ferf
financial executives
research foundation

Fiscal 2006 Annual Acknowledgement

The Foundation's Vision

To be the source for financial solutions.
To identify, develop and provide leading edge content, through objective research, to the FEI member and Foundation supporter in a format that is accessible and practical.

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

RESPONSIBILITY FOR FINANCIAL STATEMENTS
AND INTERNAL CONTROLS

The financial statements of Financial Executives Research Foundation, Inc. (FERF) were prepared by management, in conformity with accounting principles generally accepted in the United States of America.

FERF management is responsible for the integrity and objectivity of the financial statements, which are presented using the accrual basis of accounting and, accordingly, include some amounts based upon judgment and estimates.

FERF maintains a system of internal controls over financial reporting, including safeguarding of assets against unauthorized acquisition, use or disposition, which is designed to provide reasonable assurance to FERF's management and Board of Trustees regarding the preparation of reliable published financial statements and the safeguarding of assets. The accounting procedures and related system of internal controls are designed to assure that the books and records reflect the transactions of FERF, are in accordance with established policies and procedures, and implemented by qualified personnel. Even an effective internal controls system, no matter how well designed, has inherent limitations — including the possibility of the circumvention or overriding of controls — and, therefore, can provide only reasonable assurance with respect to financial statement preparation and such asset safeguarding. Further, because of changes in conditions, internal controls system effectiveness may vary over time.

The Board of Trustees — through the Office of the Chair, Budget and Investment Committee, Audit Committee and FERF's Treasurer — reviews the financial and accounting operations of FERF, including the review and discussion of periodic financial statements, the evaluation and adoption of budgets, and the basis of engagement and report of the independent auditors.

J.H. Cohn LLP, an independent public accounting firm, has audited the financial statements of FERF, and their report is included herein. The independent auditors were given unrestricted access to all financial and related data, including minutes of all meetings of the Board of Trustees. The auditors meet with the members of the Audit Committee, in the absence of management personnel, to discuss the results of their audit, and are afforded an opportunity to present their comments with respect to the adequacy of internal controls and the quality of the financial reporting of FERF.

Colleen Cunningham

Colleen A. Cunningham
President and CEO

September 6, 2006

Letter from the Chair

Financial executives continue to respond to the ever-increasing demands for financial information. Publicly-held companies face greater demands due to Financial Accounting Standard Board rules and Securities and Exchange Commission regulations. Combined with Sarbanes-Oxley compliance, this challenge is more acute for smaller public companies with limited resources, as well as for privately-held companies. Financial executives are presented with interpreting the applicability of FASB rules while trying to maintain growth in a highly-competitive market for capital. Amidst all this, Financial Executives Research Foundation (FERF) delivers timely, relevant research to keep financial executives up-to-date on the changing business environment.

For nearly 62 years, FERF has been striving towards its ongoing mission to advance the profession and practices of financial management through research and education. Through its projects on business and financial management topics, FERF objectively investigates the evolving role of financial executives, the practices of financial management, and the techniques to improve its effectiveness.

As the research affiliate of Financial Executives International (FEI), FERF publications provide timely analysis of the accounting, auditing and corporate governance issues facing corporate America today. More importantly, our work provides practical solutions on how to deal with these issues since it is based on the experiences of FEI members. The essence of FERF research is to communicate in various ways how FEI members wrestle with current issues and provide real time facts, issue analysis and solutions to enhance the value of FEI membership.

This connection was further enhanced this year as U.S. FEI members were provided with all FERF research reports as part of membership. By the end of fiscal 2006, FERF e-mailed 25 reports and alerts directly to members' desktops. An FEI member can now also receive continuing professional education credits through study of the FERF Executive Reports, another value for members and contributors.

