOUNDATION, INC.

STATEMENTS OF NET ASSETS – MODIFIED CASH BASIS

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Cash and cash equivalents	\$ 507,195	\$ 405,034
Investments	<u>168,451,389</u>	<u>149,771,031</u>
Total assets	<u>\$ 168,958,584</u>	<u>\$ 150,176,065</u>
LIABILITIES AND NET ASSETS		
Liabilities	\$ -	\$ -
Net assets - temporarily restricted	<u>168,958,584</u>	<u>150,176,065</u>
Total liabilities and net assets	<u>\$ 168,958,584</u>	<u>\$ 150,176,065</u>

See accompanying notes to financial statements.

THEODORE R. AND VIVIAN M. JOHNSON SCHOLARSHIP FOUNDATION, INC.

**STATEMENTS OF CHANGES IN NET ASSETS –
MODIFIED CASH BASIS**

For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Temporarily restricted net assets:		
Revenue, net of investment advisory fees:		
Net realized gain on sales of investments	\$ 4,497,490	\$ 3,196,910
Net unrealized appreciation on investments	19,133,677	12,487,954
Interest, dividends, and distributions	<u>2,180,979</u>	<u>2,010,160</u>
	<u>25,812,146</u>	<u>17,695,024</u>
Expenses:		
Scholarships and grants distributed	6,088,861	5,866,748
Management and general expenses	1,043,682	987,826
Federal excise and other taxes, net of (refunds)	<u>(102,916)</u>	<u>482,221</u>
	<u>7,029,627</u>	<u>7,336,795</u>
Increase in temporarily restricted net assets	18,782,519	10,358,229
Net assets, beginning of year	<u>150,176,065</u>	<u>139,817,836</u>
Net assets, end of year	<u>\$ 168,958,584</u>	<u>\$ 150,176,065</u>

See accompanying notes to financial statements.

THEODORE R. AND VIVIAN M. JOHNSON SCHOLARSHIP FOUNDATION, INC.

**STATEMENTS OF CASH FLOWS –
MODIFIED CASH BASIS**

For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase in net assets - modified cash basis	\$ 18,782,519	\$ 10,358,229
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net realized gain on sales of investments	(4,497,490)	(3,196,910)
Net unrealized appreciation on investments	<u>(19,133,677)</u>	<u>(12,487,954)</u>
Net cash used in operating activities	<u>(4,848,648)</u>	<u>(5,326,635)</u>
Cash flows from investing activities:		
Purchases of investments	(7,677,222)	(25,096,263)
Proceeds from sales of investments	<u>12,628,031</u>	<u>29,587,441</u>
Net cash provided by investing activities	<u>4,950,809</u>	<u>4,491,178</u>
Increase (decrease) in cash and cash equivalents	102,161	(835,457)
Cash and cash equivalents, beginning of year	<u>405,034</u>	<u>1,240,491</u>
Cash and cash equivalents, end of year	<u>\$ 507,195</u>	<u>\$ 405,034</u>

See accompanying notes to financial statements.

THEODORE R. AND VIVIAN M. JOHNSON SCHOLARSHIP FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Organization and purpose

The Theodore R. and Vivian M. Johnson Scholarship Foundation, Inc. (the Foundation) provides educational scholarships and grants.

The Foundation received all of the assets of the Theodore R. and Vivian M. Johnson Scholarship Foundation, a private foundation trust (the Foundation Trust) on December 31, 2001 in a tax-free transfer and operates as its successor.

Donated assets of the Foundation are invested in accordance with donor intention, with income derived from such assets used for grant and operating purposes.

Basis of accounting

The Foundation prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Revenue is recognized when collected and expenses are recorded when paid, rather than when due or the commitment or obligation is incurred.

Assets and liabilities generally arise from cash transactions, except for non-cash contributions of investments, which are recorded, when received, at their fair values.

Classification of net assets

The Foundation records all income from its investments as temporarily restricted net assets. These amounts are subject to donor-imposed restrictions that permit the Foundation to use or expend the assets for grant or operating purposes. The donor restrictions expire when payments are made for grant or operating purposes.

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, unless needed to meet the Internal Revenue Service distribution requirements, but permit the Foundation to use or expend all of the income derived from the donated assets for grant or operating purposes. There were no permanently restricted net assets or donations during 2006 or 2005.

Cash and cash equivalents

The Foundation considers all highly liquid investments with original maturity terms of three months or less to be cash equivalents. Cash and cash equivalents are carried at cost which approximates fair value.

Investments

Equity securities with readily determinable fair values and all debt securities are carried at fair values based on quoted market prices. The values of certain investments are estimated by management of the investee in the absence of readily determinable fair values.

THEODORE R. AND VIVIAN M. JOHNSON SCHOLARSHIP FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 1 – Nature of Operations and Summary of Significant Accounting Policies, Continued

Investments, continued

Investment gains or losses are recognized upon realization, or when their values are deemed to have been permanently impaired. The Foundation uses the specific identification method to determine its historical basis, which is based on the fair value at the beginning of the period in computing realized gain and losses. Unrealized gains and losses are recognized based on changes in fair values during the period for those securities held at the end of the period. Dividends, distributions, and interest are recognized as income when received and are restricted for grant and operating purposes.

Income taxes

The Foundation is incorporated as a private foundation and is currently exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code; however, it is subject to an excise tax on its net investment income and is taxed on unrelated business income for both federal and state income tax purposes.

