

FINANCIAL STATEMENTS

IEEE Foundation, Incorporated
Years Ended December 31, 2008 and 2007
With Report of Independent Auditors

IEEE Foundation, Incorporated

Financial Statements

Years Ended December 31, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, 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

June 5, 2009

IEEE Foundation, Incorporated

Statements of Financial Position

	December 31	
	2008	2007
Assets		
Cash and cash equivalents	\$ 8,135,427	\$ 5,478,065
Receivables	202,013	316,183
Investments, at fair value	12,448,022	18,494,949
Beneficial interest in trust	3,641,517	4,904,452
Assets held in trust	352,201	532,629
Prepaid expenses	80,574	84,850
Total assets	<u>\$ 24,859,754</u>	<u>\$ 29,811,128</u>
Liabilities and net assets		
Liabilities:		
Accrued expenses	\$ 72,764	\$ 102,216
Trading liabilities	17,060	-
Awards and grants payable	724,043	491,298
Accrued expenses due to IEEE	739,613	88,616
Liability for amounts held for others	352,201	532,629
Total liabilities	<u>1,905,681</u>	<u>1,214,759</u>
Net assets:		
Unrestricted	11,913,114	17,663,407
Temporarily restricted	10,957,600	10,870,853
Permanently restricted	83,359	62,109
Total net assets	<u>22,954,073</u>	<u>28,596,369</u>
Total liabilities and net assets	<u>\$ 24,859,754</u>	<u>\$ 29,811,128</u>

See accompanying notes.

IEEE Foundation, Incorporated

Statement of Activities

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	\$ 3,314,725	\$ 2,778,741	\$ 21,250	\$ 6,114,716
Net assets released from restrictions	688,454	(688,454)	—	—
Total revenues	<u>4,003,179</u>	<u>2,090,287</u>	<u>21,250</u>	<u>6,114,716</u>
Expenses:				
Program services:				
Awards and related costs	2,012,773	—	—	2,012,773
Special projects and grants	707,421	—	—	707,421
IEEE History Center support	785,645	—	—	785,645
Total program services	<u>3,505,839</u>	<u>—</u>	<u>—</u>	<u>3,505,839</u>
Supporting services:				
Administrative and other	789,740	—	—	789,740
Fundraising activities	521,392	—	—	521,392
Total supporting services	<u>1,311,132</u>	<u>—</u>	<u>—</u>	<u>1,311,132</u>
Investment loss, net	4,936,501	2,003,540	—	6,940,041
Total expenses	<u>9,753,472</u>	<u>2,003,540</u>	<u>—</u>	<u>11,757,012</u>
Change in net assets	(5,750,293)	86,747	21,250	(5,642,296)
Net assets, beginning of year	17,663,407	10,870,853	62,109	28,596,369
Net assets, end of year	<u>\$ 11,913,114</u>	<u>\$ 10,957,600</u>	<u>\$ 83,359</u>	<u>\$ 22,954,073</u>

See accompanying notes.

IEEE Foundation, Incorporated

Statement of Activities

Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Contributions	\$ 1,544,263	\$ 1,583,745	\$ 20,000	\$ 3,148,008
Investment income, net	1,098,624	293,510	–	1,392,134
Net assets released from restrictions	626,344	(626,344)	–	–
Total revenues	3,269,231	1,250,911	20,000	4,540,142
Expenses:				
Program services:				
Awards and related costs	1,167,310	–	–	1,167,310
Special projects and grants	478,539	–	–	478,539
IEEE History Center support	254,261	–	–	254,261
Total program services	1,900,110	–	–	1,900,110
Supporting services:				
Administrative and other	775,080	–	–	775,080
Fundraising activities	223,444	–	–	223,444
Total supporting services	998,524	–	–	998,524
Total expenses	2,898,634	–	–	2,898,634
Change in net assets	370,597	1,250,911	20,000	1,641,508
Net assets, beginning of year	17,292,810	9,619,942	42,109	26,954,861
Net assets, end of year	\$ 17,663,407	\$ 10,870,853	\$ 62,109	\$ 28,596,369

See accompanying notes.

IEEE Foundation, Incorporated

Statements of Cash Flows

	Year Ended December 31	
	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (5,642,296)	\$ 1,641,508
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (losses) gains from investments	7,816,481	(523,274)
Decrease (increase) in beneficial interest in trust	1,262,935	(240,681)
Changes in assets and liabilities:		
Decrease in receivables	114,170	13,757
Decrease in assets held in trust	180,428	16,363
Decrease in prepaid expenses	4,276	63,744
Increase in accrued expenses and other	638,605	69,324
Increase in awards and grants payable	232,745	297
Decrease in liability for amounts held for others	(180,428)	(16,363)
Net cash provided by operating activities	4,426,916	1,024,675
Cash flows from investing activities		
Proceeds from sale of investments	7,991,350	7,115,481
Purchase of investments	(9,760,904)	(6,098,411)
Net cash (used in) provided by investing activities	(1,769,554)	1,017,070
Net increase in cash and cash equivalents	2,657,362	2,041,745
Cash and cash equivalents at beginning of year	5,478,065	3,436,320
Cash and cash equivalents at end of year	\$ 8,135,427	\$ 5,478,065

See accompanying notes.

