

Financial Statements

Responsibility for Financial Statements

The accompanying financial statements of Financial Executives Research Foundation, Inc. (the Foundation) for the years ended June 30, 2002 and 2001, were prepared by management in conformity with accounting principles generally accepted in the United States of America.

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

The Foundation obtains accounting and administrative support services from Financial Executives International (FE). FE maintains a system of internal control over financial reporting, including safeguarding of assets against unauthorized acquisition, use or disposition, which is designed to provide reasonable assurance to the Foundation'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 the Foundation in accordance with established policies and procedures as implemented by qualified personnel. Even an effective internal control 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 control system effectiveness may vary over time.

The Board of Trustees of the Foundation, through its Audit Committee, Budget and Investment Committee and Treasurer, reviews the financial and accounting operations of the Foundation, 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.

Deloitte & Touche LLP, independent auditors, have audited the financial statements of the Foundation for the years ended June 30, 2002 and 2001, and their report is presented herein. 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 the Foundation.



Philip B. Livingston
President and Chief Executive Officer



Marla Markowitz Bace
Executive Vice President and
Chief Operating Officer

September 6, 2002

financial information

Deloitte & Touche

Independent Auditors' Report

The Board of Trustees of Financial Executives Research Foundation, Inc.:

We have audited the accompanying statements of financial position of Financial Executives Research Foundation, Inc. (the Foundation) as of June 30, 2002 and 2001, and the related statements of activities and changes in net assets and of 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, such financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2002 and 2001, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Parsippany, NJ

August 16, 2002

Financial Executives Research Foundation, Inc.

Statements of Financial Position

As of June 30,		2002	2001
	Notes		
Assets			
Cash		\$ 45,000	\$ 51,000
Investments	1, 2	1,521,000	2,224,000
Accounts receivable		57,000	130,000
Equipment and leasehold improvements (net of accumulated depreciation and amortization of \$35,000 in 2002 and \$26,000 in 2001)	1	36,000	28,000
Prepaid expenses and publications inventory	1	<u>44,000</u>	<u>48,000</u>
Total assets		<u>\$1,703,000</u>	<u>\$2,481,000</u>
Liabilities and net assets			
Liabilities			
Accounts payable and accrued liabilities	3	\$ 164,000	\$ 238,000
Net assets	4	<u>1,539,000</u>	<u>2,243,000</u>
Total liabilities and net assets		<u>\$1,703,000</u>	<u>\$2,481,000</u>

See notes to financial statements.

Financial Executives Research Foundation, Inc.

Statements of Activities and Changes in Net Assets

Years ended June 30,		2002	2001
	Notes		
Revenues	1		
Contributions		\$ 613,000	\$ 635,000
Research publications sales:			
Books		72,000	47,000
Articles and Reports to FEI	3	68,000	57,000
Conference Revenue		60,000	20,000
		<u>200,000</u>	<u>124,000</u>
Investment income-dividends and interest		<u>49,000</u>	<u>89,000</u>
Total revenues		<u>862,000</u>	<u>848,000</u>
Expenses	1		
Research and publishing:			
Research and production		609,000	671,000
Distribution		15,000	16,000
Marketing		<u>239,000</u>	<u>79,000</u>
		863,000	766,000
Fundraising		164,000	149,000
Administration and general	3	<u>316,000</u>	<u>410,000</u>
Total expenses		<u>1,343,000</u>	<u>1,325,000</u>
Expenses in excess of revenues		(481,000)	(477,000)
Net realized and unrealized losses on investments	1, 2	<u>(223,000)</u>	<u>(188,000)</u>
Decrease in net assets		(704,000)	(665,000)
Net assets, beginning of year		<u>2,243,000</u>	<u>2,908,000</u>
Net assets, end of year		<u>\$1,539,000</u>	<u>\$2,243,000</u>

See notes to financial statements.

Financial Executives Research Foundation, Inc.

