

## MESSAGE FROM THE TREASURER

I proudly present the audited financial reports of the IEEE. Once again, these reports indicate the overall financial health of the organization.

The IEEE again received an unqualified or clean opinion from PricewaterhouseCoopers LLP in the Report of Independent Accountants. The independent auditors meet with the IEEE Audit Committee to discuss the scope and results of their audit, their review on the adequacy of internal accounting controls, and the quality of financial reporting prior to issuing their opinion.

The Institute's balance sheet, a statement showing an organization's financial position at the end of a period, showed assets of US\$238.6 million at 31 December 2002. This 16.5 percent decrease from 2001 was partially offset by the 16.1 percent decrease in liabilities for the same period.

In 2002, the Institute had revenues of US\$199.8 million, an increase of US\$0.5 million from 2001 as shown by the statement of activities. Operational revenue increased US\$4.0 million. Dues and assessments revenue increased US\$2.1 million due to the approved rate increase and the overall growth in membership. Periodical subscriptions revenue increased US\$5.8 million primarily due to the sale of electronic products, including the



IEEE/IEE Electronic Library whose gross revenue grew US\$9.9 million, which was offset by the decrease in advertising revenue of US\$3.3 million. Conference revenue decreased US\$7.6 million as a result of lower conference attendance in 2002. Other revenue increased US\$3.6 million attributed mainly to increased royalties from the Financial Advantage Program. The operational revenue increase was offset by investment losses of US\$15.9 million for 2002, which equals a US\$3.5 million greater loss than 2001.

The IEEE is tax exempt under Section 501(c)(3) of the Internal Revenue Code. The IEEE Foundation is a separately incorporated affiliate of the IEEE; its audited financial statements are not included in the following documents.

I submit these reports with the certainty that the IEEE continues to be a financially sound organization.

A handwritten signature in blue ink that reads "Dale C. Caston".

Dale C. Caston, P.E.  
2002 IEEE Treasurer

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of The Institute of Electrical and Electronics Engineers, Inc.:

In our opinion, the accompanying balance sheet and the related statements of activities and cash flows present fairly, in all material respects, the financial position of The Institute of Electrical and Electronics Engineers, Inc. (the "Institute") at December 31, 2002 and 2001, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Institute's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, 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.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers LLP".

Florham Park, New Jersey  
May 23, 2003

## FINANCIAL STATEMENTS

### Balance Sheet

As of December 31, 2002 and 2001

	2002	2001
<b>Assets</b>		
Cash and cash equivalents	\$ 1,278,100	\$ 1,539,200
Accounts receivable, less allowance for doubtful accounts of \$1,143,300 in 2002 and \$1,271,500 in 2001	38,038,200	34,979,800
Inventories, prepaid expenses and other assets	13,561,600	12,836,600
Investments	152,170,600	201,841,700
Land, buildings and equipment, net of accumulated depreciation	33,547,900	34,670,100
<b>Total assets</b>	<b>\$ 238,596,400</b>	<b>\$ 285,867,400</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued expenses	\$ 20,819,600	\$ 29,399,800
Deposits by IEEE Foundation, sections and other	30,050,700	30,180,300
Trading liabilities	2,747,200	32,197,300
Debt obligations	14,433,100	14,569,000
Obligations under capital leases	2,141,900	2,736,900
Deferred income		
Dues and assessments	35,947,700	38,732,100
Subscriptions and other	56,224,600	45,702,000
<b>Total liabilities</b>	<b>162,364,800</b>	<b>193,517,400</b>
<b>Net assets</b>		
Unrestricted	74,932,900	90,228,100
Temporarily restricted	1,107,300	1,930,500
Permanently restricted	191,400	191,400
<b>Total net assets</b>	<b>76,231,600</b>	<b>92,350,000</b>
<b>Total liabilities and net assets</b>	<b>\$ 238,596,400</b>	<b>\$ 285,867,400</b>