Over the past year, FERF collaborated with FEI technical committees to determine the relevancy of our research. Direct results of this close alignment resulted in the following reports that were published based on key topics identified by FEI's Committees on Corporate Reporting, Finance and Information Technology and Private Companies:

- FEI Survey: Compliance Costs for Section 404
- Management's Reports on Internal Controls
- Sarbanes-Oxley Section 404 Compliance: From Project to Sustainability
- XBRL Reference Guide: Guidance for the Application and Conversion Capabilities of XBRL
- Technology Issues for Financial Executives
- What Do Users of Private Company Financial Statements Want?

Meanwhile, FERF continued to reach out to FEI chapters to ensure that our research programs and offerings are applicable to the broader membership base. This ongoing iterative process will ensure that our research and resources are focused on topics of interest and that FERF provides a value proposition for all.

Additionally, other products—such as Private Net, Finance and Information Technology and What's New in Research are published monthly. FERF also contributed 20 magazine articles to *Financial Executive* magazine this year—another FEI member benefit that facilitates financial executives learning from their colleagues.

FERF services include the Ask FERF research service and FELIX, a moderated, e-mail based discussion forum. Approximately 20 questions per month are submitted by members through Ask FERF. In addition, throughout the year members from privately-held companies submitted 83 questions through FELIX. Both statistics point to the utility of such services for FEI members. To further enhance member services, FERF has reached out to the FEI chapters to develop professional development sessions based on our research reports.

The FERF mission is to provide high-quality, independent research. This year the FERF Board of Trustees focused on an update of bylaws and policies to improve FERF's ability to support this mission. As a result, FERF is seeking to enhance revenue sources through licensing and sponsorships, as well as, obtain greater participation from individual, corporate and chapter contributions. This year, leadership within the team of FERF staff was recognized by the trustees who, through the board committees, continue to work actively with the staff to develop talents and guide the organization.

Finally, this is the second consecutive year that FERF has seen an increase in net assets. All improvements to our products and services were attained using current year revenues. We hope to continue growing FERF's endowment for future years.

It has been my sincere pleasure to serve as FERF's Chair for the past two years. I would like to thank my fellow trustees for their efforts toward enhancing the value and relevancy of FERF research. Special thanks to trustees Scott Boggs and Brian Ruttencutter as outgoing chairs of the Budget and Investment and Audit and Development Committees. I would also like to welcome new trustees Marie Hollein, Nick Cyprus, Robert Scherba, William DeMilt and Kim Gazzola. I look forward to continuing working with my fellow trustees under the leadership of incoming FERF Chair, George Boyadjis.

I would also like to thank the FEI Board of Directors, led by Robert Walker, FEI Chair for fiscal 2006 and Colleen Cunningham, President and CEO, as well as the rest of the FERF team: Vice President of Research and Operations Cheryl Graziano, Director of Development Janet Russell, Director of Research and Corporate Secretary Bill Sinnett, and Director of Financial Services Lorna Raagas.

Most especially, FERF and I are thankful to all the FEI members and individual, corporate and chapter donors that support our research in so many ways. Our work is made possible by your generosity. We look forward to an ongoing partnership toward identifying research that will advance your financial management tools and also serve the finance profession.

Joan E. Netzel

Joan E. Netzel
Chair

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Financial Executives Research Foundation, Inc.

Report on Financial Statements

Years Ended June 30, 2006 and 2005

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

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Report of Independent Public Accountants

The Board of Trustees
Financial Executives Research Foundation, Inc.

We have audited the accompanying statements of financial position of Financial Executives Research Foundation, Inc. as of June 30, 2006 and 2005, and the related statements of activities 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Financial Executives Research Foundation, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

J.H. Cohn LLP

Roseland, New Jersey
August 3, 2006

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005
(In Thousands)

ASSETS	2006	2005
Current assets:		
Cash	**$ 23**	$ 13
Investments	**1,213**	1,203
Accounts receivable, net of allowance for doubtful accounts of $3 and $5	**49**	30
Total current assets	**1,285**	1,246
Equipment, net	**10**	15
Prepaid expenses	**8**	3
Other assets	**-**	2
Totals	**$1,303**	$1,266

LIABILITIES AND NET ASSETS	2006	2005
Current liabilities - accounts payable and accrued liabilities	**$ 163**	$ 154
Deferred revenues	**33**	48
Total current liabilities	**196**	202
Pension plan and other post-retirement benefits	**13**	213
Total liabilities	**209**	415
Commitments and contingencies		
Net assets:		
Other	**1,085**	990
Minimum pension liability adjustment	**9**	(139)
Total net assets	**1,094**	851
Totals	**$1,303**	$1,266

See Notes to Financial Statements.

