

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

FINANCIAL STATEMENTS

SEPTEMBER 30, 2003

INDEPENDENT AUDITORS' REPORT

Board of Directors
The American Institute of Graphic Arts

We have audited the statement of financial position of The American Institute of Graphic Arts as of September 30, 2003, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of The American Institute of Graphic Arts' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from The American Institute of Graphic Arts' September 30, 2002 financial statements and, in our report dated November 19, 2002, we 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 financial statements referred to above present fairly, in all material respects, the financial position of The American Institute of Graphic Arts as of September 30, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

D'Annunzio Daverio Murino & Dobbins, LLP

New York, New York
November 18, 2003

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2003

(With summarized comparative information for 2002)

ASSETS

	<u>2003</u>	<u>2002</u> (Restated)
Cash and cash equivalents		
Operating cash	\$ 390,563	\$ 463,381
Short term deposits	1,373,050	586,689
	<u>1,763,612</u>	<u>1,050,070</u>
Accounts receivable	121,537	150,464
Prepaid expenses and deposits	247,157	199,317
Investments, at fair value	1,143,771	1,005,296
Restricted cash - escrow account for debt service	124,092	147,620
Property and equipment, net	2,505,760	2,651,041
Mortgage financing cost, net	98,094	103,059
	<u>\$ 6,004,023</u>	<u>\$ 5,306,867</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 315,226	\$ 412,393
Deferred revenue	2,267,778	1,523,240
Custodial funds	34,275	32,115
Loan payable	265,643	344,393
Mortgage bonds payable	1,175,000	1,195,000
	<u>4,057,922</u>	<u>3,507,141</u>
Total liabilities		
Net assets		
Unrestricted		
Undesignated	1,731,035	1,621,636
Board designated	143,203	106,226
	<u>1,874,238</u>	<u>1,727,862</u>
Temporarily restricted	71,864	71,864
	<u>1,946,102</u>	<u>1,799,726</u>
Total net assets		
	<u>\$ 6,004,024</u>	<u>\$ 5,306,867</u>

See accompanying notes to financial statements.

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2003

(With summarized comparative information for 2002)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2003</u>	<u>2002</u>
Revenue				
Membership dues	\$ 2,533,626	\$	\$ 2,533,626	\$ 2,798,050
Programs	1,237,314		1,237,314	2,182,335
Publications	103,346		103,346	91,331
Grants and contributions	93,157		93,157	137,043
Investment return and other interest	93,585		93,585	
Miscellaneous	67,101		67,101	73,826
	<u>4,128,129</u>		<u>4,128,129</u>	<u>5,282,586</u>
Net assets released from restrictions				
Total revenue	<u>4,128,129</u>		<u>4,128,129</u>	<u>5,282,586</u>
Expenses				
Program services	3,358,306		3,358,306	4,332,205
Management and general	563,486		563,486	616,224
Fund raising	59,960		59,960	64,847
Total expenses	<u>3,981,752</u>		<u>3,981,752</u>	<u>5,013,277</u>
Change in net assets	146,377		146,377	269,309
Net assets, beginning of year	<u>1,727,862</u>	<u>71,864</u>	<u>1,799,726</u>	<u>1,530,417</u>
Net assets, end of year	<u>\$ 1,874,239</u>	<u>\$ 71,864</u>	<u>\$ 1,946,103</u>	<u>\$ 1,799,726</u>

See accompanying notes to financial statements.

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2003

(With summarized comparative information for 2002)

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities		
Change in net assets	\$ 146,377	\$ 269,309
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	160,558	181,167
Net loss (gain) on investments	(45,217)	57,992
Loss on sale of property and equipment	4,095	
Net change in operating assets and liabilities		
Accounts receivable	28,927	123,684
Loan receivable		29,919
Prepaid expenses and security deposit	(47,840)	(40,615)
Escrow account	23,529	(6)
Accounts payable and accrued expenses	(97,167)	123,641
Deferred revenues	744,538	(683,013)
Custodial funds	2,160	
	<u>919,960</u>	<u>62,078</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Proceeds from sale of investments	637,359	793,941
Purchase of investments	(730,617)	(789,818)
Proceeds from sale of property and equipment	13,125	
Acquisition of property and equipment	(27,532)	(38,793)
	<u>(107,665)</u>	<u>(828,611)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from loan	270,000	
Payment on mortgage bonds payable	(20,000)	(20,000)
Proceeds from capital lease		27,690
Payments on loans and capital leases	(348,750)	(70,896)
	<u>(98,750)</u>	<u>(63,206)</u>
Net cash used in financing activities		
Net change in cash and cash equivalents	713,545	(829,739)
Cash and cash equivalents		
Beginning of year	<u>1,050,070</u>	<u>1,085,868</u>
End of year	<u>\$ 1,763,615</u>	<u>\$ 256,129</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 119,724	\$ 105,620

See accompanying notes to financial statements.