IEEE Foundation, Incorporated

Notes to Financial Statements

December 31, 2008

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 12).

2. Summary of Significant Accounting Policies

Basis of Presentation

The Foundation’s financial statements are presented in conformity with U.S. generally accepted accounting principles 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 of Not-for-Profit Organizations*. SFAS No. 116 requires that contributions be recognized as additions to net assets at their fair values when they are received. SFAS 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 net 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.

The Foundation's endowment consists of individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation is in the process of interpreting the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), which was enacted in April 2009 and will be effective for the Foundation for the year ended December 31, 2009.

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 net assets released from restrictions. 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 quoted market prices of the underlying Trust's investments. The amount

IEEE Foundation, Incorporated

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

of the Foundation's beneficial interest in such trust is included within temporarily restricted net 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 \$8,068,474 and \$5,393,565 at December 31, 2008 and 2007, respectively.

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. See Note 11 for more information regarding this fair value measurement.

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 became effective for the Foundation on January 1, 2008. See Note 11 for the related disclosure.

In August 2008, the FASB issued FASB Staff Position ("FSP") No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of funds Subject to an enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All*

IEEE Foundation, Incorporated

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Endowment Funds (“FSP SFAS 117-1”). FSP SFAS 117-1 provides guidance for not-for-profit organizations that addresses the net asset classification of donor-restricted endowment funds for organizations subject to an enacted version of the 2006 Uniform Prudent Management of Institutional Funds Act (“UPMIFA”). In addition, the FSP requires extensive new disclosures about an organization’s donor-restricted and board-designated endowment funds. As the Foundation’s state of incorporation, New York, enacted the UPMIFA in 2009, the FSP in its entirety is not effective for the Foundation until the year ending December 31, 2009. However, certain disclosures are required as of December 31, 2008 and have been included herein. The Foundation is in the process of evaluating the impact that the adoption of this FSP will have on its financial statements.

Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the 2008 presentation.

3. Investments

Investments at December 31, 2008 and 2007 consist of the following:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Fixed income	\$ 3,870,102	\$ 3,231,508	\$ 1,795,011	\$ 1,639,682
Equities and mutual funds	12,646,299	8,449,466	12,674,529	15,775,035
Participation in the Institute’s investment pool	719,746	767,048	694,257	1,080,232
	<u>\$ 17,236,147</u>	<u>\$ 12,448,022</u>	<u>\$ 15,163,797</u>	<u>\$ 18,494,949</u>

IEEE Foundation, Incorporated

Notes to Financial Statements (continued)

3. Investments (continued)

Net investment income (loss) for the years ended December 31, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 876,441	\$ 868,860
Realized gains, net	302,795	1,645,913
Change in net unrealized (losses)	<u>(8,119,277)</u>	<u>(1,122,639)</u>
Investment income (loss), net	<u>\$ (6,940,041)</u>	<u>\$ 1,392,134</u>

Investment expenses are included in administrative and other expenses and amounted to \$108,709 and \$112,083 in 2008 and 2007, 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.

The Foundation measures its beneficial interest in the trust at fair value. As of and for the year ended December 31, 2007, fair value was determined 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 \$4,904,452 at December 31, 2007, based on the following rates of return and discount rates:

	<u>2007</u>
Rate of return	4.30%
Discount rate:	
Principal due in 2013	3.45%
Principal due in 2038	4.45%

IEEE Foundation, Incorporated

Notes to Financial Statements (continued)

4. Beneficial Interest in Trust (continued)

As of and for the year ended December 31, 2008, the Trust's fair value of \$3,641,517 was determined based upon the fair value of the underlying assets in the Trust, in accordance with SFAS 157. The fair value of the underlying assets in the Trust as of December 31, 2007 was \$4,973,138.

5. Receivables

Receivables at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Accrued interest	\$ 59,238	\$ 93,718
Due from the Institute	127,081	205,696
Pledges receivable	15,694	16,769
	<u>\$ 202,013</u>	<u>\$ 316,183</u>

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, 2008 and 2007 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 \$352,201 and \$532,629 at December 31, 2008 and 2007, respectively. The Foundation is not a beneficiary of the Trust Fund.

7. Awards and Grants Payable

Awards and grants payable at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Due to the Institute	\$ 362,044	\$ 260,997
Grants	361,999	230,301
	<u>\$ 724,043</u>	<u>\$ 491,298</u>

IEEE Foundation, Incorporated

Notes to Financial Statements (continued)

7. Awards and Grants Payable (continued)

Due to the Institute represents remaining grant commitments due to IEEE from the Foundation. The amount of awards and grants payable at December 31, 2008 is anticipated to be disbursed during 2009 and 2010.

