

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

**REPORT ON AUDITS OF FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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

**Table of Contents**

	<u>Page</u>
Report of independent auditors	1–2
Financial statements:	
Statements of net assets - modified cash basis	3
Statements of changes in net assets - modified cash basis	4
Statements of cash flows - modified cash basis	5
Notes to financial statements	6–17

## Report of Independent Auditors

To the Board of Directors of  
Theodore R. and Vivian M. Johnson Scholarship Foundation, Inc.  
West Palm Beach, Florida

We have audited the accompanying financial statements of Theodore R. and Vivian M. Johnson Scholarship Foundation, Inc. (a private foundation) (the Foundation), which comprise the statements of net assets – modified cash basis as of December 31, 2020 and 2019, and the related statements of changes in net assets – modified cash basis, and cash flows – modified cash basis for the years then ended, and the related notes to the financial statements.

### Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor’s Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and net assets of Theodore R. and Vivian M. Johnson Scholarship Foundation, Inc. as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with the modified cash basis of accounting described in Note 1.



### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Templeton & Company, LLP*

West Palm Beach, Florida  
November 2, 2021

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

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

**December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,216,125	\$ 1,820,703
Investments, at fair value	<u>248,689,387</u>	<u>228,200,520</u>
Total assets	<u>\$ 250,905,512</u>	<u>\$ 230,021,223</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities	\$ -	\$ -
Net assets - with donor restrictions	<u>250,905,512</u>	<u>230,021,223</u>
Total liabilities and net assets	<u>\$ 250,905,512</u>	<u>\$ 230,021,223</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, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
With donor restrictions:		
Revenue and support, net:		
Contribution from CRUT	\$ -	\$ 48,701,920
Net investment return:		
Net realized gain (loss) on sales of investments	(5,533,647)	4,165,941
Net unrealized appreciation on investments	34,633,785	26,146,904
Interest, dividends and distributions	<u>2,610,332</u>	<u>3,695,415</u>
Net investment return	<u>31,710,470</u>	<u>34,008,260</u>
Total revenue and support, net	31,710,470	82,710,180
Expenses:		
Scholarships and grants distributed and program costs	8,367,413	6,471,293
Management and general expenses	2,133,537	2,244,378
Federal excise and other taxes, net of refunds	<u>325,231</u>	<u>322,096</u>
Total expenses	<u>10,826,181</u>	<u>9,037,767</u>
Increase in net assets with donor restrictions	20,884,289	73,672,413
Net assets, beginning of year	<u>230,021,223</u>	<u>156,348,810</u>
Net assets, end of year	<u>\$ 250,905,512</u>	<u>\$ 230,021,223</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, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Increase in net assets with donor restrictions - modified cash basis	\$ 20,884,289	\$ 73,672,413
Adjustments to reconcile increase in net assets with donor restrictions to net cash used in operating activities:		
In-kind contribution of investments	-	(47,491,491)
Net realized (gain) loss on sales of investments	5,533,647	(4,165,941)
Net unrealized appreciation on investments	<u>(34,633,785)</u>	<u>(26,146,904)</u>
Net cash used in operating activities	<u>(8,215,849)</u>	<u>(4,131,923)</u>
Cash flows from investing activities:		
Purchases of investments	(79,224,962)	(58,001,392)
Proceeds from sales of investments	<u>87,836,233</u>	<u>62,294,009</u>
Net cash provided by investing activities	<u>8,611,271</u>	<u>4,292,617</u>
Increase in cash and cash equivalents	395,422	160,694
Cash and cash equivalents, beginning of year	<u>1,820,703</u>	<u>1,660,009</u>
Cash and cash equivalents, end of year	<u>\$ 2,216,125</u>	<u>\$ 1,820,703</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 was incorporated in the State of Florida in 1998 and 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.

The Foundation was the sole beneficiary of the Theodore R. Johnson Charitable Remainder Unitrust (CRUT). In February 2019, the Foundation received legal title to the assets of the CRUT, which consisted of cash, cash equivalents and investments. The CRUT's contribution to the Foundation was recorded as a contribution with donor restrictions with the values of the investments contributed recorded at their fair value as of the date of transfer as presented in the statements of changes in net assets – modified cash basis for the year ended December 31, 2019.