Statements of Cash Flows

Years ended June 30, 2002 2001

Cash flows from operating activities:

Decrease in net assets	\$(704,000)	\$(665,000)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	9,000	13,000
Losses on investments	223,000	188,000
Change in assets and liabilities:		
Accounts receivable, prepaid expenses and publications	77,000	(66,000)
Accounts payable and accrued liabilities	<u>(74,000)</u>	<u>(49,000)</u>
Net cash used in operating activities	<u>(469,000)</u>	<u>(579,000)</u>

Cash flows from investing activities:

Net reduction in money market funds	100,000	350,000
Proceeds from sales and maturities of fixed income and equity mutual funds-net	380,000	200,000
Loss on disposition of assets	—	7,000
Purchase of equipment-net	<u>(17,000)</u>	<u>(3,000)</u>
Net cash provided by investing activities	<u>463,000</u>	<u>554,000</u>
Net decrease in cash	(6,000)	(25,000)
Cash, beginning of year	<u>51,000</u>	<u>76,000</u>
Cash, end of year	<u>\$45,000</u>	<u>\$51,000</u>

See notes to financial statements.

notes to financial statements

1. Basis of presentation and significant accounting policies

- a. Financial Executives Research Foundation, Inc. (the Foundation) is a non-profit organization exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code, and contributions to it are tax deductible within the limitations prescribed by such regulations. The Foundation serves as the research affiliate of Financial Executives International (FE), which is a non-profit membership organization in the United States and Canada. 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 the reported amounts and related disclosures. Actual results could differ from those estimates.
- b. 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.
- c. Publications inventory is carried at the lower of cost or net realizable value. At June 30, 2002, inventory had been reduced by \$58,000 for publications not expected to be sold.
- d. Depreciation of equipment and amortization of leasehold improvements are provided on a straight-line basis over the estimated useful lives of the assets.
- e. Contributions are recorded and recognized in the period the donor makes the formal commitment. Contributions include pledges outstanding as of June 30, 2002, less an estimate for pledges not expected to be collected.

Income arising from the sale of research publications is recognized in the period in which the sale is made.

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

Research and publishing expenses include the engagement of researchers, staff time, and the production, publication, and distribution processes. These expenses are recorded upon completion of identifiable segments of the project and, with respect to publications, in the period in which they are sold.

Contracts awarded to individuals or organizations for research services provided to the Foundation are funded on a percentage of completion basis.

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

Marketing includes costs related to the development of publication sales and includes staff time and the printing and mailing of publications guides.

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

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

2. Investments

At June 30, investments consisted of the following:

	<u>2002</u>	<u>2001</u>
Mutual funds:		
Money market	—	\$100,000
Fixed-income	26,000	201,000
Balanced *	<u>1,495,000</u>	<u>1,923,000</u>
Total investments	<u>\$1,521,000</u>	<u>\$2,224,000</u>

* A balanced mutual fund consisting of equity (67.3%) and fixed-income (30.6%) securities.

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 losses on investments include unrealized losses of \$194,000 in 2002 and unrealized losses of \$241,000 in 2001.

3. Related party transactions

The Foundation shares office facilities with FE and bears its own administrative expenses. In 2002, the Foundation and FE continued their agreement as to charges for administrative support costs, occupancy, and computer services. Charges to the Foundation from FE amounted to \$207,000 in 2002 and \$174,000 in 2001, and have been allocated to the appropriate expense categories in the statement of activities and changes in net assets.

The Foundation is included under FE's employee 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 FE for costs of these plans related to its employees. Payments made to FE for these plans were approximately \$109,000 and \$76,000 in 2002 and 2001, respectively.

The Foundation sells magazine articles and customized research to FE for distribution to FE's members. For the years ended June 30, 2002 and 2001, such sales totaled \$68,000 and \$57,000, respectively. The terms of these sales are not different from those afforded to third party customers.

The Foundation had a payable to FE of \$88,000 and \$147,000 at June 30, 2002 and 2001, respectively.

4. Appropriations, commitments, and contingencies

The Board of Trustees appropriates amounts for specific research and publication projects, as well as operating expenses annually. At June 30, 2002, appropriated net assets totaled \$1,272,000 and unappropriated net assets totaled \$267,000. At June 30, 2001, appropriated net assets totaled \$1,656,000 and unappropriated net assets were \$587,000.