### Statement of Activities

For the Year Ended December 31, 2002	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue</b>				
Dues and assessments	\$ 39,815,500			\$ 39,815,500
Periodical subscriptions, other publication activities and educational products and services	110,673,700	\$ 652,600		111,326,300
Conventions, conferences and other technical activities	55,294,100	50,700		55,344,800
Investment income, net	(15,895,200)	(10,300)		(15,905,500)
Other income	9,163,500	60,100		9,223,600
Net assets released from restrictions	1,576,300	(1,576,300)		-
<b>Total revenue</b>	<b>200,627,900</b>	<b>(823,200)</b>		<b>199,804,700</b>
<b>Expenses</b>				
Program services				
Publishing	100,053,300			100,053,300
Educational activities	2,536,000			2,536,000
Conventions, conferences and other technical activities	46,464,400			46,464,400
Services for and support of sections and branches	8,252,700			8,252,700
Membership records and services	51,357,100			51,357,100
<b>Total program services</b>	<b>208,663,500</b>			<b>208,663,500</b>
Supporting services				
General and administrative	7,259,600			7,259,600
<b>Total expenses</b>	<b>215,923,100</b>			<b>215,923,100</b>
<b>Change in net assets</b>	<b>(15,295,200)</b>	<b>(823,200)</b>	<b>-</b>	<b>(16,118,400)</b>
Net assets, beginning of year	90,228,100	1,930,500	\$ 191,400	92,350,000
<b>Net assets, end of year</b>	<b>\$ 74,932,900</b>	<b>\$ 1,107,300</b>	<b>\$ 191,400</b>	<b>\$ 76,231,600</b>

The accompanying notes are an integral part of these financial statements.

## Statement of Activities

For the Year Ended December 31, 2001	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue</b>				
Dues and assessments	\$ 37,732,900			\$ 37,732,900
Periodical subscriptions, other publication activities and educational products and services	104,864,300	\$ 663,900		105,528,200
Conventions, conferences and other technical activities	62,009,300	894,400		62,903,700
Investment income, net	(12,418,500)	5,000		(12,413,500)
Other income	5,527,800	51,600		5,579,400
Net assets released from restrictions	2,377,200	(2,377,200)		
Total revenue	200,093,000	(762,300)		199,330,700
<b>Expenses</b>				
Program services				
Publishing	103,188,400			103,188,400
Educational activities	3,452,200			3,452,200
Conventions, conferences and other technical activities	54,564,100			54,564,100
Services for and support of sections and branches	7,684,400			7,684,400
Membership records and services	51,615,600			51,615,600
Total program services	220,504,700			220,504,700
Supporting services				
General and administrative	7,248,500			7,248,500
Total expenses	227,753,200			227,753,200
Change in net assets before extraordinary item	(27,660,200)	(762,300)		(28,422,500)
Extraordinary item - one time cost related to the extinguishment of debt (see Note 6)	903,600			903,600
Change in net assets	(28,563,800)	(762,300)		(29,326,100)
Net assets, beginning of year	118,791,900	2,692,800	\$ 191,400	121,676,100
Net assets, end of year	\$ 90,228,100	\$ 1,930,500	\$ 191,400	\$ 92,350,000

## Statement of Cash Flows

For the Years Ended December 31, 2002 and 2001	2002	2001
<b>Operating activities</b>		
Change in net assets	\$ (16,118,400)	\$ (29,326,100)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Extraordinary item	-	903,600
Depreciation and amortization expense	6,130,900	5,652,500
Net realized and unrealized losses from investments	21,843,600	21,234,900
Change in fair value of interest rate swaps	832,000	272,600
Change in assets and liabilities		
Increase in accounts receivable	(3,058,400)	(4,268,300)
(Increase) decrease in inventories, prepaids and other assets	(725,000)	800,400
(Decrease) increase in accounts payable and accrued expenses	(10,774,400)	2,768,500
Increase in deferred income	7,738,200	12,693,200
(Decrease) increase in deposits	(129,600)	1,908,400
Net cash provided by operating activities	5,738,900	12,639,700
<b>Investing activities</b>		
Proceeds from sale of investments	727,587,600	803,991,500
Purchase of land, buildings and equipment	(3,883,300)	(7,693,400)
Purchases of investments	(729,210,200)	(803,993,600)
Net cash used in investing activities	(5,505,900)	(7,695,500)
<b>Financing activities</b>		
Payment of short-term borrowings	-	(5,500,000)
Cash overdraft	2,194,200	(1,106,000)
Payment of debt obligations	(967,900)	(7,122,900)
Issuance of new debt	-	10,875,000
Payment of capital lease obligations	(1,720,400)	(1,629,400)
Net cash used in financing activities	(494,100)	(4,483,300)
Net (decrease) increase in cash	(261,100)	460,900
Cash and cash equivalents at beginning of year	1,539,200	1,078,300
Cash and cash equivalents at end of year	\$ 1,278,100	\$ 1,539,200
<b>Supplemental data</b>		
Interest paid	\$ 1,344,000	\$ 1,603,500
Non-cash items		
Acquisition of equipment through capital lease obligation	\$ 1,125,400	\$ 946,100

The accompanying notes are an integral part of these financial statements.