Use of estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates also affect the amounts of revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

Risks and uncertainties

The investments of the Foundation are exposed to various risks, such as market, geographic, interest rate and credit. Due to the level of risk associated with the Foundation's investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect the Foundation's investment balances and the amounts reported in the statements of changes in net assets – modified cash basis and the statements of net assets – modified cash basis. Management frequently evaluates various risks related to the Foundation's investments.

THEODORE R. AND VIVIAN M. JOHNSON SCHOLARSHIP FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 2 – Investments

The cost, fair value, and unrealized gain or loss attributable to the Foundation's investments at December 31, 2006 and 2005 are presented below:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
December 31, 2006:			
United States equity	\$ 22,814,592	\$ 30,046,931	\$ 7,232,339
Non-United States equity	15,204,868	38,661,921	23,457,053
Alternative marketable equity entities	16,993,711	20,599,412	3,605,701
Private equity entities and venture capital	10,859,064	11,356,663	497,599
Inflation protection managers	16,709,166	31,801,296	15,092,130
Fixed income	<u>23,995,831</u>	<u>35,985,166</u>	<u>11,989,335</u>
	<u>\$106,577,232</u>	<u>\$168,451,389</u>	<u>\$ 61,874,157</u>
December 31, 2005:			
United States equity	\$ 24,456,897	\$ 29,694,792	\$ 5,237,895
Non-United States equity	16,123,125	32,588,059	16,464,934
Alternative marketable equity entities	16,869,615	18,609,472	1,739,857
Private equity entities and venture capital	7,528,641	7,833,748	305,107
Inflation protection managers	13,366,611	26,304,848	12,938,237
Fixed income	<u>23,859,555</u>	<u>34,740,112</u>	<u>10,880,557</u>
	<u>\$102,204,444</u>	<u>\$149,771,031</u>	<u>\$ 47,566,587</u>

All investment advisory fees are recorded as reductions to the net unrealized appreciation on investments in the accompanying statements of changes in net assets.

THEODORE R. AND VIVIAN M. JOHNSON SCHOLARSHIP FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 3 – Expenses

Expenses for the years ended December 31, 2006 and 2005 are presented as follows:

	2006	2005
Scholarships and grants distributed:		
Palm Beach Atlantic University	\$ 1,215,000	\$ 1,215,000
Scholarship America	975,000	975,000
Native American Tribal Colleges	916,835	805,878
Florida School for the Deaf and the Blind	605,000	500,000
Gallaudet University	475,000	500,000
State University System of Florida	450,000	485,000
Berklee College	450,000	450,000
Canine assistance for the benefit of the blind and deaf	-	330,000
Gonzaga University	298,049	239,370
Landmark East	150,000	150,000
Clarke School for the Deaf	100,000	-
Florida International University Foundation	100,000	-
Abilities Foundation	97,000	-
Other	256,977	216,500
	6,088,861	5,866,748
Management and general expenses:		
Salaries and benefits	487,872	450,778
Scholarship administrative expenses	188,679	193,968
Investment consultant fees and expenses	202,175	167,312
Office expenses	71,876	86,924
Professional fees	56,480	55,844
Directors' fees	36,600	33,000
	1,043,682	987,826
Federal excise and other taxes:		
Federal excise tax	107,000	449,221
Refunds of unrelated business income tax	(189,336)	-
Florida excise tax (refund)	(25,000)	33,000
Oklahoma excise tax	4,420	-
	(102,916)	482,221
	<u>\$ 7,029,627</u>	<u>\$ 7,336,795</u>

During 2006, the Foundation received refunds of certain federal and state excise taxes paid in 2005. Such amounts were offset against expense in 2006 under the modified cash basis of accounting. The Foundation paid certain 2004 excise taxes which were charged to expense during 2005 under the modified cash basis of accounting.

THEODORE R. AND VIVIAN M. JOHNSON SCHOLARSHIP FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 4 – Commitments

The Foundation is obligated under a lease for certain office space located in West Palm Beach, Florida which expires in 2007. Rent expense for the years ended December 31, 2006 and 2005 totaled \$38,607 and \$39,279, respectively.

At December 31, 2006, the Foundation has outstanding commitments to fund certain investments in future periods that approximate \$17,800,000.

Note 5 – Defined Contribution Plan

The Foundation has established a qualified cash or deferred compensation plan under section 401(k) of the Internal Revenue Code (the Plan) for the benefit of qualified employees. Under the terms of the Plan, qualified employees may elect to defer a portion of their salary, subject to Internal Revenue Service limits. The Foundation makes a discretionary match as well as a discretionary contribution. The Foundation's contributions for the years ended December 31, 2006 and 2005 totaled \$48,111 and \$43,101, respectively.

Note 6 – Trust Beneficiary

The Foundation is named as the sole beneficiary of the Theodore R. Johnson Charitable Remainder Unitrust (CRUT). As of December 31, 2006, the CRUT's net asset value approximated \$71,000,000. The value of this beneficial interest is not reflected in the accompanying statements of net assets since the Foundation reports on the modified cash basis of accounting.

Note 7 – Concentrations of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk, as defined by SFAS No. 105, *Disclosure of Information About Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, consist principally of cash and cash equivalents and certain fixed income investments. The Foundation maintains its cash and cash equivalents with financial institutions which, at times, may exceed federally insured limits while fixed income investments are generally not insured or guaranteed. The Foundation has not experienced any losses in such accounts.