

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

REPORT ON AUDITS OF FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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, 2007 and 2006, 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, 2007 and 2006, 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 19, 2008

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

STATEMENTS OF NET ASSETS – MODIFIED CASH BASIS

December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 153,915	\$ 507,195
Investments	<u>178,350,183</u>	<u>168,451,389</u>
Total assets	<u>\$ 178,504,098</u>	<u>\$ 168,958,584</u>
LIABILITIES AND NET ASSETS		
Liabilities	\$ -	\$ -
Net assets - temporarily restricted	<u>178,504,098</u>	<u>168,958,584</u>
Total liabilities and net assets	<u>\$ 178,504,098</u>	<u>\$ 168,958,584</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Temporarily restricted net assets:		
Revenue, net of investment advisory fees:		
Net realized gain on sales of investments	\$ 2,506,720	\$ 4,497,490
Net unrealized appreciation on investments	13,213,330	19,133,677
Interest, dividends, and distributions	<u>2,628,705</u>	<u>2,180,979</u>
	<u>18,348,755</u>	<u>25,812,146</u>
Expenses:		
Scholarships and grants distributed	7,094,435	6,088,861
Management and general expenses	1,269,045	1,043,682
Federal excise and other taxes, net of (refunds)	<u>439,761</u>	<u>(102,916)</u>
	<u>8,803,241</u>	<u>7,029,627</u>
Increase in temporarily restricted net assets	9,545,514	18,782,519
Net assets, beginning of year	<u>168,958,584</u>	<u>150,176,065</u>
Net assets, end of year	<u>\$ 178,504,098</u>	<u>\$ 168,958,584</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Increase in net assets - modified cash basis	\$ 9,545,514	\$ 18,782,519
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net realized gain on sales of investments	(2,506,720)	(4,497,490)
Net unrealized appreciation on investments	<u>(13,213,330)</u>	<u>(19,133,677)</u>
Net cash used in operating activities	<u>(6,174,536)</u>	<u>(4,848,648)</u>
Cash flows from investing activities:		
Purchases of investments	(30,087,928)	(7,677,222)
Proceeds from sales of investments	<u>35,909,184</u>	<u>12,628,031</u>
Net cash provided by investing activities	<u>5,821,256</u>	<u>4,950,809</u>
Increase (decrease) in cash and cash equivalents	(353,280)	102,161
Cash and cash equivalents, beginning of year	<u>507,195</u>	<u>405,034</u>
Cash and cash equivalents, end of year	<u>\$ 153,915</u>	<u>\$ 507,195</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 earnings derived from such assets used for grant, reinvestment, 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 2007 or 2006.

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 market 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 market 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 exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (the Code) and is classified as a private foundation as defined under Section 509(a) of the Code. In accordance with the provisions of the Code, the Foundation is liable for excise tax of up to 2% on net investment income as defined by the Code and is taxed on unrelated business income for both federal and state income tax purposes. With regard to unrelated business income, for federal tax purposes the Foundation is subject to federal corporate tax rates of up to 38% and, for state tax purposes, tax rates range from 5% to 9% of allocable taxable income.

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.

The Foundation has significant investments in equities, fixed income securities, private equity partnerships, and mutual funds and is therefore subject to concentrations of investment risk. Investments are generally made by investment managers engaged by the Foundation and the investments are monitored on behalf of the Foundation by an independent investment adviser. Although the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries.

Published market quotations do not necessarily represent realizable values, particularly where sizable holdings of a fund's unit shares or a company's stock exist. In addition, certain private equity and venture capital fund investment agreements restrict the timing and amounts of fund shares that may be redeemed. 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, 2007 and 2006 are presented below:

	Cost	Fair Value	Unrealized Gain
December 31, 2007:			
United States equity	\$ 18,259,793	\$ 23,437,652	\$ 5,177,859
Non-United States equity	12,963,710	41,987,995	29,024,285
Alternative marketable equity entities	16,541,675	22,708,084	6,166,409
Private equity entities and venture capital	12,282,812	14,692,536	2,409,724
Inflation protection managers	16,660,549	32,915,725	16,255,176
Fixed income	<u>27,259,233</u>	<u>42,608,191</u>	<u>15,348,958</u>
	<u>\$ 103,967,772</u>	<u>\$ 178,350,183</u>	<u>\$ 74,382,411</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	10,114,971	11,356,663	1,241,692
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>\$ 105,833,139</u>	<u>\$ 168,451,389</u>	<u>\$ 62,618,250</u>

The following is a list of investments representing more than 5% of the total fair value of investments at December 31, 2007 and 2006:

Investment	2007	2006
Wellington Trust Company, NA (1)	\$ 32,243,968	\$ 39,149,709
Sanford Bernstein International Equity Fund	9,934,485	11,155,990
Silchester International Value Equity Trust	11,116,033	12,077,601
City of London Investment Management Co.	10,672,996	9,274,769
Barclay's Government Bond Index Fund	28,765,554	30,332,122
Other	<u>85,617,147</u>	<u>66,461,198</u>
	<u>\$ 178,350,183</u>	<u>\$ 168,451,389</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 – modified cash basis.

