

FINANCIAL STATEMENTS

IEEE Foundation, Incorporated  
Years Ended December 31, 2006 and 2005  
With Report of Independent Auditors

IEEE Foundation, Incorporated

Financial Statements

Years ended December 31, 2006 and 2005

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## Report of Independent Auditors

The Board of Directors  
IEEE Foundation, Incorporated

We have audited the accompanying statements of financial position of IEEE Foundation, Incorporated (the “Foundation”) as of December 31, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 IEEE Foundation, Incorporated as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

May 30, 2007

IEEE Foundation, Incorporated

Statements of Financial Position

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,436,320	\$ 2,974,994
Receivables	329,940	174,219
Investments	18,988,745	17,961,459
Beneficial interest in trust	4,663,771	4,825,263
Assets held in trust	548,992	549,375
Prepaid expenses	148,594	38,352
Total assets	<u>\$28,116,362</u>	<u>\$ 26,523,662</u>
<b>Liabilities and net assets</b>		
Liabilities:		
Accrued expenses	\$ 121,508	\$ 126,374
Awards and grants payable	491,001	445,437
Liability for amounts held for others	548,992	549,375
Total liabilities	<u>1,161,501</u>	<u>1,121,186</u>
Net assets:		
Unrestricted	17,292,810	16,187,742
Temporarily restricted	9,619,942	9,172,625
Permanently restricted	42,109	42,109
Total net assets	<u>26,954,861</u>	<u>25,402,476</u>
Total liabilities and net assets	<u>\$28,116,362</u>	<u>\$ 26,523,662</u>

*See accompanying notes.*

IEEE Foundation, Incorporated

Statement of Activities

Year Ended December 31, 2006

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues:</b>				
Contributions	\$ 1,548,049	\$ 360,015		\$ 1,908,064
Investment income, net	1,877,759	478,091		2,355,850
Net assets released from restrictions	390,789	(390,789)		—
<b>Total revenues</b>	<b>3,816,597</b>	<b>447,317</b>		<b>4,263,914</b>
<b>Expenses:</b>				
<b>Program services:</b>				
Awards and related costs	954,345			954,345
Special projects and grants	843,955			843,955
<b>Total program services</b>	<b>1,798,300</b>			<b>1,798,300</b>
<b>Supporting services:</b>				
Administrative and other	700,838			700,838
Fundraising activities	212,391			212,391
<b>Total supporting services</b>	<b>913,229</b>			<b>913,229</b>
<b>Total expenses</b>	<b>2,711,529</b>			<b>2,711,529</b>
<b>Change in net assets</b>	<b>1,105,068</b>	<b>447,317</b>		<b>1,552,385</b>
<b>Net assets, beginning of year</b>	<b>16,187,742</b>	<b>9,172,625</b>	<b>\$ 42,109</b>	<b>25,402,476</b>
<b>Net assets, end of year</b>	<b>\$ 17,292,810</b>	<b>\$ 9,619,942</b>	<b>\$ 42,109</b>	<b>\$ 26,954,861</b>

*See accompanying notes.*

IEEE Foundation, Incorporated

Statement of Activities

Year Ended December 31, 2005

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Revenues:</b>				
Contributions	\$ 1,371,164	\$ 434,082		\$ 1,805,246
Investment income, net	1,121,147	267,035		1,388,182
Net assets released from restrictions	441,985	(441,985)		-
<b>Total revenues</b>	<u>2,934,296</u>	<u>259,132</u>		<u>3,193,428</u>
<b>Expenses:</b>				
<b>Program services:</b>				
Awards and related costs	845,534			845,534
Special projects and grants	770,069			770,069
<b>Total program services</b>	<u>1,615,603</u>			<u>1,615,603</u>
<b>Supporting services:</b>				
Administrative and other	650,578			650,578
Fundraising activities	228,357			228,357
<b>Total supporting services</b>	<u>878,935</u>			<u>878,935</u>
<b>Total expenses</b>	<u>2,494,538</u>			<u>2,494,538</u>
<b>Change in net assets</b>	<u>439,758</u>	<u>259,132</u>		<u>698,890</u>
<b>Net assets, beginning of year</b>	<u>15,747,984</u>	<u>8,913,493</u>	<u>\$42,109</u>	<u>24,703,586</u>
<b>Net assets, end of year</b>	<u>\$ 16,187,742</u>	<u>\$ 9,172,625</u>	<u>\$42,109</u>	<u>\$ 25,402,476</u>

