Financial Statements

Theodore R. and Vivian M. Johnson Scholarship Foundation

Years ended April 30, 1998 and 1997
with Report of Independent Auditors

Theodore R. and Vivian M. Johnson
Scholarship Foundation

Financial Statements

Years ended April 30, 1998 and 1997

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Report of Independent Auditors

Board of Trustees
Theodore R. and Vivian M. Johnson
Scholarship Foundation

We have audited the accompanying statements of restricted net assets of the Theodore R. and Vivian M. Johnson Scholarship Foundation (the Foundation) as of April 30, 1998 and 1997, and the related statements of changes in restricted net assets and cash flows 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 generally accepted auditing standards. 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 have been prepared on a basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles. As described below and in Note 2 to the financial statements, the Foundation changed its method of accounting for the year ended April 30, 1997.

In our opinion, the financial statements referred to above present fairly, in all material respects, the restricted net assets of the Theodore R. and Vivian M. Johnson Scholarship Foundation at April 30, 1998 and 1997, and the changes in its restricted net assets and its cash flows during the years then ended on the basis of accounting described in Note 1.

Ernst & Young LLP

July 22, 1998

Theodore R. and Vivian M. Johnson
Scholarship Foundation

Statements of Restricted Net Assets

	April 30	
	1998	**1997**
Assets		
Cash and cash equivalents	**$ 1,738,693**	$ 2,511,717
Investments	**74,152,101**	67,406,458
Total assets	**$75,890,794**	$69,918,175
Restricted net assets	**$75,890,794**	$69,918,175

See accompanying notes.

Theodore R. and Vivian M. Johnson Scholarship Foundation

Statements of Changes in Restricted Net Assets

	Year ended April 30 1998	1997
Revenue:		
Net realized gain on sale of investments	**$ 1,100,353**	$ 585,973
Net unrealized gain on investments	**7,090,940**	5,264,693
Interest and dividends, net of investment advisory fees of $132,231 in 1998 and $178,175 in 1997	**1,498,873**	2,621,403
	9,690,166	8,472,069
Net assets released from restrictions:		
Grants	**2,941,851**	2,610,550
Management and general expenses	**775,696**	318,206
	3,717,547	2,928,756
Increase in restricted net assets before cumulative effect of change in accounting principle	**5,972,619**	5,543,313
Cumulative effect of change in accounting principle	**–**	13,089,139
Increase in restricted net assets	**5,972,619**	18,632,452
Restricted net assets at beginning of year	**69,918,175**	51,285,723
Restricted net assets at end of year	**$75,890,794**	$69,918,175

See accompanying notes.

Theodore R. and Vivian M. Johnson
Scholarship Foundation

Statements of Cash Flows

	Year ended April 30 1998	1997
Operating activities		
Increase in restricted net assets	**$5,972,619**	$18,632,452
Adjustments to reconcile increase in restricted net assets to net cash used in operating activities:		
Cumulative effect of change in accounting principle	**–**	(13,089,139)
Net realized gain on sale of investments	**(1,100,353)**	(585,973)
Net unrealized gain on investments	**(7,090,940)**	(5,264,693)
Net cash used in operating activities	**(2,218,674)**	(307,353)
Investing activities		
Purchases of investments	**(11,750,000)**	(25,249,913)
Proceeds from sales of investments	**13,195,650**	17,137,518
Net cash provided by (used in) investing activities	**1,445,650**	(8,112,395)
Decrease in cash and cash equivalents	**(773,024)**	(8,419,748)
Cash and cash equivalents at beginning of year	**2,511,717**	10,931,465
Cash and cash equivalents at end of year	**$1,738,693**	$ 2,511,717

See accompanying notes.

Theodore R. and Vivian M. Johnson
Scholarship Foundation

Notes to Financial Statements

April 30, 1998

1. Nature of Business and Summary of Accounting Policies

Organization and Operations

The Theodore R. and Vivian M. Johnson Scholarship Foundation (the Foundation) was formed on May 28, 1991 to provide educational scholarships and grants to deserving persons who might not otherwise have the financial means to enable them to attend an institution of higher learning.

Donated assets of the Foundation are to be invested in accordance with donor intentions, with income derived from such assets restricted for grant and operating purposes. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, restricted net assets are reported in the statements of changes in restricted net assets as net assets released from restrictions.

Basis of Accounting

The Foundation maintains its accounting records and prepares its statements on a basis of cash receipts and disbursements, 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. As described in Note 2 to the financial statements, the Foundation changed its method of accounting for the year ended April 30, 1997.