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2006 AND 2005
(In Thousands)

	2006	2005
Revenues:		
Contributions	**$ 745**	$667
Underwriting and sponsorships	**115**	88
	860	755
Research publications sales:		
Book and executive reports	**40**	42
Articles and reports to FEI	**100**	100
	140	142
Investment income - dividends and interest	**63**	33
Total revenues	**1,063**	930
Expenses:		
Research and publishing:		
Research and production	**344**	390
Distribution	**8**	8
Marketing	**126**	109
	478	507
Fundraising	**216**	197
Administration and general	**268**	239
Total expenses	**962**	943
Excess (deficiency) of revenues over expenses	**101**	(13)
Unrealized gain (loss) on investments	**(6)**	23
Increase in net assets before minimum pension liability adjustment	**95**	10
Minimum pension liability adjustment	**148**	4
Increase in net assets	**243**	14
Net assets, beginning of year	**851**	837
Net assets, end of year	**$1,094**	$851

See Notes to Financial Statements.

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005
(In Thousands)

	2006	2005
Operating activities:		
Increase in net assets	**$243**	$14
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	**10**	10
Decrease in allowance for doubtful accounts	**(2)**	-
Noncash effect of minimum pension liability adjustment and change in intangible pension assets	**2**	(10)
Noncash contribution	**(5)**	-
(Gain) loss on investments	**6**	(23)
Loss on disposal of equipment	**2**	-
Changes in operating assets and liabilities:		
Accounts receivable and prepaid expenses	**(22)**	12
Accounts payable and accrued liabilities	**9**	12
Deferred revenues	**(15)**	(4)
Pension plan and other post-retirement benefits	**(200)**	4
Net cash provided by operating activities	**28**	15
Investing activities:		
Investment in money market funds	**(66)**	(12)
Proceeds from sales and maturities of fixed income and equity mutual funds	**50**	-
Disposal of equipment	**(2)**	-
Net cash provided by (used in) investing activities	**(18)**	(12)
Net increase in cash	**10**	3
Cash, beginning of year	**13**	10
Cash, end of year	**$ 23**	$13

See Notes to Financial Statements.

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Note 1 - Business and summary of significant accounting policies:

Business:

Financial Executives Research Foundation, Inc. (the "Foundation") serves as the research affiliate of Financial Executives International ("FEI"), which is a nonprofit membership organization in the United States of America.

Basis of accounting:

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations of credit risk:

Financial instruments that expose the Foundation to concentrations of credit risk consist primarily of cash and accounts receivable. The Foundation places its cash with a high credit quality financial institution. At times, such amounts may exceed Federally insured limits.

The Foundation closely monitors the extension of credit to its customers while maintaining allowances for potential credit losses. On a periodic basis, the Foundation evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit considerations.

Investments:

Equity securities with readily determinable fair values and all investments in debt securities are carried at fair value in the statements of financial position with unrealized gains (losses) included in the statements of activities.

Equipment:

Equipment is recorded at cost if purchased, or at fair value on date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

Revenue recognition:

Contributions:

Contributions are recognized in the period the donor makes the formal commitment. Accounts receivable include pledges outstanding as of June 30, 2006, less an estimate for pledges not expected to be collected.

Underwriting and sponsorships:

Underwriting and sponsorships are recognized in the period in which the related research report is published.

