

Report of Independent Accountants

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

We have audited the accompanying statements of net assets – modified cash basis of the Theodore R. and Vivian M. Johnson Scholarship Foundation, Inc. (the Foundation) as of December 31, 2003 and 2002, and the related statements of changes in net assets – modified cash basis and cash flows – modified cash basis for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

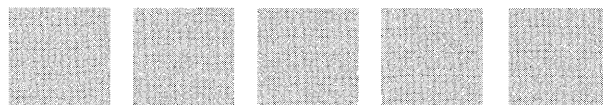
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Theodore R. and Vivian M. Johnson Scholarship Foundation, Inc. as of December 31, 2003 and 2002, the changes in its net assets, and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Templeton & Company, P.A.

West Palm Beach, Florida
April 26, 2004



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

STATEMENTS OF NET ASSETS - MODIFIED CASH BASIS

December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
ASSETS		
Cash and cash equivalents	\$ 411,900	\$ 984,390
Investments	<u>128,398,736</u>	<u>111,781,555</u>
Total assets	<u>\$ 128,810,636</u>	<u>\$ 112,765,945</u>
LIABILITIES AND NET ASSETS		
Liabilities	\$ -	\$ -
Net assets - temporarily restricted	<u>128,810,636</u>	<u>112,765,945</u>
Total liabilities and net assets	<u>\$ 128,810,636</u>	<u>\$ 112,765,945</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, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Temporarily restricted net assets:		
Revenue, net of investment advisory fees:		
Net realized gain (loss) on sale of investments	\$ 1,051,451	\$ (369,780)
Net unrealized appreciation (depreciation) on investments	18,754,683	(1,472,958)
Interest and dividends	<u>1,316,062</u>	<u>1,363,581</u>
	<u>21,122,196</u>	<u>(479,157)</u>
Expenses:		
Scholarships and grants distributed	4,100,154	4,471,353
Management and general expenses	1,006,654	1,507,171
Federal excise and other taxes, net of refunds	<u>(29,303)</u>	<u>40,500</u>
	<u>5,077,505</u>	<u>6,019,024</u>
Increase (decrease) in temporarily restricted net assets	16,044,691	(6,498,181)
Net assets, beginning of year	<u>112,765,945</u>	<u>119,264,126</u>
Net assets, end of year	<u>\$128,810,636</u>	<u>\$112,765,945</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, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities:		
Increase (decrease) in net assets - modified cash basis	\$ 16,044,691	\$ (6,498,181)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Net realized (gain) loss on sale of investments	(1,051,451)	369,780
Net unrealized (appreciation) depreciation on investments	<u>(18,754,683)</u>	<u>1,472,958</u>
Net cash used in operating activities	<u>(3,761,443)</u>	<u>(4,655,443)</u>
Cash flows from investing activities:		
Purchases of investments	(10,269,843)	(3,002,948)
Proceeds from sales of investments	<u>13,458,796</u>	<u>7,261,544</u>
Net cash provided by investing activities	<u>3,188,953</u>	<u>4,258,596</u>
Decrease in cash and cash equivalents	(572,490)	(396,847)
Cash and cash equivalents, beginning of year	<u>984,390</u>	<u>1,381,237</u>
Cash and cash equivalents, end of year	<u>\$ 411,900</u>	<u>\$ 984,390</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 to various institutions for deserving persons who might not otherwise have the financial means to enable them to attend an institution of higher learning.

The Foundation received all of the assets of the Theodore R. and Vivian M. Johnson Scholarship Foundation, a private foundation trust (the Foundation Trust) on December 31, 2001 in a tax-free transfer and operates as its successor.

Donated assets of the Foundation are invested in accordance with donor intention, with income derived from such assets for grant and operating purposes.

Basis of Accounting

The Foundation prepares its financial statements on the modified cash basis of accounting, which is comprehensive basis of accounting other than generally accepted accounting principles. Revenue is recognized when collected and expenses are recorded when paid, rather than when due or the commitment or obligation is incurred.

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

Classification of Net Assets

The Foundation records all income from its investments as temporarily restricted net assets. These amounts are subject to donor-imposed restrictions that permit the Foundation to use or expend the assets for grant or operating purposes. The donor restrictions expire when payments are made for grant or operating purposes.

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, unless needed to meet the Internal Revenue Service distribution requirements, but permit the Foundation to use or expend all of the income derived from the donated assets for grant or operating purposes.

Cash and Cash Equivalents

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

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

Investments

Equity securities with readily determinable fair values and all debt securities are carried at fair values based on quoted market prices. The values of certain investments are estimated by management of the investee in the absence of readily determinable fair values.

Investment gains or losses are recognized upon realization, or when their values are deemed to have been permanently impaired. The Foundation uses the specific identification method to determine its historical basis, which is based on the fair value at the beginning of the period in computing realized gain and losses. Unrealized gains and losses are recognized based on changes in fair values during the period for those securities held at the end of the period. Dividends and interest are recognized as income when received and are restricted for grant and operating purposes.