*See accompanying notes.*

IEEE Foundation, Incorporated

Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities</b>		
Change in net assets	<b>\$ 1,552,385</b>	\$ 698,890
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains from investments	<b>(1,576,962)</b>	(671,390)
Decrease (increase) in beneficial interest in trust	<b>161,492</b>	(62,460)
Changes in assets and liabilities:		
Increase in receivables	<b>(155,721)</b>	(41,214)
Decrease (increase) in assets held in trust	<b>383</b>	(549,375)
Increase in prepaid expenses	<b>(110,242)</b>	(15,910)
(Decrease) increase in accrued expenses	<b>(4,866)</b>	16,708
Increase (decrease) in awards and grants payable	<b>45,564</b>	(39,248)
(Decrease) increase in liability for amounts held for others	<b>(383)</b>	549,375
Net cash used in operating activities	<b>(88,350)</b>	(114,624)
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	<b>5,873,856</b>	7,134,910
Purchase of investments	<b>(5,324,180)</b>	(6,544,744)
Net cash provided by investing activities	<b>549,676</b>	590,166
Net increase in cash and cash equivalents	<b>461,326</b>	475,542
Cash and cash equivalents at beginning of year	<b>2,974,994</b>	2,499,452
Cash and cash equivalents at end of year	<b>\$ 3,436,320</b>	\$ 2,974,994

*See accompanying notes.*

# IEEE Foundation, Incorporated

## Notes to Financial Statements

December 31, 2006

### 1. Organization and Nature of Operations

IEEE Foundation, Incorporated (the “Foundation”) performs activities in support of the scientific and educational functions and programs of The Institute of Electrical and Electronics Engineers, Inc. (the “Institute” or “IEEE”). The financial statements of the Foundation should be read in conjunction with the financial statements of the Institute, which is a related organization (see Note 11).

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

The Foundation’s financial statements are presented in conformity with accounting principles generally accepted in the United States and have been prepared on the accrual basis of accounting and in accordance with Statements of Financial Accounting Standards (“SFAS”) No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117, *Financial Statements for Not-for-Profit Organizations*. Statement No. 116 requires that contributions be recognized as additions to net assets at their fair values when they are received. Statement No. 117 requires that resources be classified for accounting and reporting purposes into separate classes of net assets (unrestricted, temporarily restricted and permanently restricted) based on the existence or absence of donor-imposed restrictions.

#### Net Asset Classifications

Resources are reported for accounting purposes into separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics have been combined into similar categories as follows:

Permanently Restricted – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Such assets include the Foundation’s permanent endowment funds. The principal of these endowments cannot be expended. The income earned can only be used as designated by the donor, and is then recorded as temporarily restricted.

Temporarily Restricted – Net assets whose use by the Foundation is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time. These temporarily restricted assets are designated principally for awards and medals.

# IEEE Foundation, Incorporated

## Notes to Financial Statements (continued)

### **2. Summary of Significant Accounting Policies (continued)**

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Unrestricted net assets can be utilized to carry out any of the purposes of the Foundation.

Expenses are generally reported as decreases in unrestricted net assets. Expiration of donor-imposed stipulations that simultaneously increase unrestricted net assets and decrease temporarily restricted net assets are reported as reclassifications. Temporarily restricted revenues received and expended during the same fiscal year are recorded as unrestricted revenues and expenses in the statements of activities.

#### **Contributions**

Revenue from solicited contributions received are related to the IEEE annual member renewal process and are recognized as received. In addition, other Foundation solicited contributions are recognized as received.

Revenue from unconditional promises to give (pledges) are recorded at their fair value in the period the promises are received. Gifts of donated assets are recorded at fair value at the time the gift is made. Contributions for which donors have not stipulated restrictions are reported as unrestricted support.