Assets and liabilities generally arise from cash transactions, except for noncash contributions of investments, which are recorded when received, at their fair market value.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with original maturities 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 institution and the liquidity of these financial instruments. The carrying value of cash and cash equivalents in the accompanying financial statements approximate their fair value due to the short-term maturity of these instruments.

1. Nature of Business and Summary of 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 for those or similar investments, which are subject to market fluctuation. Closely-held equity securities are carried at fair values as determined by the Foundation's management based on information supplied by the closely-held companies. The values have been estimated by the Board of Trustees in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board of Trustees in arriving at its estimate of value of such securities and have inspected underlying documentation and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a market for the securities existed, and the differences could be material.

Investment gains or losses are recognized (based on the specific identification method) upon realization, or when their values are deemed to have been permanently impaired. Unrealized gains and losses are recognized based on changes in fair values during the period. Dividends and interest are recognized as income when received and are restricted for subsequent fiscal year grant and operating purposes.

The concentration of credit risk associated with investments is considered low due to the credit quality of the financial institutions.

Income Taxes

The Foundation is incorporated as a private foundation and is currently exempt from federal income tax under the provision of Section 509(a) of the Internal Revenue Code; however, it is subject to an excise tax on its net investment income. The Foundation is also exempt from Florida state corporate income tax.

2. Changes in Accounting Principle

In fiscal year 1997, the Foundation adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. SFAS No. 124 requires investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value, with realized and unrealized gains and losses reported in the statement of changes in restricted net assets. The effect of adopting SFAS No. 124 in fiscal year 1997 was to increase restricted net assets by $1,124,983.

In fiscal year 1997, in connection with the adoption of SFAS No. 124, the Foundation changed its' accounting principle relevant to the valuation of closely-held equity securities not within the scope of SFAS No. 124. The Foundation changed its valuation method for certain closely-held equity securities with no readily determinable fair value from cost basis to fair value in order to bring consistency with the valuation provisions of SFAS No. 124. The effect of this change during fiscal year 1997 was to increase restricted net assets by $11,964,156.

3. Investments

The cost and fair value of the Foundation's investments at April 30, 1998 and 1997 is presented below:

	Cost	Fair Value
1998		
Limited partnerships:		
Equity investors	**$11,876,039**	**$12,761,961**
Alternative investors	**7,145,330**	**7,542,579**
Common stocks—closely held	**2,471,203**	**34,543,825**
Mutual funds:		
Bond fund	**19,244,550**	**19,303,736**
	$40,737,122	**$74,152,101**

3. Investments (continued)

	Cost	Fair Value
1997		
Limited partnerships:		
Equity investors	$ 2,500,000	$ 2,439,373
Alternative investors	5,253,000	5,374,630
Common stocks—closely held	9,220,524	42,133,563
Mutual funds:		
Bond fund	11,000,000	10,967,852
Equity funds	6,000,000	6,491,040
	$33,973,524	$67,406,458

4. Restricted Net Assets

Restricted net assets of $3,876,800 at April 30, 1998 are available for 1999's required grant payments and operating expenses. The remaining net assets of $72,013,994 at April 30, 1998 are to be maintained according to donor intentions.

Restricted net assets released from donor restrictions by incurring expenses satisfying the restricted purposes are as follows:

	Year ended April 30	
	1998	**1997**
Required grant payments:		
Palm Beach Atlantic College	**$1,113,200**	$ 900,000
Tribal Colleges	**540,751**	422,000
Gallaudet University	**312,000**	300,000
Florida School for the Deaf	**312,000**	300,000
Florida State University System	**301,000**	290,000
C.S.F.A. (for the benefit of UPS employees)	**242,900**	218,550
American Indian College Fund	**120,000**	180,000
	2,941,851	2,610,550

4. Restricted Net Assets (continued)

	Year ended April 30 1998	1997
Management and general expenses:		
Custodian fees	**$ 340,010**	$ 78,803
Professional fees	**191,472**	133,699
Federal excise tax and other taxes	**133,400**	–
Other expenses	**54,854**	55,330
Trustee's fees	**33,000**	27,000
Scholarship administrative expense	**22,960**	7,936
Wages	**–**	14,238
Rent	**–**	1,200
	775,696	318,206
	$3,717,547	$2,928,756

5. Commitments

During the current year, the Foundation entered into an agreement with a financial institution to provide custodial services to the Foundation for all or any portion of the Foundation's assets for a term of six years at a fee of $125,000 per year.

