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

REPORT ON AUDITS OF FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

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templeton & COMPANY
Certified Public Accountants and Consultants

Report of Independent Auditors

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

We have audited the accompanying financial statements of Theodore R. and Vivian M. Johnson Scholarship Foundation, Inc. (a private foundation), which comprise the statements of net assets – modified cash basis as of December 31, 2018 and 2017, 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 entity'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 entity'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, 2018 and 2017, 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.

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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 1, 2019

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

STATEMENTS OF NET ASSETS – MODIFIED CASH BASIS
December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 1,660,009	$ 1,510,205
Investments, at fair value	154,688,801	172,261,801
Total assets	$ 156,348,810	$ 173,772,006
LIABILITIES AND NET ASSETS		
Liabilities	$ -	$ -
Net assets - with donor restrictions	156,348,810	173,772,006
Total liabilities and net assets	$ 156,348,810	$ 173,772,006

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, 2018 and 2017

	2018	2017
With donor restrictions:		
Revenue, net of investment advisory fees:		
Net realized gain (loss) on sales of investments	$ (117,242)	$ 814,628
Net unrealized appreciation (depreciation) on investments	(12,105,957)	17,893,163
Interest, dividends and distributions	3,530,779	5,113,674
Total revenue, net of investment advisory fees	(8,692,420)	23,821,465
Expenses:		
Scholarships and grants distributed and program costs	6,362,970	6,547,481
Management and general expenses	2,005,488	1,915,112
Federal excise and other taxes, net of refunds	362,318	86,932
Total expenses	8,730,776	8,549,525
Increase (decrease) in net assets with donor restrictions	(17,423,196)	15,271,940
Net assets, beginning of year	173,772,006	158,500,066
Net assets, end of year	$ 156,348,810	$ 173,772,006

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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Increase (decrease) in net assets with donor restrictions - modified cash basis	$ (17,423,196)	$ 15,271,940
Adjustments to reconcile increase (decrease) in net assets with donor restrictions to net cash used in operating activities:		
Net realized (gain) loss on sales of investments	117,242	(814,628)
Net unrealized depreciation (appreciation) on investments	12,105,957	(17,893,163)
Net cash used in operating activities	(5,199,997)	(3,435,851)
Cash flows from investing activities:		
Purchases of investments	(13,518,384)	(22,160,423)
Proceeds from sales of investments	18,868,185	26,352,935
Net cash provided by investing activities	5,349,801	4,192,512
Increase in cash and cash equivalents	149,804	756,661
Cash and cash equivalents, beginning of year	1,510,205	753,544
Cash and cash equivalents, end of year	$ 1,660,009	$ 1,510,205

See accompanying 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.

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 accounting principles generally accepted in the United States. 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. No such non-cash contributions occurred during the years ended December 31, 2018 and 2017.

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 2018 or 2017.

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.

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

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 income tax returns. Based on its evaluation, management did not identify any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease. The Foundation is no longer subject to income tax examinations for years prior to 2015.

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, foreign currency, and credit risks. 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.

Approximately 34% of the Foundation's investments are subject to foreign currency risk, with the remaining 66% 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.

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

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. The Foundation also maintains a money market account with a certain money market fund. The Foundation has an arrangement with the money market fund whereby the money market fund maintains a fully insured reciprocal depository arrangement with multiple financial institutions in order to maintain it cash balances within federally insured limits. Cash and cash equivalents exceeded the FDIC limit by $1,746,232 as of December 31, 2017. There were no cash and cash equivalent balances that exceeded FDIC limits as of December 31, 2018.

Portfolio investment concentrations

At December 31, 2018 and 2017, approximately 25% and 22%, 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. 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.

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.

Change in accounting principles

The Foundation implemented Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 in the current year, applying the change retrospectively. The new standards change the following aspects of the Foundation's financial statements:

- Temporarily restricted net assets have been renamed to net assets with donor restrictions.
- The financial statements include a disclosure about liquidity and availability of resources (Note 2).
- The financial statements removed certain disclosures associated with expenses directly related to investment expenses.