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 presentation and accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting and are not intended to be presented in conformity with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when cash is received and expenditures are recognized upon the disbursement of cash, 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. For the year ended December 31, 2019, non-cash contributions of investments with a fair value of \$47,491,491 were contributed to the Foundation.

#### Program-related investments (PRIs)

In accordance with Section 4944 of the Internal Revenue Code (Code), the Foundation is permitted to make investments that further some aspect of its charitable mission. In recent years, the Foundation began making Program Related Investments (PRIs). These types of investments count towards the Foundation's payment requirement in the year of distribution. Return of PRI principal affects the annual payment requirement in a similar manner as a grant refund.

#### Classification of net assets

The Foundation records all income or losses from its investments as net assets with donor restrictions. 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.

Net assets with donor restrictions of a permanent nature contain donor-imposed restrictions that stipulate the resources be maintained permanently, unless needed to meet the Internal Revenue Service (IRS) 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 net assets with donor restrictions of a permanent nature or such donations received during 2020 or 2019.

# 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

#### 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 measured at fair value 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.

Investment gains or losses are recognized upon realization, or when the investment 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 gains 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. Interest, dividends, and distributions 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 21% and, for state tax purposes, tax rates range from 4% to 9.8% of allocable taxable income.

Management analyzes tax positions in jurisdictions where it is required to file information and income tax returns. Based on its evaluation, management did not identify any uncertain tax positions taken or expected to be taken that would require disclosure in the financial statements. The Foundation is no longer subject to federal tax examinations for years prior to 2017.

On December 20, 2019, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Taxpayer Continuity and Disaster Relief Act of 2019 (the Act). The Act simplifies the private foundations excise tax on investment income by replacing the two-tier system (1% and 2%) with a flat rate of 1.39% for tax years beginning after December 20, 2019.

#### 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.

These estimates are based on various assumptions and other factors that management believes to be reasonable under the circumstances, including the potential future effects of the COVID-19 pandemic and other relevant global events. Management believes the accounting estimates are appropriate and reasonably determined, however, due to the inherent uncertainties in making these estimates, it is at least reasonably possible that the significant estimates used will change within the next year.

# 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

#### Functional allocation of expenses

Expenditures incurred in connection with the Foundation's grants paid and expenditures made for operational and administrative purposes have been summarized on a functional basis in the statements of changes in net assets – modified cash basis.

#### Risks and uncertainties

The investments of the Foundation are exposed to various risks, such as market risk, geographic risk, interest rate risk, foreign currency risk, and credit risk. 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.

As of December 31, 2020, approximately 48% of the Foundation's investments are subject to foreign currency risk, with the remaining 52% of the portfolio being held in U.S. dollar-denominated investments. Economic pressures from numerous factors could contribute to significant foreign currency volatility across the globe. As a result, foreign currency risk could impact investment performance, both short-term and over time.

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.

#### Concentration of credit risk

Financial instruments that potentially subject the Foundation to a concentration of credit risk include the Foundation's cash and cash equivalent accounts. The Foundation maintains its cash deposits with a high credit-quality financial institution. Such balances may exceed the FDIC federally insured limits. Cash and cash equivalent balances were in excess of FDIC limits as of December 31, 2020 and 2019 in the approximate amounts of \$1,622,000 and \$1,462,000, respectively.

#### Investment concentrations

At December 31, 2020 and 2019, approximately 30% and 27%, respectively, of the Foundation's investments were invested in private funds, which are considered to be alternative investments. These alternative investment funds invest primarily in domestic and foreign private equity partnerships and other alternative investment funds. The fair values of alternative investment funds have been estimated by the Foundation's management in the absence of readily ascertainable 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**

Investment concentrations, continued

The Foundation may liquidate a portion or all of its investments in the private funds at the then net asset value in a manner provided for under the partnership or investment agreements. These agreements generally provide for exit fees and lock-up periods, as well as restrictions for liquidity positions of the alternative investment funds, thus making the investments non-marketable. Therefore, the values of such funds are not necessarily indicative of the amounts that could be realized in a current transaction.

Reclassification

Certain amounts appearing in the 2019 financial statements have been reclassified to conform to the 2020 financial statement presentation.