## 1. Organization and Nature of Operations

The objectives of The Institute of Electrical and Electronics Engineers, Inc. (the "Institute" or "IEEE") are (a) scientific and educational, directed toward the advancement of the theory and practice of electrical engineering, electronics engineering, computer engineering, computer sciences, and the allied branches of engineering and related arts and sciences and (b) professional, directed toward the advancement of the standing of the members of the profession it serves.

Implementation of the Institute's objectives is primarily performed through regions, sections, branches, societies, and councils. For purposes of the IEEE audited financial statements, sections and branches are unincorporated geographical subdivisions of the Institute. The financial results of societies, councils and regions are incorporated in the Institute's audited financial statements. These units were formed to serve the specialized technical interests of members and to coordinate these with the local activities of the sections and the broader activities of the Institute. The societies and councils promote the technical interests of their members through symposia, conferences and various publications.

## 2. Summary of Significant Accounting Policies

### Reporting Entity

The financial statements include the accounts of the societies, councils and regions. The books and records of the sections and branches are maintained by the respective treasurers of each unit and are not included in the accompanying financial statements.

The financial statements of the Institute should be read in conjunction with the financial statements of the IEEE Foundation, a related organization. (See Note 14.)

### Financial Statements

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 Institute. Such assets primarily include the Institute's permanent endowment funds. The principal of these endowments cannot be expended and only the income earned can be used as designated by the donor.

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

*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 Institute.

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 statement of activities.

### Revenue Recognition

Revenue from membership dues and yearly periodical subscriptions is recognized during the year to which it pertains. Amounts received in advance are included in deferred income. The Institute's share of revenue and expense from conferences is recognized principally when financial reports are submitted by societies and councils.

Revenue from contributions is recorded at its fair value in the period received including unconditional promises to give and is classified based upon the existence or absence of donor-imposed restrictions.

Contributions received by the Institute are primarily private and governmental grants containing donor-imposed restrictions as to their use. These restrictions are usually fulfilled within a two-year period by satisfying the respective restrictions.

### Investments

Investments are carried at fair value which is generally determined on the basis of quoted market prices (See Notes 3 and 12). Realized gains and losses on sales of investments are determined on an average cost basis.

Option transactions are accounted for as contractual commitments, recorded on a trade date basis, and carried at market value or, when market prices are not readily available, estimated fair value, based on the use of valuation models.

Securities sold under agreements to repurchase are recorded at their contracted resale or repurchase amounts, plus accrued interest.

### Inventories

Inventories consist of periodicals published by the Institute and are stated at the lower of average cost or net realizable value.

### Land, Buildings and Equipment

Depreciation is provided on a straight-line basis over the estimated useful life of the asset. Buildings, furniture and equipment are depreciated over periods ranging from three to thirty-five years. Assets under capital leases are depreciated over the shorter of the lease terms or the useful lives of the assets. Building improvements are amortized over twenty years.

Upon retirement or other disposition of fixed assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses, if any, are reflected in operations.

### Cash and Cash Equivalents

Cash and cash equivalents include highly liquid short-term investments purchased with original maturities of three months or less.

### Accounts Payable and Accrued Expenses

Included in accounts payable and accrued expenses are cash overdrafts. At December 31, 2002 and 2001 these cash overdrafts amounted to \$2,930,100 and \$735,900, respectively.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

### 3. Investments

Investments and trading liabilities at December 31, 2002 and 2001 consist of the following:

Investments	2002 Cost	2002 Fair Value	2001 Cost	2001 Fair Value
<b>Short-term investments</b>				
Commercial paper and bankers acceptances	\$ 995,500	\$ 995,500	\$ 6,900,000	\$ 6,900,000
Money market and mutual funds	4,653,700	4,653,700	706,600	706,600
	5,649,200	5,649,200	7,606,600	7,606,600
<b>Equity investments</b>				
Equity securities	96,252,500	89,757,600	73,823,900	84,551,700
Investments in non-U.S. and emerging markets	8,262,800	7,353,400	35,396,300	35,004,600
Money market and mutual funds	5,848,400	5,848,400	3,178,700	3,178,700
Due from brokers and accrued interest and fees	166,200	166,200	1,031,300	1,031,300
	110,529,900	103,125,600	113,430,200	123,766,300
<b>Fixed income investments</b>				
U.S. Government obligations	1,685,800	1,734,500	31,263,900	31,639,800
Corporate obligations	4,771,000	4,845,300	3,469,600	3,564,800
Money market and mutual funds	36,161,300	36,733,700	34,639,600	34,681,800
Due from brokers and accrued interest	82,300	82,300	582,400	582,400
	42,700,400	43,395,800	69,955,500	70,468,800
<b>Total investments</b>	<b>158,879,500</b>	<b>152,170,600</b>	<b>190,992,300</b>	<b>201,841,700</b>
<b>Trading liabilities</b>				
<b>Equity investments</b>				
Due to brokers and accrued fees	(2,730,700)	(2,730,700)	(492,600)	(492,600)
<b>Fixed income investments</b>				
Amounts due under reverse repo agreements	—	—	(25,000,000)	(25,000,000)
Derivative contracts	—	—	(6,016,600)	(6,687,500)
Due to brokers and accrued fees	(16,500)	(16,500)	(16,900)	(17,200)
<b>Total trading liabilities</b>	<b>(2,747,200)</b>	<b>(2,747,200)</b>	<b>(31,526,100)</b>	<b>(32,197,300)</b>
<b>Net investments</b>	<b>\$ 156,132,300</b>	<b>\$ 149,423,400</b>	<b>\$ 159,466,200</b>	<b>\$ 169,644,400</b>