Note 1 - Business and summary of significant accounting policies (concluded):

Deferred revenues:

Deferred revenues consist of monies received on account of donations, a research event and publication sales. These monies, collected in advance of the period they apply, will be recognized as income in the following year.

Contributed services:

The Foundation does not record the monetary value of services contributed to it by members of the Foundation's Board of Trustees and its committees, or companies and organizations that participate in the research process, because such services do not meet the recognition criteria of SFAS 116, "Accounting for Contributions Received and Contributions Made".

Expenses:

Expenses are assigned to activities that fulfill the Foundation's objectives as a nonprofit organization. Expenses that are assigned to more than one activity are allocated utilizing a variety of factors and estimates.

Research and production:

Research and production expenses include the engagement of researchers, staff time, and the production and distribution processes. These expenses are recorded upon completion of identifiable segments of the project. Contracts awarded to individuals or organizations for research services provided to the Foundation are recognized on a percentage of completion basis.

Distribution:

Distribution includes postage and handling arising from the shipping of publications.

Marketing:

Marketing includes personnel costs related to the promotion of research.

Fundraising:

Fundraising includes the costs of the annual support campaign and includes staff time and the printing and mailing of solicitation materials.

Administration and general:

Administration and general includes an allocated portion of senior management and staff support time and administrative services provided by FEI.

Income taxes:

The Foundation has been recognized as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). However, revenue earned on activities which are unrelated to the Foundation's exempt purpose is taxable. The Foundation had no unrelated business income in 2006 and 2005.

Reclassifications:

Certain amounts in the 2005 financial statements have been reclassified to conform with the 2006 presentation.

NOTES TO FINANCIAL STATEMENTS
(In Thousands)

Note 2 - Investments:

Investments consist of the following:

	2006	2005
Money market funds	**$ 283**	$ 251
Fixed income funds and securities	**397**	408
Equity mutual funds	**417**	431
Balanced mutual fund	**116**	113
Totals	**$1,213**	$1,203

The mutual funds are managed by a subsidiary of a major bank. Under terms of the Foundation's investment policy, certain longer-term funds may be invested in equity funds. Net gains and losses on investments include unrealized gains (losses) of $(6) and $23 in 2006 and 2005, respectively.

Note 3 - Equipment:

Equipment consists of the following:

	2006	2005
Furniture and fixtures	**$ 3**	$ 5
Computer software and hardware	**30**	37
Totals	**33**	42
Less accumulated depreciation	**(23)**	(27)
Net book value	**$10**	$15

Note 4 - Related party transactions:

The Foundation shares office facilities with FEI and bears its own administrative expenses. In 2006, the Foundation and FEI continued their agreement as to charges for administrative support costs, occupancy and computer services. Charges to the Foundation from FEI amounted to $167 in 2006 and $180 in 2005, and have been allocated to the appropriate expense categories in the statements of activities.

The Foundation is included under FEI's employees benefit plans, including health care and life insurance, a qualified defined benefit pension plan and certain health care and life insurance benefits for retired employees. The Foundation reimburses FEI for costs of these plans related to its employees. Payments made to FEI for these plans were approximately $155 and $144 in 2006 and 2005, respectively.

(In Thousands)

Note 4 - Related party transactions (concluded):

The Foundation provides magazine articles, newsletters and other research services to FEI for distribution to its members. Such sales totaled $210 and $100 for each of the years ended June 30, 2006 and 2005, respectively. The Foundation believes the terms of these sales would be consistent with sales to third party customers.

The Foundation had a payable to FEI, included in accounts payable and accrued liabilities of $22 and $47 at June 30, 2006 and 2005, respectively.

Note 5 - Appropriations, commitments and contingencies:

The Board of Trustees appropriates amounts for operating expenses annually. At June 30, 2006, appropriated net assets totaled $921, and at June 30, 2005, appropriated net assets totaled $906.

