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## Financial Statements

### Responsibility for Financial Statements

The accompanying financial statements of Financial Executives Research Foundation, Inc. (the "Foundation") for the years ended June 30, 2003 and 2002, 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, 2003 and 2002, 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.

  
Colleen A. Sayther  
President and Chief Executive Officer

  
Marla Markowitz Bace  
Executive Vice President and  
Chief Operating Officer

September 4, 2003

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## financial Information

### Independent Auditors' Report

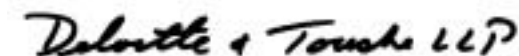
**Deloitte  
& Touche**

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, 2003 and 2002, 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, 2003 and 2002, 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.

  
August 18, 2003

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**Financial Executives Research Foundation, Inc.**  
**Statements of Financial Position**

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As of June 30,		2003	2002
	<b>Notes</b>		
<b>Assets</b>			
Cash		\$ 37,000	\$ 45,000
Investments	1,2	1,138,000	1,521,000
Accounts receivable (net of allowance for doubtful accounts of \$8,000 in 2003 and \$3,000 in 2002)	1	105,000	57,000
Equipment and leasehold improvements (net of accumulated depreciation and amortization of \$11,000 in 2003 and \$35,000 in 2002)	1,3	24,000	36,000
Prepaid expenses and publications inventory	1	<u>6,000</u>	<u>44,000</u>
<b>Total assets</b>		<b><u>\$1,310,000</u></b>	<b><u>\$1,703,000</u></b>
<b>Liabilities and net assets</b>			
<b>Liabilities</b>			
Accounts payable and accrued liabilities	4	\$ 180,000	\$ 164,000
<b>Net assets</b>	5	<u>1,130,000</u>	<u>1,539,000</u>
<b>Total liabilities and net assets</b>		<b><u>\$1,310,000</u></b>	<b><u>\$1,703,000</u></b>

*See notes to financial statements*



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**Financial Executives Research Foundation, Inc.**  
**Statements of Activities and Changes in Net Assets**

<u>Years ended June 30,</u>		<u>2003</u>	<u>2002</u>
	<b>Notes</b>		
<b>Revenues</b>			
Contributions	1	\$ 669,000	\$ 613,000
Research publications sales:			
Books and executive reports		50,000	72,000
Articles and Reports to FEI	4	45,000	68,000
Conference Revenue		<u>2,000</u>	<u>60,000</u>
		<u>97,000</u>	<u>200,000</u>
Investment income - dividends and interest		<u>34,000</u>	<u>49,000</u>
<b>Total revenues</b>		<b><u>800,000</u></b>	<b><u>862,000</u></b>
<b>Expenses</b>	1		
Research and publishing:			
Research and production		439,000	609,000
Distribution		6,000	15,000
Marketing		<u>113,000</u>	<u>239,000</u>
		558,000	863,000
Fundraising		228,000	164,000
Administration and General		<u>364,000</u>	<u>316,000</u>
<b>Total expenses</b>		<b><u>1,150,000</u></b>	<b><u>1,343,000</u></b>
<b>Expenses in excess of revenues</b>		(350,000)	(481,000)
Net realized and unrealized losses on investments	1,2	<u>(59,000)</u>	<u>(223,000)</u>
<b>Decrease in net assets</b>		(409,000)	(704,000)
<b>Net assets, beginning of year</b>		<u>1,539,000</u>	<u>2,243,000</u>
<b>Net assets, end of year</b>		<b><u>\$1,130,000</u></b>	<b><u>\$1,539,000</u></b>

*See notes to financial statements*

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**Financial Executives Research Foundation, Inc.**  
**Statements of Cash Flows**

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<b>Years ended June 30,</b>	<b>2003</b>	<b>2002</b>
<b>Cash flows from operating activities:</b>		
Decrease in net assets	\$ (409,000)	\$ (704,000)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	8,000	9,000
Losses on investments	59,000	223,000
Loss on disposal of assets	9,000	-
Change in assets and liabilities:		
Accounts receivable, prepaid expenses and publications inventory	(10,000)	77,000
Accounts payable and accrued liabilities	<u>16,000</u>	<u>(74,000)</u>
Net cash used in operating activities	<u>(327,000)</u>	<u>(469,000)</u>
<b>Cash flows from investing activities:</b>		
Net (increase) decrease in money market funds	(34,000)	100,000
Proceeds from sales and maturities of fixed income and equity mutual funds - net	358,000	380,000
Non-cash contribution	(5,000)	(5,000)
Purchase of equipment - net	<u>-</u>	<u>(12,000)</u>
Net cash provided by investing activities	<u>319,000</u>	<u>463,000</u>
<b>Net decrease in cash</b>	<b>(8,000)</b>	<b>(6,000)</b>
<b>Cash, beginning of year</b>	<u>45,000</u>	<u>51,000</u>
<b>Cash, end of year</b>	<b>\$ 37,000</b>	<b>\$ 45,000</b>
Supplemental disclosure of cash flow information:		
Non-cash contribution	\$ 5,000	\$ 5,000

*See notes to financial statements*

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# notes to financial Statements

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## 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 and changes in net assets.
- c. Contributions are recorded and recognized in the period the donor makes the formal commitment. Accounts receivable include pledges outstanding as of June 30, 2003, less an estimate for pledges not expected to be collected.
- 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. Publications inventory is carried at the lower of cost or net realizable value. As of June 30, 2003, inventory had been reduced by \$500 for publications not expected to be sold.
- 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 production 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>2003</u>	<u>2002</u>
<b>Mutual funds:</b>		
Money market	\$ 33,000	\$ —
Fixed-income	—	26,000
Balanced *	<u>1,105,000</u>	<u>1,495,000</u>
<b>Total investments</b>	<b><u>\$ 1,138,000</u></b>	<b><u>\$ 1,521,000</u></b>

\* A balanced mutual fund consisting of equity (29.3%) and fixed-income (67.7%) 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 gains of \$91,000 in 2003 and unrealized losses of \$194,000 in 2002.