The Board of Trustees of the Foundation approves expenditures for research services and projects conducted by third-party individuals and organizations. Payments are subject to the full satisfaction of the Foundation and the completeness of the related project.

Financial Executives Research Foundation, Inc.

Supplemental information (Unaudited)

The Foundation's net assets decreased by \$704,000 in 2002 compared to a decrease of \$665,000 in 2001. In the current fiscal year, the decrease in net assets arose largely from realized and unrealized losses on investments of \$223,000 and a decrease of \$22,000 in contributions offset by an increase of \$36,000 in sales of research publications and magazine articles. The decrease in net assets in 2001 arose from realized and unrealized losses on investments of \$188,000 and a decrease in contributions of \$90,000. Revenues were \$481,000 less than expenses for the current year, compared to \$477,000 last year.

Net realized and unrealized gains on investments

The net losses on investments of \$223,000 and \$188,000 for both years were due to the decline in value of investments in balanced mutual funds. These include unrealized losses of \$194,000 and \$241,000 for 2002 and 2001, respectively.

Revenues

Voluntary contributions are the principal source of revenues for the Foundation. For the current year, contributions totaled \$613,000, compared to \$635,000 for 2001, a decrease of \$22,000 (3.5%). This decrease is attributable to a reduction in support from certain major corporate contributors, due in part to corporate amalgamations, broad economic factors, and increased giving constraints within organizations. Of the 933 contributors this year, 524 were corporations and other organizations (a decrease of 123 or 19.0%), 58 were Financial Executives International (FEI) chapters (an increase of 9 or 18.4%), and 351 were individuals (an increase of 129 or 58.1%). Of the total contributions of \$613,000, \$544,000 was received from 524 corporations and other organizations. The average corporate contribution was \$1,038, an increase of \$134 from that of 2001. Contributions from 58 FEI chapters totaled about \$36,000, for an average of \$629, a decrease of \$32 from 2001, and contributions from 351 individuals totaled \$33,000, for an average of \$94, an increase of \$14 from 2001.

Total research publication sales of \$140,000 were \$36,000 (34.6%) more than last year. These include sales to others of Executive Reports, Issue Alerts, and customized research of \$72,000. Sales to FEI of \$68,000 compared to \$57,000 in 2001, or an increase of \$11,000 (19.3%) include the purchase of nine (9) magazine articles, customized research of \$21,000 and \$2,000 of Executive Reports for distribution to FEI members.

Expenses

Research and publishing expenses, which include the engagement of researchers, staff time, and the production, publication, distribution, and marketing processes, totaled \$863,000 for the year, compared to \$766,000 in 2001, an increase of \$97,000 (12.7%). An increase of \$160,000 in marketing expense was partially offset by decreases of \$62,000 in research and production expenses and \$1,000 in distribution expenses. The decrease of \$62,000 in research and production expenses includes a decrease in researcher's expense. The increase of \$160,000 in marketing expenses reflects the distribution of a greater number of promotional copies of new research studies and an increase in staff time allocated to marketing and the expenses incurred in one of the conferences held during the year. Fundraising expenses totaled \$164,000, compared to \$149,000 for 2001, an increase of \$15,000 (10.1%), reflecting increases in allocated staff expenses. Administration and general expenses, which include an allocated portion of senior management and staff support time and services provided by FEI, decreased by \$94,000, or 22.9% due to a reduction in the allocation of staff time and board meeting expense.

Net assets and liquidity

The Foundation's net assets were \$1,539,000 at June 30, 2002, compared to \$2,243,000 last year. Of these amounts, \$1,272,000 and \$1,656,000, respectively, were appropriated by the Board of Trustees for annual operating expenses as well as specific research and publication projects. At June 30, 2002, unappropriated net assets totaled \$267,000, compared to \$587,000 last year, a decrease of \$320,000. The Foundation had cash and investments at June 30, 2002, of \$1,566,000. On that date, the equity portion of the mutual fund investments, excluding money market funds, was 66.1%, with the balance including fixed-income investments.

Going forward, the Board of Trustees has approved a Strategic Plan that identifies key initiatives for providing information to FEI members in a more cost-effective manner and that targets distribution around member and donor interests.