Adoption of new accounting standard

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurements (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurements*. The guidance is effective for the Foundation for years beginning after December 15, 2019 and was in effect for the year ended December 31, 2020. The adoption of this guidance has eliminated the need to present information regarding transfers between level 1 and level 2 investments in the fair value hierarchy. In addition, disclosures for transfer into and out of level 3 investments and purchases of level 3 investments have been presented in lieu of a level 3 rollforward. Lastly, the changes in unrealized gains and losses for level 3 investments has been eliminated from the disclosure requirements for the year ended December 31, 2020.

New accounting pronouncement

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. Among other things, the ASU amends the guidance on the impairment of financial instruments and adds an impairment model known as the current expected credit loss (CECL) model that is based on expected losses rather than incurred losses. Under the new guidance, an entity will recognize an allowance based on its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The guidance is effective for the Foundation for years beginning after December 15, 2022. At this time, the Foundation is evaluating the implications of ASU 2016-13 and its effect on the financial statements.

**Note 2 – Liquidity and Availability**

Financial assets available for general expenditure that is, without donor or other restrictions limiting their use, within one year of December 31, 2020 are:

Financial assets:	
Cash and cash equivalents	\$ 2,216,125
Investments	<u>248,689,387</u>
Total financial assets	250,905,512
Less: financial assets held to meet donor-imposed restrictions	<u>(250,905,512)</u>
Excess amount	<u>\$ -</u>

The Foundation must annually pay out a minimum of 5% of the average fair value of its investment assets for the preceding year for charitable and administrative purposes in accordance with private foundation Code requirements.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 2 – Liquidity and Availability, Continued**

The Foundation structures its financial assets to manage liquidity in a manner to meet this distribution requirement. The Foundation invests in various short-term investments, marketable securities, and alternative investments, which are available and liquid within one year.

The Foundation's Grant Committee meets three times annually, March, September, and December, to review and approve grant requests. After the meetings, as necessary, the Foundation sells sufficient investments to pay the grants approved and to meet near-term management and general expenditures.

The above table reflects the intent of the Foundation that donor-imposed restrictions are meant for the purpose of operating the Foundation to make grant awards to qualifying educational programs and supporting activity is meant to singularly support the Foundation's grant making programs.

**Note 3 – Investments**

The cost, fair value, and unrealized appreciation or (depreciation) attributable to the Foundation's investments at December 31, 2020 and 2019 are presented below:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
December 31, 2020:			
United States equities	\$ 60,143,727	\$ 72,896,647	\$ 12,752,920
Foreign equities	58,492,823	76,428,542	17,935,719
Alternative investment strategies	28,856,741	35,351,002	6,494,261
Private equity and venture capital	21,873,052	37,994,287	16,121,235
Inflation protection managers	11,245,511	11,645,843	471,954
Fixed income	<u>15,013,698</u>	<u>14,373,066</u>	<u>(640,632)</u>
	<u>\$ 195,625,552</u>	<u>\$ 248,689,387</u>	<u>\$ 53,135,457</u>
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
December 31, 2019:			
United States equities	\$ 46,529,006	\$ 52,007,326	\$ 5,478,320
Foreign equities	64,659,400	74,796,616	10,137,216
Alternative investment strategies	47,434,445	45,865,746	(1,568,699)
Private equity and venture capital	18,410,827	26,482,663	8,071,836
Inflation protection managers	8,435,515	11,243,155	2,807,640
Fixed income	<u>16,427,172</u>	<u>17,805,014</u>	<u>1,377,842</u>
	<u>\$ 201,896,365</u>	<u>\$ 228,200,520</u>	<u>\$ 26,304,155</u>

The cost presented above represents the historical cost basis for income tax purposes. Realized gains or losses for financial reporting purposes for securities sold are determined based on the fair value at the beginning of the period (see Note 1).