Note 6 - Net assets:

Net assets consist of the following:

	Operations	Minimum Pension Liability Adjustment	Total
Balance, July 1, 2005	$ 980	$(143)	$ 837
Increase in net assets	10	-	10
Minimum pension liability adjustment	-	4	4
Balance, June 30, 2006	990	(139)	851
Increase in net assets	95	-	95
Minimum pension liability adjustment	-	148	148
Balance, June 30, 2006	$1,085	$ 9	$1,094

Note 7 - Pension plan and other post-retirement benefits:

Qualified plan:

The qualified defined benefit pension plan covers substantially all of the employees of the Foundation, FEI and FEI Canada ("FEIC"). The pension plan is administered by FEI which engages the investment manager and consulting actuary. FEI's Pension and Investment Committee determines the policies and guidelines for the pension plan's assets and funding. Certain liabilities and assets are allocated to the Foundation.

The Foundation currently holds its pension trust in amounts determined under the Projected Unit Credit Funding Method. It is the Foundation's policy to fund contributions to the plan as they are due. Expense related to the plan is accrued accordingly.

(In Thousands)

Note 7 - Pension plan and other post-retirement benefits (continued):

Other post-retirement benefits:

FEI provides certain healthcare benefits for retired employees of the Foundation, FEI and FEIC. The plan requires FEI to contribute to individual supplemental medical plans, up to the specified limit. FEI does not anticipate increases in its contributions to the supplemental medical plan in the foreseeable future, and the post-retirement benefit plan is not funded. The Foundation, FEI and FEIC also provide a limited life insurance benefit to employees when their pension benefit commences.

In January 2005, the qualified pension plan was amended to close the plan to the employees of FEI, the Foundation and FEI Canada hired subsequent to March 1, 2005. Also in January 2005, the retiree life insurance program was amended to close the program to new entrants effective March 1, 2005.

Assumptions:

Assumptions used to determine the benefit obligations at June 30 were as follows:

	2006	2005
Discount rate	**6.75%**	5.75%
Rate of compensation increase	**4.00%**	4.00%
Expected long-term rates of return on plan assets (defined benefit pension plan)	**7.75%**	7.75%

The pension plan uses the expected long-term rate of return on plan assets to compute the expected return on assets. The pension plan estimates the expected long-term return by utilizing a portfolio return calculator model that produces the expected return for a portfolio.

Operations and costs:

A summary of plan operations and costs follows:

	Qualified Pension	Retiree Medical
Year ended June 30, 2006:		
Plan benefit cost	**$ 53**	2
Cash contributions - employer only required	**102**	3
Benefits paid	**71**	3
Year ended June 30, 2005:		
Plan benefit cost	43	2
Cash contributions - employer only required	43	3
Benefits paid	59	3

(In Thousands)

Note 7 - Pension plan and other post-retirement benefits (continued):

Obligations and funded status:

A summary of other financial information of the plans follows:

	Qualified Pension	Retiree Medical
As of June 30, 2006:		
Benefit obligations	**$ 910**	
Plan assets (at fair value)	**818**	
Funded status	**$ (92)**	
Accrued costs	**$ 8**	$5
Accumulated benefit obligations	**$ 826**	
As of June 30, 2005:		
Benefit obligations	$ 977	
Plan assets (at fair value)	687	
Funded status	$(290)	
Accrued costs	$ 206	$7
Accumulated benefit obligations	$ 894	

Plan assets:

The Group Pension Plan asset allocations at June 30 by asset category is as follows:

Asset Category	**2006**	2005
Equities	**52.7%**	57.9%
Bonds	**30.9**	34.1
Real Estate	**4.2**	5.3
Cash	**12.2**	2.7
Totals	**100.0%**	100.0%

Investment strategy:

The Plan's assets are invested with the objective of being able to meet current and future benefit payment needs, while controlling pension expense volatility and future contributions. Plan assets are diversified among U.S. equities, international equities, U.S. fixed income investments and real estate. The strategic target allocation is approximately 50% U.S. equities, 10% international equities, 35% fixed income and 5% real estate.

