

**Financial Executives Research
Foundation, Inc.**

Report on Financial Statements

Years Ended June 30, 2005 and 2004

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 statement of financial position of Financial Executives Research Foundation, Inc. as of June 30, 2005, and the related statements of activities and cash flows for the year 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 audit. The financial statements as of and for the year ended June 30, 2004 were audited by other auditors whose report dated September 8, 2004 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

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

Roseland, New Jersey
August 1, 2005

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004
(In Thousands)**

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash	\$ 13	\$ 10
Investments	1,203	1,168
Accounts receivable, net of allowance for doubtful accounts of \$5	<u>30</u>	<u>38</u>
Total current assets	<u>1,246</u>	<u>1,216</u>
Equipment, net	15	25
Prepaid expenses	3	7
Other assets	<u>2</u>	<u>6</u>
Totals	<u>\$1,266</u>	<u>\$1,254</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities - accounts payable and accrued liabilities	\$ 202	\$ 194
Pension plan and other post-retirement benefits	<u>213</u>	<u>223</u>
Total liabilities	<u>415</u>	<u>417</u>
Commitments and contingencies		
Net assets:		
Other	990	980
Minimum pension liability adjustment	<u>(139)</u>	<u>(143)</u>
Total net assets	<u>851</u>	<u>837</u>
Totals	<u>\$1,266</u>	<u>\$1,254</u>

See Notes to Financial Statements.

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

**STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2005 AND 2004
(In Thousands)**

	<u>2005</u>	<u>2004</u>
Revenues:		
Contributions and sponsorships	<u>\$755</u>	<u>\$686</u>
Research publications sales:		
Book and executive reports	42	29
Articles and reports to FEI	100	45
Conference revenue	<u>-</u>	<u>2</u>
	<u>142</u>	<u>76</u>
Investment income - dividends and interest	<u>33</u>	<u>33</u>
Total revenues	<u>930</u>	<u>795</u>
Expenses:		
Research and publishing:		
Research and production	390	408
Distribution	8	8
Marketing	<u>109</u>	<u>69</u>
	<u>507</u>	<u>485</u>
Fundraising	197	202
Administration and general	<u>239</u>	<u>253</u>
Total expenses	<u>943</u>	<u>940</u>
Expenses in excess of revenues	(13)	(145)
Net realized and unrealized gains on investments	<u>23</u>	<u>61</u>
Increase (decrease) in net assets before minimum pension liability adjustment	10	(84)
Minimum pension liability adjustment	<u>4</u>	<u>49</u>
Increase (decrease) in net assets	14	(35)
Net assets, beginning of year	<u>837</u>	<u>872</u>
Net assets, end of year	<u>\$851</u>	<u>\$837</u>

See Notes to Financial Statements.

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004
(In Thousands)**

	<u>2005</u>	<u>2004</u>
Operating activities:		
Increase (decrease) in net assets	\$ 14	\$ (35)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	10	7
Noncash effect of minimum pension liability adjustment and change in intangible pension assets	(10)	-
Noncash contribution	-	(10)
Gains on investments	(23)	(61)
Loss on disposal of equipment	-	2
Changes in operating assets and liabilities:		
Accounts receivable and prepaid expenses	12	66
Accounts payable and accrued liabilities	8	24
Pension plan and other post-retirement benefits	4	(51)
Net cash provided by (used in) operating activities	<u>15</u>	<u>(58)</u>
Investing activities:		
Investment in money market funds	(12)	(76)
Proceeds from sales and maturities of fixed income and equity mutual funds - net	<u>-</u>	<u>107</u>
Net cash provided by (used in) investing activities	<u>(12)</u>	<u>31</u>
Net increase (decrease) in cash	3	(27)
Cash, beginning of year	<u>10</u>	<u>37</u>
Cash, end of year	<u>\$13</u>	<u>\$ 10</u>

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, 2005, less an estimate for pledges not expected to be collected. Underwriting and sponsorships are recognized in the period in which the related research report is published.

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
(In Thousands)**

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

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 2005 and 2004.