Investment advisory fees confirmed with certain investment advisors are recorded as reductions to the net unrealized appreciation on investments in the accompanying statements of changes in net assets – modified cash basis for the years ended December 31, 2020 and 2019.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 3 – Investments, Continued**

The following is a list of investments representing more than 10% of the total fair value of investments on December 31,:

Investment	2020	2019
Adage Capital Partners	\$ 40,049,056	\$ 31,820,067
Vanguard Stock Index Fund	26,271,393	-
Other (under 10%)	<u>182,368,938</u>	<u>196,380,453</u>
	<u>\$ 248,689,387</u>	<u>\$ 228,200,520</u>

**Note 4 – Fair Value Measurements**

Accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of the fair value require significant management judgment or estimation. All valuations are reviewed by management. Because of the inherent uncertainty of valuations, values may differ from the values that would have been used had a ready market existed.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement and considers factors specific to the investment. Investments in private partnerships and companies are recorded at an estimate of fair value using metrics such as security prices of comparable public companies, discounted cash flow models, and original investment purchase price multiples, while also incorporating a portfolio company's financial performance and specific factors. Investments measured at fair value on a recurring basis consist of the following types of instruments within the fair value hierarchy as of December 31, 2020 and 2019:

	Fair Value Measurements as of December 31, 2020			
	Level 1:	Level 2:	Level 3:	Total
United States equities	\$ 32,847,591	\$ 40,049,056	\$ -	\$ 72,896,647
Foreign equities	37,264,340	31,788,717	7,375,485	76,428,542
Alternative investment strategies	-	20,601,770	14,749,232	35,351,002
Private equity and venture capital	-	-	37,994,287	37,994,287
Inflation protection managers	-	-	11,645,843	11,645,843
Fixed income	<u>14,373,066</u>	<u>-</u>	<u>-</u>	<u>14,373,066</u>
Investment, at fair value	<u>\$ 84,484,997</u>	<u>\$ 92,439,543</u>	<u>\$ 71,764,847</u>	<u>\$ 248,689,387</u>

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 4 – Fair Value Measurements, Continued**

	Fair Value Measurements as of December 31, 2019			
	Level 1:	Level 2:	Level 3:	Total
United States equities	\$ 20,187,259	\$ 31,820,067	\$ -	\$ 52,007,326
Foreign equities	15,161,381	53,487,017	6,148,218	74,796,616
Alternative investment strategies	-	22,020,525	23,845,221	45,865,746
Private equity and venture capital	-	-	26,482,663	26,482,663
Inflation protection managers	-	-	11,243,155	11,243,155
Fixed income	<u>13,152,824</u>	<u>4,652,190</u>	<u>-</u>	<u>17,805,014</u>
Investment, at fair value	<u>\$ 48,501,464</u>	<u>\$ 111,979,799</u>	<u>\$ 67,719,257</u>	<u>\$ 228,200,520</u>

Activity related to the Level 3 investment activity as of December 31, 2020 and 2019, is as follows:

	2020	2019
Purchases (withdrawals), net	\$ (6,408,897)	\$ 6,455,986
Net realized gains	712,629	2,473,102
Net unrealized appreciation, in fair value	<u>9,741,858</u>	<u>8,686,672</u>
	<u>\$ 4,045,590</u>	<u>\$ 17,615,760</u>

The Foundation's investments in United States equities consist of publicly traded United States equities.

The Foundation's investments in foreign equities consist of publicly traded foreign mutual funds, feeder funds, and limited partnerships with redemption restrictions ranging from 30 to 60 days in applicable lock-up periods. The Foundation had no unfunded commitments with respect to its foreign equity managers as of December 31, 2020 and 2019.

The Foundation's investments in alternative investment strategies consist of investments in hedge funds, primarily limited partnerships and fund of fund investments that invest in multi-strategy funds. The alternative investment strategy investments generally require a sixty to ninety-day notice to redeem the investment with redemption restrictions in place at year-end. Certain of these funds of funds and limited partnership redemptions are at the discretion of the fund managers.

The Foundation's investments in private equity and venture capital investments consist of limited partnership interests and interests in closed-end funds that primarily invest in United States and foreign fund of fund investments in venture capital and private equity capital.

The Foundation's investments in inflation protection managers consist primarily of limited partnership interests that invest in fund of fund energy and real estate securities as well as other direct investments in real estate and energy-related ventures. Fair value is estimated by the information provided by the managers of each underlying fund. Natural resources and real estate limited partnerships are accounted for using pricing models that are both observable and unobservable inputs.