Income Taxes

The Foundation is incorporated as a private foundation and is currently exempt from federal income tax under the provisions of Section 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.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 2 – Investments

The cost, fair value, and unrealized gain or loss attributable to the Foundation's investments at December 31, 2003 and 2002 is presented below:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
December 31, 2003:			
United States equity	\$ 31,717,365	\$ 32,812,270	\$ 1,094,905
Non-United States equity	12,539,559	20,800,864	8,261,305
Alternative marketable equity entities	8,197,483	13,583,534	5,386,051
Private equity entities and venture capital	3,329,136	2,532,690	(796,446)
Fixed income	30,771,721	40,682,402	9,910,681
Other	<u>14,061,109</u>	<u>17,986,976</u>	<u>3,925,867</u>
	<u>\$ 100,616,373</u>	<u>\$ 128,398,736</u>	<u>\$ 27,782,363</u>
December 31, 2002:			
United States equity	\$ 31,234,207	\$ 24,589,613	\$ (6,644,594)
Non-United States equity	10,881,453	13,294,301	2,412,848
Alternative marketable equity entities	8,500,000	12,046,767	3,546,767
Private equity entities and venture capital	1,474,629	978,488	(496,141)
Fixed income	37,471,721	46,334,177	8,862,456
Other	<u>10,712,868</u>	<u>14,538,209</u>	<u>3,825,341</u>
	<u>\$ 100,274,878</u>	<u>\$ 111,781,555</u>	<u>\$ 11,506,677</u>

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 3 – Expenses

Expenses for the years ended December 31, 2003 and 2002 are presented as follows:

	<u>Year Ended</u> <u>December 31, 2003</u>	<u>Year Ended</u> <u>December 31, 2002</u>
Scholarships and grants distributed:		
Palm Beach Atlantic University	\$ 1,210,000	\$ 1,260,000
Native American Tribal Colleges	427,594	494,841
Gallaudet University	326,000	350,700
Florida School for the Deaf and Blind	343,000	364,000
Florida State University System	312,000	350,000
C.S.F.A. (for the benefit of UPS employees)	691,450	684,839
Berklee College	278,278	343,480
Landmark East	175,000	150,000
Other	336,832	473,493
	<u>4,100,154</u>	<u>4,471,353</u>
Management and general expenses:		
Custodial and other services fees	-	125,000
Investment fees	251,340	225,399
Professional fees	209,605	211,473
Salaries and benefits	96,656	350,154
Other expenses	124,228	151,788
Trustees' fees	204,500	182,000
Office expenses	65,961	120,670
Scholarship administrative expenses	54,364	140,687
	<u>1,006,654</u>	<u>1,507,171</u>
Federal excise and other taxes:		
Federal excise tax	94,000	40,500
Refunds of federal excise tax	(134,943)	-
Other taxes	11,640	-
	<u>(29,303)</u>	<u>40,500</u>
	<u>\$ 5,077,505</u>	<u>\$ 6,019,024</u>

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 4 – Commitments

The Foundation is obligated under a lease for certain office space located in West Palm Beach, Florida. Minimum future payments due in years subsequent to December 31, 2003, are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2004	\$ 23,105
2005	23,798
2006	24,512
2007	<u>20,935</u>
Total	<u>\$ 92,350</u>

Rent expense for the years ended December 31, 2003 and 2002 totaled approximately \$36,000 and \$20,000, respectively.

At December 31, 2003, the Foundation has outstanding commitments to fund certain investments in future periods totaling \$10,907,863.

Note 5 – Defined Contribution Pension Plan and Deferred Compensation Plan

During 2002, the Foundation established a qualified cash or deferral compensation plan under section 401(k) of the Internal Revenue Code (“Plan”) for the benefit of qualified employees. Under the terms of the Plan, qualified employees may elect to defer a portion of their salary, subject to Internal Revenue Service limits. The Foundation may make a discretionary match as well as a discretionary contribution. Employee contributions commenced on December 1, 2002. The Foundation’s contributions for the years ended December 31, 2003 and 2002 totaled \$4,887 and \$3,465, respectively.

During 2003, the Foundation contributed \$25,000 to a non-qualified deferred compensation plan for the benefit of its President.

Note 6 – Reclassification of Net Assets

During 2003, the Foundation’s Board of Directors determined that certain donations received and classified as permanently restricted net assets in prior years should be reclassified as temporarily restricted net assets due to a clarification of the donors’ original intent. Accordingly, the classifications of net assets set forth in the accompanying financial statements have been adjusted for all periods presented. Such reclassification had no effect on the previously reported total net assets at December 31, 2002 or the decrease in net assets for the year then ended.