New accounting pronouncement

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement* (Topic 820), *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (ASU 2018-13). The amendments in ASU 2018-13 modify the disclosure requirements in Topic 820 of the disclosure framework. The modifications include removing the requirement to disclose the amount of and reason for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels, the valuation processes for Level 3 fair value measurements, and the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

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

New accounting pronouncement, continued

Also, in lieu of a roll forward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities. Additionally, for certain entities that calculate net asset value, an entity is required to disclose the timing of an investee's assets and the date when restrictions from redemptions that lapse only if the investee has communicated the timing to the entity or announced the timing publicly. ASU 2018-13 is effective for fiscal years beginning on or after December 15, 2019 with early adoption permitted to any removed or modified disclosures of this update. The Foundation is evaluating the effect of ASU 2018-13 on its financial statements and related disclosures.

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, 2018 are:

Financial assets:	
Cash and cash equivalents	$ 1,660, 009
Investments	154,688,801
Total financial assets	156,348,810
Less: financial assets held to meet donor-imposed restrictions	(156,348,810)
Excess amount	$ -

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 Internal Revenue Service requirements. 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 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, 2018 and 2017 are presented below:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
December 31, 2018:			
United States equities	$ 32,073,645	$ 37,570,755	$ 5,497,110
Non-United States equities	42,989,679	36,848,021	(6,141,659)
Alternative non-marketable equity entities	20,730,562	17,618,427	(3,112,135)
Private equity entities and venture capital	13,877,749	21,522,190	7,644,442
Inflation protection managers	20,317,315	17,788,674	(2,528,641)
Fixed income	21,658,070	23,340,734	1,682,664
	$ 151,647,020	$ 154,688,801	$ 3,041,781

Note 3 – Investments, Continued

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
December 31, 2017:			
United States equities	$ 26,590,500	$ 41,115,038	$ 14,524,538
Non-United States equities	43,267,970	48,168,672	4,900,702
Alternative non-marketable equity entities	20,926,058	18,656,966	(2,269,092)
Private equity entities and venture capital	13,390,777	19,934,127	6,543,350
Inflation protection managers	16,534,955	19,599,423	3,064,468
Fixed income	24,689,279	24,787,575	98,296
	$ 145,399,539	$ 172,261,801	$ 26,862,262

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 (depreciation) appreciation on investments in the accompanying statements of changes in net assets – modified cash for the years ended December 31, 2018 and 2017.

The following is a list of investments representing more than 5% of the total fair value of investments at December 31, 2018 and 2017:

Investment	2018	2017
Adage Capital Partners	$ 23,755,928	$ 24,755,241
Vanguard Intermediate-Term Treasury Shares	13,117,281	20,689,157
Silchester International Value Equity Trust	16,458,191	19,292,383
1607 Capital Equity Fund	8,253,695	9,697,247
Other (below 5%)	93,103,706	97,827,773
	$ 154,688,801	$ 172,261,801

Note 4 – Fair Value Measurements

Accounting guidance provides a framework for measuring fair value and provides 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 as follows:

Level 1	Unadjusted quoted prices for identical, unrestricted assets or liabilities in active markets that a plan has the ability to access.
Level 2	Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means for substantially the full term of the assets or liabilities.
Level 3	Significant unobservable inputs.

Note 4 – Fair Value Measurements, Continued

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. The following table summarizes the Foundation's investments based on the valuation methodology applied by the Foundation as of December 31, 2018 and 2017.

Investments measured at fair value on a recurring basis consist of the following types of instruments as of December 31, 2018 and 2017:

	Fair Value Measurements as of December 31, 2018			
	Level 1:	Level 2:	Level 3:	
United States equities	$ 7,047,225	$ 30,523,530	$ -	$ 37,570,755
Non-United States equities	5,345,919	31,502,101	-	36,848,020
Alternative non-marketable equity entities	-	12,087,719	5,530,708	17,618,427
Private equity entities and venture capital	-	-	21,522,191	21,522,191
Inflation protection managers	-	5,168,969	12,619,705	17,788,674
Fixed income	19,345,185	3,995,549	-	23,340,734
	$ 35,733,878	$ 79,282,319	$ 39,672,604	$ 154,688,801

	Fair Value Measurements as of December 31, 2017			
	Level 1:	Level 2:	Level 3:	
United States equities	$ 7,388,561	$ 33,726,477	$ -	$ 41,115,038
Non-United States equities	7,549,737	40,618,935	-	48,168,672
Alternative non-marketable equity entities	-	12,610,868	6,046,098	18,656,966
Private equity entities and venture capital	-	-	19,934,127	19,934,127
Inflation protection managers	-	6,273,553	13,325,870	19,599,423
Fixed income	24,787,575	-	-	24,787,575
	$ 39,725,873	$ 93,229,833	$ 39,306,095	$ 172,261,801

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.