The Foundation's policy related to fair value measurement hierarchy classification, including any level transfers, occurs as of the end of the reporting period. Realized and unrealized gains or losses related to Level 3 investment activity are included in net investment income on the statements of changes in net assets.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 4 – Fair Value Measurements, Continued**

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

As of December 31, 2020 and 2019, the Foundation had the following commitments to contribute additional capital under the terms of various investment agreements over the next 5-10 years.

<u>Investment Type</u>	<u>2020</u>	<u>2019</u>
Inflation protection managers	\$ 2,537,662	\$ 4,010,000
Alternative investment strategies	-	1,490,000
Private equity and venture capital	<u>17,971,608</u>	<u>14,215,813</u>
Total unfunded commitments	<u>\$ 20,509,270</u>	<u>\$ 19,715,813</u>

**Note 5 – Foundation Funds**

The Foundation's funds are established for the purposes expressed in the Foundation's charter. The Foundation's funds consist of donor-restricted funds and funds designated by the Board of Directors to function as restricted funds. The Foundation's net assets are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of Directors has interpreted the current law, Uniform Prudent Management of Institutional Funds Act (UPMIFA), as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Endowment balances are classified as net assets with donor restrictions and consist solely of accumulated investment return that has yet to be expended in accordance with the terms of the donor agreement. Due to the purpose of the Foundation, all endowment balances are classified as net assets with donor restrictions.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. There were no such funds with deficiencies as of December 31, 2020.

Return objectives and risk parameters

The Foundation has adopted investment and spending policies for fund assets that attempt to provide a predictable stream of funding to grant programs supported by its funds while seeking to maintain purchasing power of the assets. Under this policy, as approved by the Board of Directors, the assets are invested in a manner that is intended to produce results that exceed the price and yield results of multiple benchmarks based on the type of investment while assuming a moderate level of investment risk. The Foundation expects that its funds, over time, will provide an average rate of return of approximately 5% annually after adjusting for inflation. Actual returns in any given year may vary from this amount.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 5 – Foundation Funds, Continued**

Strategies employed to achieve objectives

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified allocation to achieve its long-term return objectives within prudent risk constraints.

Spending policy

The Foundation's policy is to appropriate for distribution each year such amounts as are determined by the Foundation's calculation for disbursements as determined by Section 509(a) of the Code. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its assets to grow at an annual rate that is equal to or greater than the rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of the assets.

Changes in net assets for the year ended December 31, 2020 follow:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance as of January 1, 2020	\$ -	\$ 230,021,223	\$ 230,021,223
Investment return:			
Interest, dividends, and distributions	-	2,610,332	2,610,332
Net appreciation (realized and unrealized)	-	29,100,138	29,100,138
Total investment return	-	31,710,470	31,710,470
Appropriations for distributions and expenditures	-	10,826,181	10,826,181
Balance as of December 31, 2020	<u>\$ -</u>	<u>\$ 250,905,512</u>	<u>\$ 250,905,512</u>

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 6 – Expenses**

Expenses for the years ended December 31, 2020 and 2019 are presented as follows:

	2020	2019
Scholarships and grants distributed:		
Palm Beach Atlantic University	\$ 1,700,000	\$ 1,380,000
Scholarship America-UPS	1,205,000	1,100,000
Florida School for the Deaf and the Blind	545,000	500,000
Gallaudet University	545,000	500,000
State University System of Florida/disabled	515,000	475,000
Martin Family Initiative	390,640	-
Bridges From School to Work	348,000	152,000
College for Kids	230,000	175,000
Clarke School for Hearing and Speech	225,000	2,000
Gonzaga University	200,000	200,000
American Indian Graduate Center	200,000	-
Dalhousie Foundation-Disadvantaged and Indigenous	141,770	148,870
The School District of Palm Beach County	110,350	110,350
Florida Atlantic University Foundation	107,950	11,900
Fort Lewis College	103,395	57,500
Landmark East	100,000	250
Providence St. Mel School	100,000	-
Northwest Indian College	99,984	90,000
Aaniiih Nakoda College (Fort Belknap)	84,000	43,200
Florida International University Foundation	82,650	25,400
Groves Academy	75,000	75,000
Perkins	75,000	75,000
Other	<u>1,183,674</u>	<u>1,349,823</u>
Total scholarship and grants distributed	<u>8,367,413</u>	<u>6,471,293</u>
Management and general expenses:		
Salaries and benefits	755,928	715,570
Employee benefits and payroll taxes	208,265	143,259
Scholarship administrative expenses	340,624	568,963
Investment consultant fees and expenses	274,856	379,792
Office expenses	217,707	158,344
Deferred compensation	115,163	-
Professional fees	50,994	113,450
Directors' fees	<u>170,000</u>	<u>165,000</u>
Total management and general expenses	<u>2,133,537</u>	<u>2,244,378</u>
Federal excise and other taxes:		
Federal excise tax	326,150	319,571
Various other state excise taxes, net of (refunds)	<u>(919)</u>	<u>2,525</u>
Total federal excise and other taxes	<u>325,231</u>	<u>322,096</u>
Total expenses	<u>\$ 10,826,181</u>	<u>\$ 9,037,767</u>