### 4. Investment Income

Net investment income for the years ended December 31, 2002 and 2001 consisted of the following:

	2002	2001
Interest and dividends	\$ 5,938,100	\$ 8,821,400
Realized losses, net	(4,956,500)	(3,988,200)
Change in net unrealized losses	(16,887,100)	(17,246,700)
	\$ (15,905,500)	\$ (12,413,500)

### 5. Land, Buildings and Equipment

Fixed assets, carried at cost, and the related accumulated depreciation at December 31, 2002 and 2001 consists of the following:

	2002 Cost	2002 Accumulated Depreciation	2001 Cost	2001 Accumulated Depreciation
Buildings	\$ 18,733,600	\$ 7,395,100	\$ 18,733,600	\$ 6,855,600
Furniture and equipment	37,492,700	23,355,100	35,500,700	21,445,600
Building improvements	8,309,600	2,211,400	8,505,300	1,741,900
	64,535,900	32,961,600	62,739,600	30,043,100
Land	1,973,600		1,973,600	
<b>Total</b>	<b>\$ 66,509,500</b>	<b>\$ 32,961,600</b>	<b>\$ 64,713,200</b>	<b>\$ 30,043,100</b>

Included within the cost of furniture and equipment is \$6,420,400 of assets under capital leases as of December 31, 2002. Approximate annual rentals are:

2003	\$ 1,537,200
2004	991,800
2005	574,400
2006	120,700
2007	26,200
<b>Total minimum lease payments</b>	<b>3,250,300</b>
Less: amount representing interest imputed at an average rate of 6.2%	1,108,400
<b>Present value of minimum lease payments</b>	<b>\$ 2,141,900</b>

## 6. Debt Obligations

Debt obligations at December 31, 2002 and 2001 consist of the following:

	2002	2001
New Jersey Economic Development Authority ("NJEDA") Bonds, average coupon of 6.3%, annual principal and sinking fund payments through April 1, 2004; collateralized by irrevocable direct-pay letter of credit issued by First Union Bank.	\$ 875,000	\$ 1,275,000
New Jersey Economic Development Authority ("NJEDA"), Series A Bonds, average coupon of 4.55%, annual principal and sinking fund payments through April 1, 2014; collateralized by irrevocable direct-pay letter of credit issued by First Union National Bank.	7,731,400	7,212,700
New Jersey Economic Development Authority ("NJEDA"), Series B Bonds, average coupon of 4.34%, annual principal and sinking fund payments through April 1, 2014; collateralized by irrevocable direct-pay letter of credit issued by First Union National Bank.	3,870,400	3,862,700
Note payable to First Union Bank, bearing interest at 6.99%, payable monthly through 2006, collateralized primarily by fixed income investments.	1,911,900	1,901,600
Note payable to First Union Bank, bearing interest at 6.49%, payable monthly through 2003, collateralized primarily by fixed income investments.	44,400	317,000
	\$ 14,433,100	\$ 14,569,000

Interest expense related to debt obligations amounted to \$1,616,200 for 2002, and \$927,200 for 2001. Interest expense associated with the interest swap exposures was \$832,000 for 2002, and \$272,600 for 2001.

On January 16, 1998, the Institute re-financed a 6.7% term loan, which had a balloon payment that was due March 1, 1998, by entering into a \$1,324,200 term loan agreement with First Union Bank. The Institute entered into an interest rate swap agreement, which fixed the interest rate on this term loan. Under this agreement, the Institute pays to First Union Bank interest at 6.49% on the current principal, and First Union Bank pays to the Institute interest based on LIBOR plus 0.25%, on the principal. The principal of the swap amortizes through February 3, 2003 and was \$44,100 and \$308,975 as of December 31, 2002 and 2001, respectively. Amounts receivable or payable under the swap agreement are reflected as a reduction of, or addition to, interest expense. The estimated fair value of the swap reflects a liability of approximately \$300 and \$8,000 at December 31, 2002 and 2001, respectively.