The Theodore R. & Vivian M. Johnson Scholarship Foundation

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July 22, 1998

Ernst & Young, LLP
Phillips Point, West Tower
777 South Flagler Drive, Suite 1200
West Palm Beach, FL 33401

Gentlemen:

In connection with your audits of the financial statements of the Theodore R. and Vivian M. Johnson Scholarship Foundation (the "Foundation") at April 30, 1998 and April 30, 1997 and for the years then ended, we recognize that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion on the financial statements, and accordingly, we make the following representations which are true to the best of our knowledge and belief:

General

We recognize that as managers of the foundation, we are responsible for the fair representation of its statements. We believe the statements of assets and liabilities arising from cash transactions, statement of changes in restricted net assets, and the statement of cash flow are fairly presented on a basis of cash receipts and reimbursements applied on a basis consistent with that of the preceding period. Appropriate disclosures have been made for changes in accounting principles adopted during fiscal 1997.

We have made available to your representative all financial records and related data.

We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

Interest WAL Control

There are no material transactions that have not been properly recorded in the account records underlying the financial statements.

There are no material weaknesses in internal control, including any for which we believe the cost of corrective actions exceeds the benefit. There have been no significant changes in internal control since April 30, 1998.

Minutes and Contracts

We have made available to you all minutes of the meetings of trustees and committees of trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Ownership and Pledging of Assets

The Foundation has satisfactory title to all assets appearing in the statement of assets and liabilities arising from cash transactions. There are no liens or encumbrances on such assets nor has any asset been pledged. All assets to which the Foundation has satisfactory title appear in such statements.

Portfolio securities are stated at value as determined in accordance with valuation method set forth in the current financial statements.

Investments

The Foundation investments in equity securities with readily determinable fair values and all investments in debt securities are reflected at their fair value at April 30, 1998, as measured by quoted market values. The Foundation's investments in mutual funds are reflected at their fair values as measured by the published values per share (unit) for those funds. Closely held equity securities are reflected in the statement of assets and liabilities arising from cash transactions at fair value, consistent with the relevant AICPA Accounting Guide.

Gains and losses on investments have been reflected as changes in restricted net assets as explicitly restricted by a donor.

There were no deficiencies for donor-restricted endowment funds for which the fair value of the assets at April 30, 1998 was less than the level required by donor stipulation or law.

The Board of Trustees, based on their assessment of the relevant facts and circumstances, is of the opinion that gains and losses on investments of restricted assets are properly accounted for and recorded as restricted assets. The Board of Trustees is not aware of any laws of the State of Florida or explicit or clear implicit donor stipulations that preclude such an accounting treatment.

Contributions

All gifts, grants, and bequests, as well as related investment income, have been recorded in the proper net asset classification, based on the donor's stipulations.

Contributions restricted by donors for a particular purpose or time period have been reflected as temporarily restricted contributions until expended, at which time they have been reflected as net assets released from restrictions.

Related Party Transactions

Transactions with related parties, if any, and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees, have been properly recorded or disclosed in the financial statements.

Arrangements with Financial Institutions

Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances on line-of-credit or similar arrangements, if any, have been properly recorded or disclosed in the financial statements.

Contingent Liabilities

There are no known unasserted claims or assessments that are probable of assertion and must be disclosed.

There have been no known violation of laws or regulations in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

There have been no communications from regulatory agencies or government representatives concerning investigations or allegations of noncompliance with laws or regulations in any jurisdiction or deficiencies in financial reporting practices.

There are no material liabilities or gain or loss contingencies that are required to be accrued or disclosed nor are there any accruals for loss contingencies included in the statements of assets and liabilities arising from cash transactions.

We have not consulted a lawyer concerning litigation, claims or assessments, other than as disclosed to you.

Irregularities and Conflicts of Interest

There have been no irregularities involving management or employees who have significant roles in the system of internal accounting control.

There have been no irregularities involving other employees that could have a material effect on the financial statements.

There are no instances where any officer or employee of the Foundation has an interest in a company with which the Foundation does business, which would be considered a "conflict of interest". Such an interest would be contrary to Foundation policy.

Subsequent Events

No events or transactions have occurred since April 30, 1998 which would have a material effect upon the financial statements at the date or for the year then ended, or which are of such significance in relation to the Foundation's affairs as to require mention in a note to the financial statements in order to make them not misleading as the statement of assets and liabilities arising from cash transactions, statements of changes in restricted net assets, and the statements of cash flows of the Foundation.

Very truly yours,

The Theodore R. and Vivian M. Johnson
Scholarship Foundation

Richard A. Krause

Richard A. Krause, Trustee/Treasurer

Sally A. Outis

Sally A. Outis, Executive Director