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
(In Thousands)**

Note 2 - Investments:

Investments consist of the following:

	<u>2005</u>	<u>2004</u>
Money market funds	\$ 251	\$ 184
Fixed income funds and securities	408	471
Equity mutual funds	431	408
Balanced mutual fund	<u>113</u>	<u>105</u>
Totals	<u>\$1,203</u>	<u>\$1,168</u>

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 of \$23 and \$60 in 2005 and 2004, respectively.

Note 3 - Equipment:

Equipment consists of the following:

	<u>2005</u>	<u>2004</u>
Furniture and fixtures	\$ 5	\$ 5
Computer software and hardware	<u>37</u>	<u>37</u>
Totals	42	42
Less accumulated depreciation	<u>(27)</u>	<u>(17)</u>
Net book value	<u>\$15</u>	<u>\$25</u>

Note 4 - Related party transactions:

The Foundation shares office facilities with FEI and bears its own administrative expenses. In 2005, 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 \$180 in 2005 and \$192 in 2004, 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 \$144 and \$150 in 2005 and 2004, respectively.

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
(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 \$100 and \$45 for the years ended June 30, 2005 and 2004, 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 \$47 and \$38 at June 30, 2005 and 2004, respectively.

Note 5 - Appropriations, commitments and contingencies:

The Board of Trustees appropriates amounts for operating expenses annually. At June 30, 2005, appropriated net assets totaled \$906, and at June 30, 2004, appropriated net assets totaled \$902.

Note 6 - Net assets:

Net assets consist of the following:

	<u>Operations</u>	<u>Minimum Pension Liability Adjustment</u>	<u>Total</u>
Balance, July 1, 2003	\$1,064	\$(192)	\$872
Decrease in net assets	(84)	-	(84)
Minimum pension liability adjustment	<u>-</u>	<u>49</u>	<u>49</u>
Balance, June 30, 2004	980	(143)	837
Increase in net assets	10	-	10
Minimum pension liability adjustment	<u>-</u>	<u>4</u>	<u>4</u>
Balance, June 30, 2005	<u>\$ 990</u>	<u>\$(139)</u>	<u>\$851</u>

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.

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
(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.

Included in pension plan and other post-retirement benefits liability are allocated costs of \$6.

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

	<u>2005</u>	<u>2004</u>
Discount rate	5.75%	6.50%
Rate of compensation increase	4.00%	3.00%
Expected long-term rates of return on plan assets (defined benefit pension plan)	7.75%	7.50%

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.

A summary of plan operations and costs follows:

	<u>Qualified Pension</u>
Year ended June 30, 2005:	
Plan benefit cost	\$43
Cash contributions - employer only required	43
Benefits paid	59
 Year ended June 30, 2004:	
Plan benefit cost	\$46
Cash contributions - employer only required	46
Benefits paid	54

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
(In Thousands)**

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

Other post-retirement benefits (concluded):

A summary of other financial information of the plans follows:

	<u>Qualified Pension</u>
As of June 30, 2005:	
Benefit obligations	\$ 977
Plan assets (at fair value)	<u>687</u>
Funded status	<u>\$(290)</u>
Accrued costs	<u>\$ 206</u>
Accumulated benefit obligations	<u>\$ 894</u>
As of June 30, 2004:	
Benefit obligations	\$ 894
Plan assets (at fair value)	<u>630</u>
Funded status	<u>\$(264)</u>
Accrued costs	<u>\$ 215</u>
Accumulated benefit obligations	<u>\$ 845</u>

Plan assets:

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

<u>Asset Category</u>	<u>2005</u>	<u>2004</u>
Equities	57.9%	58.7%
Bonds	34.1	33.1
Real Estate	5.3	5.5
Cash	<u>2.7</u>	<u>2.7</u>
Totals	<u>100.0%</u>	<u>100.0%</u>

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 2006 are \$409, which include FEI, the Foundation and FEIC

FINANCIAL EXECUTIVES RESEARCH FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
(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, 2005 and in the aggregate for the five years thereafter are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 349
2007	363
2008	380
2009	393
2010	409
2011-2015	2,219