

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

REPORT ON AUDITS OF FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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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, 2005 and 2004, 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, 2005 and 2004, 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
July 28, 2006

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

STATEMENTS OF NET ASSETS – MODIFIED CASH BASIS

December 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---------------------------|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 405,034 | \$ 1,240,491 |
| Investments | <u>149,771,031</u> | <u>138,577,345</u> |
| Total assets | <u>\$ 150,176,065</u> | <u>\$ 139,817,836</u> |

LIABILITIES AND NET ASSETS

| | | |
|-------------------------------------|-----------------------|-----------------------|
| Liabilities | \$ - | \$ - |
| Net assets - temporarily restricted | <u>150,176,065</u> | <u>139,817,836</u> |
| Total liabilities and net assets | <u>\$ 150,176,065</u> | <u>\$ 139,817,836</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, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|--|-----------------------|-----------------------|
| Temporarily restricted net assets: | | |
| Revenue, net of investment advisory fees: | | |
| Net realized gain on sales of investments | \$ 3,196,910 | \$ 275,331 |
| Net unrealized appreciation on investments | 12,487,954 | 15,155,341 |
| Interest, dividends, and distributions | <u>2,010,160</u> | <u>1,734,832</u> |
| | <u>17,695,024</u> | <u>17,165,504</u> |
| Expenses: | | |
| Scholarships and grants distributed | 5,866,748 | 5,138,186 |
| Management and general expenses | 987,826 | 994,480 |
| Federal excise and other taxes, net of refunds | <u>482,221</u> | <u>25,638</u> |
| | <u>7,336,795</u> | <u>6,158,304</u> |
| Increase in temporarily restricted net assets | 10,358,229 | 11,007,200 |
| Net assets, beginning of year | <u>139,817,836</u> | <u>128,810,636</u> |
| Net assets, end of year | <u>\$ 150,176,065</u> | <u>\$ 139,817,836</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, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Increase in net assets - modified cash basis | \$ 10,358,229 | \$ 11,007,200 |
| Adjustments to reconcile increase in net assets to net cash used in operating activities: | | |
| Net realized gain on sales of investments | (3,196,910) | (275,331) |
| Net unrealized appreciation on investments | <u>(12,487,954)</u> | <u>(15,155,341)</u> |
| Net cash used in operating activities | <u>(5,326,635)</u> | <u>(4,423,472)</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (25,096,263) | (12,873,837) |
| Proceeds from sales of investments | <u>29,587,441</u> | <u>18,125,900</u> |
| Net cash provided by investing activities | <u>4,491,178</u> | <u>5,252,063</u> |
| Increase (decrease) in cash and cash equivalents | (835,457) | 828,591 |
| Cash and cash equivalents, beginning of year | <u>1,240,491</u> | <u>411,900</u> |
| Cash and cash equivalents, end of year | <u>\$ 405,034</u> | <u>\$ 1,240,491</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 value.

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 2005 or 2004.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with original maturity terms of three months or less to be cash equivalents. The concentration of credit risk associated with cash and cash equivalents is considered low due to the credit quality of the financial institutions and the liquidity of these financial instruments. Cash and cash equivalents are carried at cost which approximates fair value.

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

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.

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.

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, 2005 and 2004 are presented below:

| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Gain (Loss)</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 |
| Fixed income | 23,859,555 | 34,740,112 | 10,880,557 |
| Inflation protection managers | <u>13,366,611</u> | <u>26,304,848</u> | <u>12,938,237</u> |
| | <u>\$102,204,444</u> | <u>\$149,771,031</u> | <u>\$ 47,566,587</u> |
| December 31, 2004: | | | |
| United States equity | \$ 24,273,318 | \$ 27,786,429 | \$ 3,513,111 |
| Non-United States equity | 15,929,709 | 28,503,928 | 12,574,219 |
| Alternative marketable equity entities | 9,447,402 | 15,996,631 | 6,549,229 |
| Private equity entities and venture capital | 4,989,591 | 4,913,669 | (75,922) |
| Fixed income | 28,015,603 | 39,307,489 | 11,291,886 |
| Inflation protection managers | <u>13,792,979</u> | <u>22,069,199</u> | <u>8,276,220</u> |
| | <u>\$ 96,448,602</u> | <u>\$138,577,345</u> | <u>\$ 42,128,743</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, 2005 and 2004 are presented as follows:

| | 2005 | 2004 |
|---|---------------------|---------------------|
| Scholarships and grants distributed: | | |
| Palm Beach Atlantic University | \$ 1,215,000 | \$ 1,215,000 |
| Scholarship America | 975,000 | 900,000 |
| Native American Tribal Colleges | 805,878 | 505,190 |
| Gallaudet University | 500,000 | 470,000 |
| Florida School for the Deaf and the Blind | 500,000 | 470,000 |
| Florida State University System | 485,000 | 400,000 |
| Berklee College | 450,000 | 450,000 |
| Canine assistance for the benefit of the blind and deaf | 330,000 | 124,000 |
| Gonzaga University | 239,370 | 244,594 |
| Landmark East | 150,000 | 150,000 |
| Other | 216,500 | 209,402 |
| | 5,866,748 | 5,138,186 |
| Management and general expenses: | | |
| Salaries and benefits | 450,778 | 442,790 |
| Scholarship administrative expenses | 193,968 | 210,875 |
| Investment manager fees and expenses | 167,312 | 175,197 |
| Office expenses | 86,924 | 76,231 |
| Professional fees | 55,844 | 58,387 |
| Directors' fees | 33,000 | 31,000 |
| | 987,826 | 994,480 |
| Federal excise and other taxes: | | |
| Federal excise tax | 449,221 | 47,000 |
| Refunds of federal excise tax | - | (31,300) |
| Florida excise tax | 33,000 | 10,000 |
| California excise tax | - | (62) |
| | 482,221 | 25,638 |
| | \$ 7,336,795 | \$ 6,158,304 |

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. Minimum future payments due including estimated common expenses in years subsequent to December 31, 2005 are as follows:

| <u>Year Ending December 31,</u> | <u>Amount</u> |
|---------------------------------|------------------|
| 2006 | \$ 38,130 |
| 2007 | <u>35,569</u> |
| Total | <u>\$ 73,699</u> |

Rent expense for the years ended December 31, 2005 and 2004 totaled \$39,076 and \$35,407, respectively.

At December 31, 2005, the Foundation has outstanding commitments to fund certain investments in future periods totaling \$15,099,369.

Note 5 – Defined Contribution Plan

The Foundation has established 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, 2005 and 2004 totaled \$41,901 and \$39,739, 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, 2005, the CRUT's net asset value approximated \$63,800,000. 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.