

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, 2002 and 2001, 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.

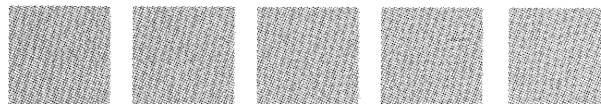
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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 modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position – modified cash basis of the Theodore R. and Vivian M. Johnson Scholarship Foundation, Inc. as of December 31, 2002 and 2001, the changes in its net assets – modified cash basis and its cash flows – modified cash basis for the years then ended on the basis of accounting described in Note 1.

Templeton & Company, P.A.

West Palm Beach, Florida
April 14, 2003



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

**STATEMENTS OF NET ASSETS –
MODIFIED CASH BASIS
December 31, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
ASSETS		
Cash and cash equivalents	\$ 984,390	\$ 1,381,237
Investments	<u>111,781,555</u>	<u>117,882,889</u>
Total assets	<u>\$ 112,765,945</u>	<u>\$ 119,264,126</u>
LIABILITIES AND NET ASSETS		
Liabilities	<u>\$ -</u>	<u>\$ -</u>
Net assets:		
Temporarily restricted	64,818,493	71,316,674
Permanently restricted	<u>47,947,452</u>	<u>47,947,452</u>
Total net assets	<u>112,765,945</u>	<u>119,264,126</u>
Total liabilities and net assets	<u>\$ 112,765,945</u>	<u>\$ 119,264,126</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, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
Temporarily restricted net assets:		
Revenue, net of investment advisory fees:		
Net realized loss on sale of investments	\$ (369,780)	\$ (349,398)
Net unrealized appreciation (depreciation) on investments	(1,472,958)	36,990
Interest and dividends	<u>1,363,581</u>	<u>2,739,213</u>
	<u>(479,157)</u>	<u>2,426,805</u>
Expenses:		
Scholarships and grants distributed	4,471,353	5,630,445
Management and general expenses	1,507,171	1,097,225
Federal excise and other taxes	<u>40,500</u>	<u>493,524</u>
	<u>6,019,024</u>	<u>7,221,194</u>
Decrease in temporarily restricted net assets	<u>(6,498,181)</u>	<u>(4,794,389)</u>
Decrease in net assets	(6,498,181)	(4,794,389)
Net assets, beginning of year	<u>119,264,126</u>	<u>124,058,515</u>
Net assets, end of year	<u>\$112,765,945</u>	<u>\$119,264,126</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, 2002 and 2001**

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (6,498,181)	\$ (4,794,389)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Net realized loss on sale of investments	369,780	349,398
Net unrealized (appreciation) depreciation on investments	<u>1,472,958</u>	<u>(36,990)</u>
Net cash used in operating activities	<u>(4,655,443)</u>	<u>(4,481,981)</u>
Cash flows from investing activities:		
Purchases of investments	(3,002,948)	(31,453,473)
Proceeds from sales of investments	<u>7,261,544</u>	<u>36,674,842</u>
Net cash provided by investing activities	<u>4,258,596</u>	<u>5,221,369</u>
Increase (decrease) in cash and cash equivalents	(396,847)	739,388
Cash and cash equivalents, beginning of year	<u>1,381,237</u>	<u>641,849</u>
Cash and cash equivalents, end of year	<u>\$ 984,390</u>	<u>\$ 1,381,237</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 accounting principles generally accepted in the United States of America. 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, 2002 and 2001 is presented below:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</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	10,712,868	14,538,209	3,825,341
	<u>\$ 100,274,878</u>	<u>\$ 111,781,555</u>	<u>\$ 11,506,677</u>
December 31, 2001:			
United States equity	\$ 30,074,826	\$ 29,938,830	\$ (135,996)
Non-United States equity	11,612,962	14,546,764	2,933,802
Alternative marketable equity entities	8,500,000	12,319,652	3,819,652
Private equity entities and venture capital	1,064,129	790,858	(273,271)
Fixed income	42,409,515	47,317,096	4,907,581
Other	9,945,070	12,969,689	3,024,619
	<u>\$ 103,606,502</u>	<u>\$ 117,882,889</u>	<u>\$ 14,276,387</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, 2002 and 2001 are presented as follows:

	<u>Year Ended</u> <u>December 31, 2002</u>	<u>Year Ended</u> <u>December 31, 2001</u>
Scholarships and grants distributed:		
Palm Beach Atlantic University	\$ 1,260,000	\$ 1,828,000
Native American Tribal Colleges	494,841	750,069
Gallaudet University	350,700	400,000
Florida School for the Deaf and Blind	364,000	400,000
Florida State University System	350,000	514,132
C.S.F.A. (for the benefit of UPS employees)	684,839	603,506
Berklee College	343,480	380,300
Landmark East	150,000	225,000
Catholic University	-	119,880
American Indian Graduate Center	-	32,500
American Indian Business Leaders	-	24,969
Kiwanis Club of WPB Foundation	-	52,000
Other	473,493	300,089
	<u>4,471,353</u>	<u>5,630,445</u>
Management and general expenses:		
Custodial and other services fees	125,000	125,000
Investment fees	225,399	26,194
Professional fees	211,473	202,127
Salaries and benefits	350,154	230,058
Other expenses	151,788	159,922
Trustees' fees	182,000	183,721
Office expenses	120,670	81,128
Scholarship administrative expenses	140,687	89,075
	<u>1,507,171</u>	<u>1,097,225</u>
Federal excise and other taxes:		
Federal excise tax	40,500	480,500
Other taxes	-	13,024
	<u>40,500</u>	<u>493,524</u>
	<u>\$ 6,019,024</u>	<u>\$ 7,221,194</u>

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

Note 4 – Commitments

During 2002, the Foundation entered into a leasing arrangement for certain office space located in West Palm Beach, Florida. Minimum future payments due in each of the five years subsequent to December 31, 2002, are as follows:

Year Ending December 31,

2003	\$ 22,432
2004	23,105
2005	23,798
2006	24,512
2007	<u>20,935</u>
Total	<u>\$ 114,782</u>

Rent expense for the years ended December 31, 2002 and 2001 totaled approximately \$20,000 and \$16,000, respectively.

At December 31, 2002, the Foundation has outstanding commitments to fund certain investments in future periods totaling \$10,558,250 and to fund certain grants in future periods totaling \$101,885.

The Foundation plans to set up a deferred compensation plan for the benefit of its President and has committed to funding a \$20,000 contribution on his behalf for the year ended December 31, 2002.

Note 5 – Defined Contribution Pension 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 totaled \$3,465 in 2002.