#### **Accounting for Trust**

The Foundation has a beneficial interest in a trust, which is administered by a financial institution (the trustee) (see Note 4). The Foundation measures its beneficial interest in the trust at fair value, based upon the present value of the estimated future cash receipts from the trust's assets. The amount of the Foundation's beneficial interest in such trust is included within temporarily restricted assets until such time as the provisions of the trust agreement allow the Foundation to withdraw the assets.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid short-term investments purchased with original maturities of three months or less. Included in cash and cash equivalents are investments in money market funds and the IEEE concentration banking account in the amounts of \$3,397,614 and \$2,888,485 at December 31, 2006 and 2005, respectively.

# IEEE Foundation, Incorporated

## Notes to Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### Investments

Investments are carried at fair value which is generally determined on the basis of quoted market prices (see Note 3). Realized gains and losses on sales of investments are determined on an average cost basis.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is to be applied when other standards require or permit the use of fair value measurement of an asset or liability. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Foundation is in the process of evaluating the impact, if any, that the adoption of SFAS 157 will have on the Foundation’s financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115*. SFAS 159 permits entities to elect to measure eligible financial instruments at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in income at each subsequent reporting date, and recognize upfront costs and fees related to those items in income as incurred and not deferred. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Foundation is in the process of evaluating what elections it plans to make and the impact, if any, of the provisions of SFAS 159.

IEEE Foundation, Incorporated

Notes to Financial Statements (continued)

**3. Investments**

Investments at December 31, 2006 and 2005 consist of the following:

	<b>2006</b>		<b>2005</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Fixed Income	\$ 2,695,092	\$ 2,544,169	\$ 1,895,093	\$ 1,813,463
Equities and Fixed Income				
Mutual Funds	11,172,157	15,438,152	12,003,036	15,251,243
Participation in the Institute's investment pool	667,705	1,006,424	637,883	896,753
	<b>\$ 14,534,954</b>	<b>\$ 18,988,745</b>	<b>\$ 14,536,012</b>	<b>\$ 17,961,459</b>

Net investment income for the years ended December 31, 2006 and 2005 consisted of the following:

	<b>2006</b>	<b>2005</b>
Interest and dividends	\$ 778,888	\$ 716,792
Realized gains, net	548,618	378,753
Change in net unrealized gains	1,028,344	292,637
Investment income, net	<b>\$ 2,355,850</b>	<b>\$ 1,388,182</b>

Investment expenses are included in administrative and other expenses and amounted to \$102,747 and \$95,626 in 2006 and 2005, respectively.

**4. Beneficial Interest in Trust**

The Foundation is the sole beneficiary of a trust established by Alfred and Gertrude Goldsmith in 1988 with a financial institution. Under the terms of the trust agreement, the Foundation shall receive the income of the trust, which consists primarily of interest and dividends, on a quarterly basis, and the principal of the trust as follows: 50% of the value of the assets in the trust in 2013 and the remaining balance of the assets in the trust in 2038.

## IEEE Foundation, Incorporated

### Notes to Financial Statements (continued)

#### 4. Beneficial Interest in Trust (continued)

The Foundation measures its beneficial interest in the trust at fair value, based upon the present value of the estimated future cash receipts from the trust's assets, considering an estimated rate of return on the assets in the trust, the timing of the receipt of the assets in 2013 and 2038 and discount rates. The present value of the estimated future cash receipts from the trust amounted to \$4,663,771 and \$4,825,263 at December 31, 2006 and 2005, respectively, based on the following rates of return and discount rates:

	<b>2006</b>	<b>2005</b>
Rate of return	<b>4.30%</b>	4.30%
Discount rate:		
Principal due in 2013	<b>4.70%</b>	4.36%
Principal due in 2038	<b>4.81%</b>	4.50%

#### 5. Receivables

Receivables at December 31, 2006 and 2005 consist of the following:

	<b>2006</b>	<b>2005</b>
Accrued interest	<b>\$ 61,831</b>	\$ 51,254
Due from the Institute	<b>250,959</b>	91,675
Pledges receivable	<b>17,150</b>	30,000
Miscellaneous receivables	-	1,290
	<b>\$ 329,940</b>	\$ 174,219

Due from the Institute represents contributions designated for the Foundation and collected by the Institute during the annual member renewal process, and Society pledges. All receivables as of December 31, 2006 and 2005 are due in less than one year.