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**3. Fixed Assets**

At June 30, fixed assets consisted of the following:

	<u>2003</u>	<u>2002</u>
Leasehold improvements	\$ —	\$ 23,000
Furniture and fixtures	5,000	23,000
Computer software and hardware	<u>30,000</u>	<u>25,000</u>
<b>Total</b>	<b>35,000</b>	<b>71,000</b>
Less: Accumulated amortization and depreciation	<u>(11,000)</u>	<u>(35,000)</u>
<b>Net book value</b>	<b>\$ 24,000</b>	<b>\$ 36,000</b>

**4. Related party transactions**

The Foundation shares office facilities with FE and bears its own administrative expenses. In 2003, 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 \$230,000 in 2003 and \$207,000 in 2002, 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 \$115,000 and \$109,000 in 2003 and 2002, respectively.

The Foundation sells magazine articles and customized research to FE for distribution to its members. For the years ended June 30, 2003 and 2002, such sales totaled \$45,000 and \$68,000, respectively. The terms of these sales are not different from those afforded to third party customers.

The Foundation had a payable to FE, included in Accounts payable and accrued liabilities of \$34,000 and \$88,000 at June 30, 2003 and 2002, respectively.

**5. 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, 2003, appropriated net assets totaled \$1,056,000 and unappropriated net assets totaled \$74,000. At June 30, 2002, appropriated net assets totaled \$1,272,000 and unappropriated net assets were \$267,000.

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 \$409,000 in 2003 compared to a decrease of \$704,000 in 2002. In the current fiscal year, the decrease in net assets arose largely from decreases in sales of books and executive reports of \$22,000, in articles and reports to FEI of \$23,000, conference revenue of \$58,000 and realized and unrealized losses of \$59,000 offset by an increase of \$56,000 in contributions. The decrease in net assets in 2002 arose from realized and unrealized losses on investments of \$223,000 and a decrease in contributions of \$22,000. Revenues were \$350,000 less than expenses for the current year, compared to \$481,000 last year.

**Net realized and unrealized gains on investments**

The net losses on investments of \$59,000 and \$223,000 for both years were due to the decline in the value of the investment portfolio. These include unrealized gains of \$91,000 in 2003 and unrealized losses of \$194,000 in 2002.

**Revenues**

Voluntary contributions are the principal source of revenues for the Foundation. For the current year, contributions totaled \$669,000, compared to \$613,000 for 2002, an increase of \$56,000 (9.1%). This increase is attributable to more personalized solicitations, increased awareness of FERF's research value and individual support. Of the 1,559 contributors this year, 625 were corporations and other organizations (an increase of 101 or 19.3%), 76 were Financial Executives International (FEI) chapters (an increase of 18 or 31.0%), and 858 were individuals (an increase of 507 or 144.4%). Of the total contributions of \$669,000, \$546,000 was received from 625 corporations and other organizations. The average corporate contribution was \$874, a decrease of \$164 from that of 2002. Contributions from 76 FEI chapters totaled approximately \$44,000, for an average of \$579, a decrease of \$50 from 2002, and contributions from 858 individuals totaled \$72,000, for an average of \$84, an increase of \$10 from 2002.

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Total research publication sales of \$95,000 were \$45,000 (32.1%) less than last year. The reduction was attributable to a significant reduction in expense by FEI, resulting in no additional sponsored research. These include sales to others of Executive Reports, Issues Alerts, and customized research of \$50,000. Sales to FEI of \$45,000 compared to \$68,000 in 2002, or a decrease of \$23,000 (33.8%) relates to the purchase of nine (9) magazine articles.

There was only one (1) conference held in 2003 compared to three (3) in 2002.

### **Expenses**

Research and publishing expenses, which include the engagement of researchers, staff time, and the production, publication, distribution, and marketing processes, totaled \$558,000 for the year, compared to \$863,000 in 2002, a decrease of \$305,000 (35.3%). Fundraising expenses totaled \$228,000, compared to \$164,000 for 2002, an increase of \$64,000 (39.0%), reflecting increases in allocated staff time and expenses. Administration and general expenses, which include an allocated portion of senior management and staff support time and services provided by FEI, increased by \$48,000, or 15.2% due to the loss incurred in the disposal of fixed assets due to the relocation of the office and placement fees.

### **Net assets and liquidity**

The Foundation's net assets were \$1,130,000 at June 30, 2003, compared to \$1,539,000 last year. Of these amounts, \$1,056,000 and \$1,272,000, respectively, were appropriated by the Board of Trustees for annual operating expenses as well as specific research and publication projects. At June 30, 2003, unappropriated net assets totaled \$74,000, compared to \$267,000 last year, a decrease of \$193,000. The Foundation had cash and investments at June 30, 2003, of \$1,175,000. On that date, the equity portion of the mutual fund investments, excluding money market funds, was 29.3 %, with the balance including fixed-income investments.

### **Summary**

Going forward, the Board of Trustees has approved a Strategic Plan that identifies a net zero budget before FEI's service costs and key initiatives for providing information to FEI members in a more cost-effective manner.