Cash flows:

Expected contributions for 2007 are $350, which include FEI, the Foundation and FEIC

(In Thousands)

Note 7 - Pension plan and other post-retirement benefits (concluded):

Expected benefit payments for the Foundation, FEI and FEI Canada:

Estimated future benefit payments reflecting expected future service for each of the five years subsequent to June 30, 2006 and in the aggregate for the five years thereafter are as follows:

Fiscal Year Ending June 30,	Amount
2007	$ 362
2008	380
2009	396
2010	418
2011	410
2012-2016	2,162

Financial Executives Research Foundation, Inc.
Supplemental information (Unaudited)

The Foundation's net assets increased by $243,000 during the fiscal year 2006 compared with an increase of $14,000 in 2005. The increase in net assets was a combination of increases from operations of $95,000 and a minimum pension liability adjustment of $148,000 in the current fiscal year. The increase in net assets in fiscal year 2005 resulted from an increase from operations of $10,000, and minimum pension liability adjustment of $4,000.

Revenues

Revenues totaled $1,063,000 and $930,000 in fiscal years 2006 and 2005, respectively. For the current year, contributions, underwriting and sponsorships totaled $860,000, compared with $755,000 for 2005, an increase of 14%.

Voluntary contributions are the principal source of revenues for the Foundation. Contributions of $745,000 for 2006 increased $78,000, or 11.7%, compared with 2005. This increase was primarily due to an increase in the average contribution per donor, due in part to fundraising initiatives in connection with the Foundation's chapter challenge and FEI's contribution for research provided to members. Of the 868 contributors this year, 432 were corporations and other organizations (a decrease of 149 or 25.6%), 51 were Financial Executives International (FEI) chapters compared with 66 last year (a decrease of 15 or 22.7%), and 364 were individuals compared with 502 last year (a decrease of 138 or 27.5%). Of the total contributions of $745,000, $457,000 was received from 432 corporations and other organizations with an average contribution of $1057, an increase of $181 over 2005. Contributions from 51 FEI chapters totaled approximately $98,000, for an average of $1927, an increase of $1,000 from 2005, and contributions from 364 individuals totaled $52,000, for an average of $143, a decrease of $49 from 2005.

Sponsorships of $115,000 for 2006 increased $27,000, or 30.7%, compared with 2005 due to an increase in underwriting and sponsorship of research projects.

Total research publication sales of $40,000 were $2,000 (4.8%) less than last year due to research reports now made available to members at no cost offset by increase in distribution channels. These include sales to others of Executive

Reports, Issues Alerts, and royalties earned on third party agreements. Sales to FEI of $100,000 relate to the purchase of ten magazine articles, newsletters, and other research services provided to FEI members in 2006 and 2005.

Expenses

Total expenses were $962,000 in fiscal year 2006 compared with $943,000 in 2005, an increase of $19,000. Research and publishing expenses, which include the engagement of researchers, staff time, and the production, publication, distribution, and marketing processes, totaled $478,000 for the year, compared with $507,000 in 2005, a decrease of $29,000 (5.7%) due to less outside research authorship and staff time reduction. Fundraising expenses totaled $216,000, compared with $197,000 for 2005, an increase of $19,000 (9.6%). Administration and general expenses, which include an allocated portion of senior management and staff support time and services provided by FEI, increased by $29,000, or 12.1%.

Net realized and unrealized gains on investments

The net unrealized losses on investments of $6,000 and unrealized gains $23,000 in 2006 and 2005, respectively, were due to market fluctuations in the value of the investment portfolio.

Net assets and liquidity

The Foundation's net assets were $1,094,000 and $851,000 at June 30, 2006 and 2005, respectively. At June 30, 2006, the Foundation had cash and investments of $1,213,000. These funds, excluding cash, are invested in 23% money market funds, 42% variety of mutual funds, and 35% fixed-income investments.