#### 6. Assets Held in Trust

During 2005, the Foundation was appointed the successor trustee of the Charles LeGeyt Fortescue Graduate Scholarship Fund (the "Trust Fund"). The fair value of the assets held in trust, based upon quoted market prices, was \$548,992 and \$549,375 at December 31, 2006 and 2005, respectively. The Foundation is not a beneficiary of the Trust Fund.

IEEE Foundation, Incorporated

Notes to Financial Statements (continued)

**7. Awards and Grants Payable**

Awards and grants payable at December 31, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Due to the Institute	\$ 389,663	\$ 355,962
Grants	101,338	89,475
	<u>\$ 491,001</u>	<u>\$ 445,437</u>

Due to the Institute represents remaining grant commitments due to the IEEE from the Foundation. The amount of awards and grants payable at December 31, 2006 is anticipated to be disbursed during 2007 and 2008.

**8. Tax Status**

The Foundation is qualified under Section 501(c)(3) of the Internal Revenue Code as an organization exempt from Federal income tax and applicable state income tax, and is classified as other than a private foundation under Section 509(a)(1) of the Internal Revenue Code.

**9. Net Assets Released From Restrictions**

Net assets that were released from donor restrictions by incurring expenses satisfying the restricted purposes were as follows:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Funds held for specific purposes:		
Awards	\$ 339,693	\$ 381,598
Educational	51,096	60,387
	<u>\$ 390,789</u>	<u>\$ 441,985</u>

## IEEE Foundation, Incorporated

### Notes to Financial Statements (continued)

#### 10. Net Assets

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
Temporarily restricted net assets consist of:		
Funds held for specific purposes:		
Awards	<b>\$ 3,494,213</b>	\$ 3,081,948
Educational	<b>1,461,958</b>	1,265,414
Funds held in trust – Educational	<b>4,663,771</b>	4,825,263
	<b>\$ 9,619,942</b>	\$ 9,172,625
Permanently restricted net assets consist of:		
Awards	<b>\$ 42,109</b>	\$ 42,109

#### 11. Related Party Transactions

The Foundation is organized and operates in support of activities of the scientific and educational functions and programs of the IEEE. The Foundation has no staff and is directly supported by IEEE, which provides various management and administrative services. The Foundation reimbursed the IEEE for the cost of such services, which amounted to \$417,000 and \$393,000 during 2006 and 2005, respectively. The Foundation received contributions from IEEE in the amount of \$574,000 and \$555,000, during 2006 and 2005, respectively. The Institute solicits contributions on behalf of the Foundation through its annual member renewal process. Total contributions solicited were \$646,500 and \$555,900 in 2006 and 2005, respectively. The Institute has on deposit investments and cash equivalents totaling \$1,193,900 and \$995,100 from the Foundation at December 31, 2006 and 2005, respectively. These amounts are invested by the Institute on behalf of the Foundation. Receivables due from the Institute at December 31, 2006 and 2005 were \$251,000 and \$91,700, respectively. Awards and grants payable due to the Institute at December 31, 2006 and 2005 were \$389,700 and \$356,000, respectively. Accrued expenses due to the Institute were \$54,300 and \$47,300 at December 31, 2006 and 2005, respectively.

IEEE Foundation, Incorporated  
Notes to Financial Statements (continued)

**11. Related Party Transactions (continued)**

Summarized financial data of the Institute for 2006 and 2005 is as follows:

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
Total assets	<b>\$ 369,758,000</b>	\$ 317,663,500
Total liabilities	<b>160,354,000</b>	148,939,700
Net assets	<b>\$ 209,404,000</b>	\$ 168,723,800
	<b>Year Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
Revenues	<b>\$ 330,822,500</b>	\$ 297,110,900
Expenses	<b>\$ 290,142,300</b>	\$ 266,975,200