During 2020 and 2019, the Foundation received refunds of certain federal and state excise taxes paid in prior years. Such refunds offset against tax expenses in 2020 and 2019 under the modified cash basis of accounting.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 7 – Lease Agreement**

The Foundation leases its premises located in West Palm Beach, Florida pursuant to a non-cancelable operating lease. The remaining lease term expires in 2021 with a minimum base rent payment due of approximately \$59,000.

Rent expense for the years ended December 31, 2020 and 2019 approximated \$63,000 and \$62,000, respectively. In July 2021, Management extended the existing lease for four months through December 4, 2021. A new operating lease was executed in July 2021 and will begin in February 2022.

**Note 8 – Defined Contribution Plan and Deferred Compensation Arrangement**

Defined contribution plan

The Foundation has established a qualified cash or deferred compensation plan (the Plan) under Section 401(k) of the Code 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 or may elect to make after tax contributions to their Roth 401(k). The Foundation makes a non-elective match as well as a discretionary contribution to the Plan. The Foundation's contributions for the years ended December 31, 2020 and 2019 totaled \$86,415 and \$52,207, respectively.

Deferred compensation arrangement

The Foundation has a deferred compensation agreement (the agreement) under which a retired employee is due to receive earned compensation in future years. Deferred compensation payable amounted to \$571,415 and \$575,815 as of December 31, 2020 and 2019, respectively. Such obligation has not been recorded on the Foundation's statements of net assets – modified cash basis. For the year ended December 31, 2020, the Foundation paid \$115,163 in deferred compensation under the agreement.

Compensation payments remaining under the Foundation's deferred compensation arrangement, assuming an annual return of 5% on JSF funds for the years ending December 31, 2022 through 2025, would provide the following payouts:

<u>Years Ending December 31,</u>	<u>Amount</u>
2021	\$ 142,854
2022	152,377
2023	163,806
2024	180,186
2025	<u>9,009</u>
Total	<u>\$ 648,232</u>

**Note 9 – Grants**

The Board of Directors grants awards, contingent on the Foundation's financial performance, to recipient organizations on both a 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.

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

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**

**Note 9 – Grants, Continued**

The minimum future grant award commitments in each of the five years subsequent to December 31, 2020 based on the projected rate of return of 5% per year are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2021	<u>\$ 8,775,681</u>
2022	<u>\$ 11,232,775</u>
2023	<u>\$ 11,616,158</u>
2024	<u>\$ 11,648,105</u>
2025	<u>\$ 11,667,058</u>

**Note 10 – Risks and Uncertainties**

The COVID-19 pandemic has and will continue affecting economies and business around the world and has led to volatility in financial markets. As a result, economic uncertainties have arisen which may negatively affect the financial position, results of operations, and cash flows of the Foundation. Because the Foundation's investment assets have and will fluctuate in response to changing market conditions, the amount of losses that will be recognized in subsequent periods, if any, and the related impact on the Foundation's investment assets cannot be determined at this time.

**Note 11 – Subsequent Events**

Management evaluated events occurring subsequent to December 31, 2020 through November 2, 2021, the date on which the financial statements were available to be issued, for matters that should be recorded in the financial statements or disclosed in the footnotes thereto.