The Institute entered into a \$2,200,000 term loan agreement with First Union Bank on December 23, 1996. The proceeds of this term loan were used to finance the purchase and renovation of two buildings in Orange County, CA. The Institute entered into an interest rate swap agreement, which fixed the interest rate on this term loan. Under this agreement, the Institute pays to First Union National Bank interest at 6.99% on the current principal, and First Union National Bank pays to the Institute interest based on LIBOR plus 0.25%, on the principal. The principal of the swap amortizes through December 1, 2006, and was \$1,672,000 and \$1,760,000 as of December 31, 2002 and 2001, respectively. Amounts receivable or payable under the swap agreement are reflected as a reduction of, or addition to, interest expense. The estimated fair value of the swap reflects a liability of approximately \$239,900 and \$141,600 at December 31, 2002 and 2001, respectively.

The Institute finalized an agreement with the NJEDA to refund the existing 1994 bonds and refinance the outstanding non-callable debt on May 10, 2001 to take advantage of lower interest rates. The portion of the debt that is not callable, \$6,390,000, was extinguished and refinanced with variable rate bonds. The amount of moneys necessary to cause the defeasance of the bonds was \$6,895,800. This included principal, interest through April 1, 2004 and a call premium of \$127,800. Funds were placed with The Bank of New York, the Escrow Agent. As a result of the defeasance of the bonds, the corresponding payment obligations of the Institute under the bond agreement relating to the defeased bonds were legally discharged. The one time cost related to the extinguishment of debt is presented as an extraordinary item on the statement of activities for the year ended December 31, 2001. The remaining 1994 NJEDA Bonds, with a principal balance of \$875,000, are collateralized by an irrevocable

direct-pay letter of credit issued by First Union Bank, for which the Institute entered into a Letter of Credit and Reimbursement Agreement with First Union Bank dated April 1, 1994. The amount of the letter of credit at December 31, 2002 and 2001 was \$908,200 and \$1,323,300, respectively, which represents the outstanding principal and accrued interest thereon. On May 10, 2001, the NJEDA issued a new series of bonds in aggregate principal amount of \$7,065,000 identified as the Series A Bonds. The Institute entered into a swap agreement with First Union National Bank on April 24, 2001, thereby fixing the Institute's rate on the bonds at 4.55%. The estimated fair value of the swap reflects a liability of approximately \$666,400 and \$147,000 at December 31, 2002 and 2001, respectively. The new bonds, Series A bonds, are payable through 2014. These bonds will be collateralized through May 2011 with an irrevocable standby letter of credit from First Union National Bank.

The Institute finalized an additional agreement with the NJEDA on September 28, 2001, permanent financing for the New Data Center, in the form of additional bonds, Series B Bonds. The proceeds of \$3,810,000 were used by the Institute to fund the renovation of a 15,000 sq. ft. warehouse facility into a new computer center and related equipment purchases and installations. The Institute entered into a swap agreement with First Union National Bank on August 22, 2001, thereby fixing the Institute's rate on the bonds at 4.34%. The principal of the swap amortizes through April 1, 2014, and was \$3,595,000 and \$3,810,000 as of December 31, 2002 and 2001, respectively. The estimated fair value of the swap reflects a liability of approximately \$275,400 and \$52,700 at December 31, 2002 and 2001. These new bonds, Series B bonds, are payable through 2014. The irrevocable standby letter of credit dated May 1, 2001, from First Union National Bank was amended on September 1, 2001 to include both Series A and Series B loans. The total letter of credit amount collateralizing both Series A and Series B loans was \$10,821,200 and \$11,039,500 at December 31, 2002 and 2001, respectively.

Under the Amended and Restated Letter of Credit and Reimbursement Agreement and the Revolving Credit Agreement, the Institute cannot permit the ratio of its Unrestricted Net Marketable Securities (Less deposits by sections, and other) to Total Liabilities (Less deposits by sections, and other) to be less than 1.00 to 1.00, at any time. At December 31, 2002 this ratio was .92 to 1.00. On April 16, 2003, the Institute obtained a waiver from First Union Bank forever waiving violations at December 31, 2002. At December 31, 2001, the Institute was in compliance with the new restrictive financial covenant. The ratio at December 31, 2001 was 1.09:1.00. Additionally, under the Revolving Credit Agreement, the Institute cannot permit the Cash Flow Coverage ratio to be less than 1.15 to 1.00 on an annual basis. At December 31, 2002 this ratio was 3.57 to 1.00.