(1) Wellington Trust Company, NA consists of the CTF Research Equity Fund, CTF - Energy Portfolios, and CTF Real Estate Securities.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 3 – Expenses

Expenses for the years ended December 31, 2007 and 2006 are presented as follows:

	<u>2007</u>	<u>2006</u>
Scholarships and grants distributed:		
Palm Beach Atlantic University	\$ 1,220,261	\$ 1,215,000
American Indian Programming	1,118,683	916,835
Scholarship America	1,100,000	975,000
Florida School for the Deaf and the Blind	574,000	605,000
Gallaudet University	500,000	475,000
State University System of Florida	475,000	450,000
Berklee College	450,000	450,000
Rochester Institute of Technology	300,000	-
Gonzaga University	299,366	298,049
Project Eye to Eye	180,000	-
Landmark East	150,000	150,000
Transcen, Inc.	150,000	-
University of South Florida	120,000	-
Clarke School for the Deaf	117,000	100,000
Florida International University Foundation	100,000	100,000
Abilities Foundation	-	97,000
Other	<u>240,125</u>	<u>256,977</u>
	<u>7,094,435</u>	<u>6,088,861</u>
Management and general expenses:		
Salaries and benefits	502,509	487,872
Scholarship administrative expenses	271,666	188,679
Investment consultant fees and expenses	235,063	202,175
Office expenses	170,639	91,286
Professional fees	50,968	37,070
Directors' fees	<u>38,200</u>	<u>36,600</u>
	<u>1,269,045</u>	<u>1,043,682</u>
Federal excise and other taxes:		
Federal excise tax	408,783	107,000
Federal unrelated business income tax (refunds)	33,957	(189,336)
Florida excise tax (refund)	7,298	(25,000)
New Mexico excise tax refund	(3,871)	-
Oklahoma excise tax (refund)	(6,909)	4,420
California excise tax	<u>503</u>	<u>-</u>
	<u>439,761</u>	<u>(102,916)</u>
	<u>\$ 8,803,241</u>	<u>\$ 7,029,627</u>

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 3 – Expenses, Continued

During 2007 and 2006, the Foundation received refunds of certain federal and state excise taxes paid in 2006 and 2005, respectively. Such amounts were offset against expense in 2007 and 2006 under the modified cash basis of accounting.

Note 4 – Commitments

Leasing arrangement

The Foundation leases its premises located in West Palm Beach, Florida pursuant to a non-cancelable operating lease. The final three years of the leasing arrangement are at the Foundation's option which can be exercised by January 2011. The following table presents future minimum base rent payments due under the operating lease, including the option period, at December 31, 2007:

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 50,327
2009	52,340
2010	54,434
2011	56,610
2012	58,875
Thereafter	<u>93,070</u>
Total	<u>\$ 365,656</u>

Rent expense for the years ended December 31, 2007 and 2006 totaled \$49,632 and \$38,607, respectively.

Capital commitments

At December 31, 2007, the Foundation's outstanding commitments to fund certain investments in future periods approximate \$16,615,000.

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, 2007 and 2006 totaled \$49,448 and \$48,111, 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, 2007, the CRUT's net asset value approximated \$76,861,000. The value of this beneficial interest is not reflected in the accompanying statements of net assets – modified cash due to the Foundation's accounting method.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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.

Note 8 – Grants

The Board of Directors grants awards, contingent on financial performance, to recipient organizations on both single-year and long-term basis. Such grants are recorded as an expense when the award is disbursed to the recipient in the accompanying financial statements under the modified cash basis of accounting. The minimum future grant award commitments in each of the five years subsequent to December 31, 2007 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	<u>\$ 7,193,000</u>
2009	<u>\$ 5,990,000</u>
2010	<u>\$ 5,516,000</u>
2011	<u>\$ 5,145,000</u>
2012	<u>\$ 5,025,000</u>