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:

	Year Ended December 31	
	2008	2007
Funds held for specific purposes:		
Awards	\$ 439,076	\$ 454,706
Educational	249,378	171,638
	\$ 688,454	\$ 626,344

10. Net Assets

	December 31	
	2008	2007
Temporarily restricted net assets consist of:		
Funds held for specific purposes:		
Awards	\$ 5,887,019	\$ 4,176,626
Educational	1,429,064	1,789,775
Funds held in trust – Educational	3,641,517	4,904,452
	\$ 10,957,600	\$ 10,870,853
Permanently restricted net assets consist of:		
Awards	\$ 83,359	\$ 62,109

IEEE Foundation, Incorporated

Notes to Financial Statements (continued)

11. Fair Value Measurement

The Foundation adopted the provisions of FAS 157 effective January 1, 2008. FAS 157 establishes a hierarchy for the inputs used to measure fair value based on the source of the input, which generally range from quoted prices for identical instruments in a principal trading market (Level 1) to estimates determined using related market data (Level 3). Multiple inputs may be used to measure fair value, however, the level of fair value for each financial asset or liability presented below is based on the lowest significant input level within this fair value hierarchy. The following table provides the fair value hierarchy of the Foundation's financial assets and (liabilities) as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Investments:				
Fixed Income	\$ 3,231,508	\$ -	\$ -	\$ 3,231,508
Equities	7,756,281	-	495,247	8,251,528
Mutual Funds	197,938	-	-	197,938
IEEE Investment Pool	-	767,048	-	767,048
	\$ 11,185,727	\$ 767,048	\$ 495,247	\$ 12,448,022
Beneficial Interest in Trust	\$ -	\$3,641,517	\$ -	\$ 3,641,517
Assets Held in Trust	\$ 352,201	-	-	\$ 352,201

The table below sets forth a summary of changes in the fair value of the Foundation's level 3 assets for the year ended December 31, 2008.

Balance, beginning of the year	\$ 420,493
Realized, unrealized losses, net	(136,893)
Purchases, sales, issuances and settlements	211,647
Balance, end of year	\$ 495,247

IEEE Foundation, Incorporated

Notes to Financial Statements (continued)

11. Fair Value Measurement (continued)

Details on the methods and assumptions used to determine the fair values of the financial assets and liabilities are as follows:

Fair value measurements based on Level 1 inputs: Measurements that are most observable are based on quoted prices of identical instruments obtained from the principal markets in which they are traded. Closing prices are both readily available and representative of fair value. Market transactions occur with sufficient frequency and volume to assure liquidity.

Fair value measurements based on Level 2 inputs: Measurements derived indirectly from observable inputs or from quoted prices from markets that are less liquid are considered Level 2. Measurements based on Level 2 inputs include over-the-counter derivative instruments that are priced on an exchange traded curve, but have contractual terms that are not identical to exchange traded contracts.

Fair value measurements based on Level 3 inputs: Measurements that are least observable are estimated from related market data, determined from sources with little or no market activity for comparable contracts or are positions with longer durations.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

12. Related Party Transactions

The Foundation is organized and operates in support of activities of the scientific and educational functions and programs of IEEE. The Foundation has no staff and is directly supported by IEEE, which provides certain accounting and administrative services. The Foundation reimbursed IEEE for the cost of such services, which amounted to \$2,548,900 and \$432,000 during 2008 and 2007, respectively. The Foundation received contributions from IEEE in the amount of \$2,389,000 and \$594,000 during 2008 and 2007, respectively. The Institute solicits contributions on behalf of the Foundation through its annual member renewal process. Total contributions solicited were \$593,700 and \$586,600 in 2008 and 2007, respectively. The Institute has on deposit investments and cash equivalents totaling \$2,046,500 and \$1,397,900 from the

IEEE Foundation, Incorporated

Notes to Financial Statements (continued)

12. Related Party Transactions (continued)

Foundation at December 31, 2008 and 2007, respectively. These amounts are invested by the Institute on behalf of the Foundation. Receivables due from the Institute at December 31, 2008 and 2007 were \$127,100 and \$205,700, respectively. Awards and grants payable due to the Institute at December 31, 2008 and 2007 were \$362,000 and \$261,000, respectively. Accrued expenses due to the Institute were \$739,600 and \$88,600 at December 31, 2008 and 2007, respectively.

Summarized financial data of the Institute for 2008 and 2007 is as follows:

	December 31	
	2008	2007
Total assets	\$ 369,047,500	\$ 427,495,800
Total liabilities	210,982,000	180,809,500
Net assets	\$ 158,065,500	\$ 246,686,300
	Year Ended December 31	
	2008	2007
Revenues	\$ 342,376,500	\$ 339,561,200
Expenses	\$ 430,997,300	\$ 305,801,100