Future principal repayments required under the NJEDA Bond Agreements, and the First Union National Bank term loans, are as follows:

2003	\$	2,039,100
2004		863,000
2005		898,000
2006		2,253,000
2007		880,000
Thereafter		7,500,000
	\$	14,433,100

At December 31, 2001, the Institute signed a Loan Commitment with First Union National Bank for a \$50,000,000 senior credit facility. First Union National Bank will be the Administrative Agent and provide \$27,500,000 of principal; The Bank of New York will act as the Documentation Agent and provide \$22,500,000 of principal. The facility closed on February 28, 2002. Interest expense resulting from utilization of the credit facility during 2002 amounted to approximately \$236,000 and commitment fees of \$45,062 were charged on the unused portion. At December 31, 2002, there were no outstanding borrowings. At December 31, 2001, the Institute had a total of \$35,000,000 of uncommitted short-term lines of credit available to it for short-term borrowing. The Institute had a \$20,000,000 uncommitted short-term line of credit with First Union National Bank, and a \$15,000,000 uncommitted short-term line of credit with The Bank of New York. There were no service fees charged on the unused portions of these lines of credit. Interest expense resulting from the utilization of these short-term lines of credit during 2001 amounted to approximately \$783,000. At December 31, 2001, there were no outstanding borrowings against these lines of credit.

At December 31, 2002, the Institute had an irrevocable standby letter of credit in the amount of \$583,000 with First Union National Bank, which serves as security deposit as required by the terms of its lease agreement with Park Avenue Building Company, LLC.

## 7. Commitments

At December 31, 2002, minimum rental commitments under noncancelable operating leases for office space and computer equipment are as follows:

2003	\$	2,512,700
2004		2,031,100
2005		1,248,800
2006		1,134,200
2007		1,004,200
Thereafter		3,297,600
Total	\$	11,228,600

The leases for the office space are subject to escalation. Total rent expense for noncancelable operating leases amounted to \$3,557,500 and \$3,115,500 in 2002 and 2001, respectively.

## 8. Transactions with Sections, Branches and Others

The investments include deposits by certain sections, branches and others which participate in the income therefrom. In addition, the Institute paid \$1,985,100 and \$2,120,100 in 2002 and 2001, respectively, to sections and branches for financial support of their activities.

## 9. Pension and Other Postretirement Benefits

The Institute sponsors two qualified and one non-qualified pension plan and other postretirement benefit plans for its employees. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 2002, and a statement of the funded status as of December 31 of both years:

	Pension Benefits 2002	Pension Benefits 2001	Other Benefits 2002	Other Benefits 2001
<b>Reconciliation of benefit obligation</b>				
Obligation at January 1	\$ 48,248,000	\$ 39,715,900	\$ 1,955,500	\$ 1,384,600
Service Cost	3,643,700	2,883,100	83,500	76,600
Interest Cost	3,218,600	2,847,200	138,100	124,100
Plan amendments	294,800	622,000		388,500
Actuarial (gain) loss	(4,463,200)	4,767,100	167,100	63,500
Benefit payments	(3,440,100)	(2,587,300)	(85,600)	(81,800)
Obligation at December 31	\$ 47,501,800	\$ 48,248,000	\$ 2,258,600	\$ 1,955,500
<b>Reconciliation of fair value of plan assets</b>				
Fair value of plan assets at January 1	\$ 42,701,600	\$ 45,941,100		
Actual return on plan assets	(4,000,800)	(1,795,700)		
Employer contributions	3,618,400	1,143,500	85,600	\$ 81,800
Benefit payments	(3,440,100)	(2,587,300)	(85,600)	(81,800)
Fair value of plan assets at December 31	\$ 38,879,100	\$ 42,701,600	\$ —	\$ —
<b>Funded status</b>				
Funded status at December 31	\$ (8,622,700)	\$ (5,546,400)	\$ (2,258,600)	\$ (1,955,500)
Unrecognized transition (asset) obligation			549,200	594,900
Unrecognized prior service cost	964,900	807,400	322,000	355,200
Unrecognized (gain) loss	10,349,500	7,281,100	432,400	284,800
Net amount recognized - prepaid (accrued) benefit cost	\$ 2,691,700	\$ 2,542,100	\$ (955,000)	\$ (720,600)

The accumulated benefit obligation for the pension plans with accumulated benefit obligations in excess of plan assets was \$7,279,300 at December 31, 2002 and \$123,400 at December 31, 2001. The plan assets for the pension plans with accumulated benefit obligations in excess of plan assets was \$6,831,700 at December 31, 2002 and \$0 at December 31, 2001. All of the Institute's plans for post-retirement benefits other than pensions have no plan assets. The aggregate benefit obligation for those plans is \$2,258,600 as of December 31, 2002 and \$1,955,500 as of December 31, 2001.