Note 4– Fair Value Measurements, Continued

The following is a schedule of Level 3 investment activity for the years ended December 31, 2018 and 2017 measured on a recurring basis using significant unobservable inputs:

	For the Year Ended December 31, 2018			
	Alternative Non-Marketable Equity Entities	Private Equity Entities and Venture Capital	Inflation Protection Managers	Total
Balance as of January 1, 2018	$ 6,046,098	$ 19,934,127	$ 13,325,870	$ 39,306,095
Net unrealized (depreciation) included in the statement of changes in net assets – modified cash basis	18,889	(635,268)	(760,787)	(1,377,166)
Net realized losses included in the statement of changes in net assets – modified cash basis	(300,091)	-	(13,720)	(313,811)
Sales and return of capital	(1,171,688)	(865,010)	(1,614,150)	(3,650,856)
Purchases	937,500	3,088,342	1,682,500	5,708,342
Balance as of December 31, 2018	$ 5,530,708	$ 21,522,191	$ 17,619,705	$ 39,672,604

	For the Year Ended December 31, 2017			
	Alternative Non-Marketable Equity Entities	Private Equity Entities and Venture Capital	Inflation Protection Managers	Total
Balance as of January 1, 2017	$ 10,744,898	$ 18,762,842	$13,366,941	$ 42,874,681
Net unrealized (depreciation) included in the statement of changes in net assets – modified cash basis	674,242	(558,429)	(183,440)	(67,627)
Net realized gains (losses) included in the statement of changes in net assets – modified cash basis	(14,488)	(33,491)	17,314	(30,665)
Sales and return of capital	(5,771,054)	(660,720)	(383,795)	(6,815,569)
Purchases	412,500	2,423,925	508,850	3,345,275
Balance as of December 31, 2017	$ 6,046,098	$ 19,934,127	$13,325,870	$ 39,306,095

The Foundation’s investments in United States equities consist of publicly traded United States equities with no unfunded commitments to United States equity managers as of December 31, 2018 and 2017.

The Foundation’s investments in non-United States equities consist of publicly traded funds, comingled 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 non-United States equity managers as of December 31, 2018 and 2017. The commingled funds calculate net asset value per share in accordance with near term guidance.

Note 4– Fair Value Measurements, Continued

The Foundation's investments in alternative non-marketable equity entities consist of investments in hedge funds, primarily limited partnerships and fund of fund investments that invest in multi-strategy funds. The alternative non-marketable equity entities require a sixty to ninety-day notice in order to redeem the investment balances with redemption restrictions in place at year end. Certain of these fund of fund and limited partnership redemptions are at the discretion of the fund managers. The Foundation had unfunded commitments totaling $2,112,500 and $0 to alternative non-marketable equity entities as of December 31, 2018 and 2017, respectively.

The Foundation's investments in private equity entities and venture capital consist of limited partnership interests and interests in closed-end funds that primarily invest in United States and non-United States fund of fund investments in venture capital and private equity capital. The Foundation had $15,388,752 and $10,532,229 in related unfunded commitments as of December 31, 2018 and 2017, respectively.

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 managed by the information provided by the administrators of each underlying fund. Natural resources, private equity, nature capital and real estate limited partnerships are accounted for using pricing models that are both observable and unobservable inputs. The Foundation had $1,273,501 and $511,001 in related unfunded commitments as of December 31, 2018 and 2017, respectively.

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 have interpreted the current law, Uniform Prudent Management of Institutional Funds Act (UPMIFA), which became effective in the State of Florida on July 1, 2012, 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, 2018.

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.

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, 2018 follow:

	Without Donor Restrictions	With Donor Restrictions	Total
Balance as of January 1, 2018	$ -	$ 173,772,006	$ 173,772,006
Investment return:			
Interest, dividends, and distributions	-	3,530,779	3,530,779
Net depreciation (realized and unrealized)	-	(12,223,199)	(12,223,199)
Total investment return (loss)	-	(8,692,420)	(8,692,420)
Appropriations for distributions and expenditures	-	(8,549,525)	(8,549,525)
Balance as of December 31, 2018	$ -	$ 156,348,810	$ 156,348,810

Note 6 – Expenses

Expenses for the years ended December 31, 2018 and 2017 are presented as follows:

	2018	2017
Scholarships and grants distributed:		
Palm Beach Atlantic University	$ 1,205,000	$ 815,000
Scholarship America	1,151,875	1,207,500
Heritage University	547,475	49,879
Gallaudet University	500,000	510,000
Florida School for the Deaf and the Blind	500,000	500,000
Florida State University System	475,000	475,000
Pathways to Education Canada	240,000	240,000
Gonzaga University	200,000	201,000
College for Kids	175,000	-
Dalhousie Foundation	155,423	146,742
Marriott Foundation for People with Disabilities	150,000	-
The School District of Palm Beach County	110,350	110,350
Landmark College	100,000	100,000
Providence St. Mel School	100,000	100,000
Northwest Indian College	80,000	70,000
American Indian Business Leaders	75,100	1,000
Perkins	75,000	75,000
Olmsted Center	60,000	50,000
Blackfeet Community College	50,000	50,000
Eye to Eye	50,000	50,000
Nativity Boston	50,000	50,000
Take Stock in Children	25,000	562,500
University of Central Florida Foundation	-	215,900
Northern Arizona University Foundation	29,875	144,423
Oklahoma State University Foundation	33,810	80,000
American Indian College Fund	-	75,000
University of North Florida Foundation	-	61,800
Lakota Funds	-	50,000
Valencia State College Foundation	-	50,000
Native CDFI Network, Inc.	-	50,000
Other	224,062	456,387
	$ 6,362,970	$ 6,547,481
Management and general expenses:		
Salaries and benefits	$ 903,857	$ 797,932
Scholarship administrative expenses	335,914	354,738
Investment consultant fees and expenses	342,917	328,832
Office expenses	148,984	160,531
Professional fees	59,324	54,034
Directors' consulting fees	104,492	108,212
Directors' fees	110,000	110,833
	2,005,488	1,915,112
Federal excise and other taxes:		
Federal excise tax	358,946	86,209
Various other state excise tax, net of refunds	3,372	723
	362,318	86,932
	$ 8,730,776	$ 8,549,525

Note 6 – Expenses, Continued

During 2018 and 2017, the Foundation received refunds of certain federal and state excise taxes paid in prior years. Such amounts were offset against expense in 2018 and 2017 under the modified cash basis of accounting.

Note 7 – Lease Agreement

The Foundation leases its premises located in West Palm Beach, Florida pursuant to a non-cancelable operating lease. The following table presents future minimum base rent payments due under the operating lease as of December 31, 2018:

Year Ending December 31,	Amount
2019	$ 61,774
2020	63,490
2021	37,676
Total	$ 162,940

Rent expense for the years ended December 31, 2018 and 2017 totaled $60,370 and $58,613, respectively.

Note 8 – Defined Contribution Plan and Deferred Compensation Agreement

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 discretionary match as well as a discretionary contribution. The Foundation's contributions for the years ended December 31, 2018 and 2017 totaled $88,068 and $53,781, respectively.

The Foundation has established a deferred compensation agreement under which an employee is due to receive earned compensation in future years. Deferred compensation payable amounted to $402,482 and $355,359 as of December 31, 2018 and 2017, respectively. Per the executed deferred compensation agreement, payment to the CEO and President of any amount accrued after December 31, 2014 is contingent upon the Foundation's total assets being at least $150 million at the time of his retirement. Such obligation has not been recorded on the Foundation's statement of financial position-modified cash basis.

Note 9 – Trust Beneficiary

The Foundation is named as the sole beneficiary of the Theodore R. Johnson Charitable Remainder Unitrust (CRUT). As of December 31, 2018 and 2017, the CRUT's net asset value approximated $49,000,000 and $55,000,000, respectively. The value of this beneficial interest is not reflected in the accompanying statements of net assets – modified cash basis due to the Foundation's accounting method.

Subsequent to December 31, 2018, the net assets of the CRUT were transferred to the Foundation and became a part of the assets and investments of the Foundation.

Note 10 – 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.

Note 10 – Grants, Continued

The minimum future grant award commitments in each of the five years subsequent to December 31, 2018 based on the projected rate of return of 5% per year are as follows:

Years Ending December 31,	Amount
2019	$ 6,495,242
2020	$ 8,538,730
2021	$ 8,898,016
2022	$ 8,885,112
2023	$ 8,863,142

Note 11 – Subsequent Events

Management evaluated activity of the Foundation subsequent to December 31, 2018 through November 1, 2019, the date on which the financial statements were available to be issued, for events that require recognition in the financial statements or disclosure in the notes thereto. There were no additional subsequent events, other than disclosed above, that required adjustment to or disclosure in the financial statements.