The following table provides the components of net periodic benefit cost for the plans for 2002 and 2001:

	Pension Benefits 2002		Pension Benefits 2001		Other Benefits 2002		Other Benefits 2001	
Service cost	\$	3,643,700	\$	2,883,100	\$	83,500	\$	76,600
Interest cost		3,218,600		2,847,200		138,100		124,100
Expected return on plan assets		(3,748,600)		(4,133,400)				
Amortization of transition (asset) obligation				(299,100)		45,700		45,800
Amortization of prior service cost		137,300		176,700		33,200		33,200
Amortization of net loss		217,900		4,800		19,500		4,800
Net periodic benefit cost	\$	3,468,900	\$	1,479,300	\$	320,000	\$	284,500

The prior service costs are amortized on a straight line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The Institute has multiple non-contributory nonpension postretirement benefit plans.

The assumptions used in the measurement of the Institute's benefit obligation are shown in the following table:

Weighted average assumptions as of December 31	Pension Benefits 2002		Pension Benefits 2001		Other Benefits 2002		Other Benefits 2001	
Discount rate		6.50%		6.75%		6.25%		6.75%
Expected return on plan assets		8.50%		9.00%		N/A		N/A
Rate of compensation increase		3.50%		6.25%		N/A		N/A

The healthcare plan benefits are a flat dollar reimbursement to the retirees toward healthcare premiums. No increase in the reimbursement amount is assumed.

## 10. 401(k) Savings and Investment Plan

The Institute has a defined contribution 401(k) Savings and Investment Plan for eligible employees. Employees are eligible to participate in the Plan after the start of the next pay period following thirty days of employment. Under the Plan, employees may generally contribute from 2% to 16% of their salary, however, not in excess of IRS limitations. The Institute provides a 100% matching contribution up to 4% of each employee's salary. The Institute contributed \$1,879,900 and \$1,862,400 to the Plan in 2002 and 2001, respectively.

## 11. Tax Status

The Institute is qualified under section 501(c)(3) of the Internal Revenue Code as an organization exempt from Federal income taxes.

## 12. Financial Instruments and Risk Management

### Cash

The Institute maintains cash balances which, at times, are in excess of the Federal Deposit Insurance Corporation insured amounts. The Institute mitigates this risk by placing its cash in high quality financial institutions.

### Debt Obligations

The fair value of the Institute's debt obligations (including current installments) is estimated based on quoted market prices for similar debt of the same remaining maturities. At December 31, 2002 and 2001, the estimated fair value of the Institute's debt was \$15,870,000 and \$17,207,300, respectively. The Institute utilizes interest rate swap agreements to manage the risk on interest rates associated with its debt obligations.

### Investments

On January 1, 2001 the Institute adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. The adoption of this statement did not have a material effect on the Institute's statements of financial condition or the results of operations. The statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively

referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities on the statement of financial condition and measure those instruments at fair value. The accounting for changes in the fair value of a derivative instrument depends on its intended use and the resulting designation.

The Institute's derivative transactions are entered into for trading purposes. The Institute uses derivatives in its trading activities to facilitate transactions and as a means of risk management. Risk exposures are managed through diversification and by controlling position sizes. Gains and losses on derivatives used for trading purposes are generally included in "Net investment income" on the Statement of Activities.

In the normal course of business, the Institute engages in a variety of derivative and non-derivative financial instrument transactions in connection with its market risk management and its principal trading activities. Derivative financial instruments include future and option contracts committing the Institute to purchase or deliver other instruments at specified future dates and price, or to make and receive payments based on notional amounts.

In connection with its market risk management and principal trading activities, the Institute may enter into a derivative contract to manage the risk arising from other financial instruments or to take a position based upon expected future market conditions. These contracts are valued at market, and unrealized gains and losses are reflected in the financial statements. There were no open commitments at December 31, 2002 and ninety-eight open commitments at December 31, 2001 with a net market value of \$6,687,500 included in trading liabilities.

Set forth below are the gross contract or notional amounts of derivative instruments and fair value of the related assets and liabilities at December 31, 2002 and 2001, as well as the average fair value of those assets and liabilities for the year ended 2002 and 2001. Fair value represents the cost of replacing these instruments. Future changes in interest rates or the fair values of the financial instruments or commodities underlying these contracts ultimately may result in cash settlements exceeding fair value amounts recognized in the statement of activities. Assets represent unrealized gains on purchased exchange-traded contracts. Liabilities represent net amounts owed to counterparties.

Year-End Gross Notional/Contract Amount	2002		2001	
Options	\$	—	\$	160,000,000
Futures and options		—		92,500,000
	\$	—	\$	252,500,000

	Assets 2002		Assets 2001		Liabilities 2002		Liabilities 2001	
Fair values								
Options	\$	—	\$	—	\$	—	\$	5,444,700
Futures and options		—		—		—		1,242,800
	\$	—	\$	—	\$	—	\$	6,687,500
Average fair values								
Options	\$	50,500	\$	—	\$	3,776,400	\$	1,588,600
Futures and options		134,900		28,200		603,600		434,400
	\$	185,400	\$	28,200	\$	4,380,000	\$	2,023,000

The gross notional or contract amounts of these instruments are indicative of the Institute's degree of use of derivatives for trading purposes but do not represent the Institute's exposure to market or credit risk. Credit risk arises from the failure of a counterparty to perform according to the terms of the contract.

The Institute's principal transaction revenues/(losses) from fixed income securities contacts including futures and options written and purchased were \$4,008,379 and (\$2,378,900) for the years ended December 31, 2002 and 2001. Principal transaction revenue includes realized gains and losses in the fair value of the derivative and other financial instruments.

The Institute monitors and controls its risk exposure on a daily basis through financial reporting systems and, accordingly, believes that it has effective procedures for evaluating and limiting the market risks to which it is subject.

2001, respectively. The Institute has on deposit \$15,507,300 and \$16,851,500 from the Foundation at December 31, 2002 and 2001. These amounts are invested by the IEEE on behalf of the Foundation. Receivables due from the Foundation at December 31, 2002 and 2001 were \$693,600 and \$718,200, respectively. Receivables due from the Foundation include grants receivable of \$671,300 and \$684,700 at December 31, 2002 and 2001, respectively. Also included in receivables due from the Foundation were other receivables of \$22,300 and \$33,500 at December 31, 2002 and 2001, respectively. Payables due to the Foundation were \$78,700 and \$185,100 at December 31, 2002 and 2001, respectively.

Summarized financial data of the Foundation for 2002 and 2001 are as follows:

### 13. Net Assets

December 31,	2002		2001	
Temporarily Restricted Net Assets consist of				
Grant funds held for specific purposes	\$	759,100	\$	1,564,200
Funds held for awards, medals and other specific purposes		348,200		366,300
	\$	1,107,300	\$	1,930,500
Permanently Restricted Net Assets consist of				
Endowment principal	\$	191,400	\$	191,400

### 14. Related Parties

#### IEEE Foundation, Incorporated

The Institute transacts with the IEEE Foundation, Incorporated (the "Foundation"), a related organization. The Foundation performs activities in support of the scientific and educational functions and programs of the Institute. The Institute provides certain accounting and administrative services to the Foundation. During 2002, the Foundation paid \$331,000 to the IEEE for providing these support services. Prior to 2002, the IEEE contributed these services that were not reimbursed by the Foundation. Total contributed services recorded by the Foundation were \$90,000 in 2001. The Institute solicits contributions on behalf of the Foundation through its annual member renewal process. Total contributions solicited were \$451,700 and \$461,600 in 2002 and

	2002		2001	
Total assets	\$	21,092,900	\$	23,986,300
Total liabilities		951,200		1,012,500
Net assets	\$	20,141,700	\$	22,973,800
Revenues	\$	(405,600)	\$	(12,000)
Expenses	\$	2,426,500	\$	1,905,700

#### IEEE – Industry Standards and Technology Organization

The Institute enters into transactions with the IEEE-Industry Standards and Technology Organization ("IEEE-ISTO"), a related organization. The IEEE-ISTO is an organization operating for the development of industry standards. The Institute provides certain professional services and facilities that are reimbursed by the IEEE-ISTO. Total combined revenues from these transactions were \$194,800 and \$124,500 for 2002 and 2001, respectively. Receivable due from the IEEE-ISTO at December 31, 2002 and 2001 are \$786,100 and \$743,400, respectively.

Summarized financial data of the IEEE-ISTO for 2002 and 2001 are as follows:

	2002		2001	
Total assets	\$	1,669,900	\$	907,900
Total liabilities		2,137,200		1,403,800
Net assets	\$	(467,300)	\$	(495,900)
Revenues	\$	4,577,900	\$	2,669,900
Expenses	\$	4,549,300	\$	2,596,800

"Everything  
should be made  
as simple as  
possible, but  
not simpler."

Albert Einstein  
1921 Nobel Prize in Physics

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