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

NOTES TO FINANCIAL STATEMENTS

1. Organization and Tax Status

The American Institute of Graphic Arts ("AIGA") was organized in 1914 to advance excellence in graphic design as a discipline, profession, and cultural force. It provides leadership in the exchange of ideas and information, the encouragement of critical analysis and research, and the advancement of education and ethical practice. Forty-seven chapters of AIGA operate throughout the United States. The accompanying financial statements do not include the financial position or the change in net assets and cash flows of these chapters, each of which is an autonomous corporation organized under the laws of the state in which it is located.

AIGA is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Accounting and Use of Estimates

AIGA prepares its financial statements on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires AIGA's management to make certain estimates and assumptions relating to the reporting of assets and liabilities and the 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.

Basis of Presentation

The financial statements report amounts separately by class of net assets. Unrestricted amounts are those currently available at the discretion of the board for use in AIGA's operations. Temporarily restricted amounts are those which are stipulated by donors for specific purposes or periods. Permanently restricted amounts are those which are established by donor restricted gifts and bequests to provide a permanent endowment. All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of demand deposit and money market accounts with original maturities of three months or less.

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. Summary of Significant Accounting Policies (Continued)

Investments

AIGA reports its investments at fair value based on quoted market prices. Investment income is reflected as earned. Changes in the fair value of investments are reported in the statement of activities as part of investment return.

Property and Equipment

Property and equipment are stated at cost or, if donated, at the estimated fair market value of the assets at the date of donation. Costs for repairs and maintenance are charged to expense as incurred. All plant assets, other than land are depreciated over their estimated useful lives using the straight-line method. Estimated useful lives used to calculate depreciation are as follows:

Buildings and improvements	30 years
Furniture, fixtures and equipment	5 years
Computer equipment	3 years

Deferred Revenue and Related Expenses

Revenue received and expenses incurred in the current fiscal year for publications, conferences, exhibitions, programs and other events scheduled to take place in the subsequent period are deferred on the statement of financial position.

Membership dues are allocated to the period to which they relate and recognized accordingly. Membership dues billed and received in advance are reflected as deferred revenues in the statement of financial position.

Donated Materials and Services

Donation of materials, generally printing and paper supplies, are estimated at \$12,182 and \$197,678 for the years ended September 30, 2003 and 2002, respectively. Donations are recorded in the statement of activities as revenue and are expensed when used.

An important part of AIGA's function is performed by volunteer officers and committees who serve without remuneration. No amounts have been reflected in the financial statements for such donated services as they do not meet the criteria for recognition.

Functional Allocation of Expenses

Expenses have been charged to program or supporting services, either directly when identifiable, or indirectly based on management's estimation of the services benefited.

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. Summary of Significant Accounting Policies (Continued)

Prior Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended September 30, 2002 from which the summarized information was derived.

3. Concentration of Credit Risk

AIGA maintains cash in bank accounts which at times may exceed federally insured limits. This potentially subjects AIGA to a concentration of credit risk. AIGA has not experienced any losses in such accounts.

The investment portfolio is managed by professional investment advisors and managers and is diversified by type of investment and industry concentrations so that no individual investment or group of investments represent a significant concentration of market risk.

4. Prepaid Expenses and Deposits

Prepaid expenses and deposits at September 30 consist of the following

	<u>2003</u>	<u>2002</u>
Deferred program expenses		
365: AIGA Year in Design	\$ 28,504	\$ 86,811
Conferences	176,948	54,801
Other prepayments	<u>41,705</u>	<u>57,705</u>
	<u>\$247,157</u>	<u>\$199,317</u>

5. Investments and Investment Return

The fair value of investments at September 30 consist of the following

	<u>2003</u>	<u>2002</u>
Common stock	\$ 735,500	\$ 613,845
U.S. Government bonds	348,858	349,092
International bonds	43,530	11,119
Short term deposits	<u>15,883</u>	<u>31,240</u>
	<u>\$1,143,771</u>	<u>\$1,005,296</u>

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. Investments and Investment Return (Continued)

Investment return for the year ended September 30, 2003 is summarized as follows

Interest and dividends	\$ 45,249
Appreciation of investments	63,685
Realized (loss) on sale of investments	<u>(18,468)</u>
	<u>\$ 90,466</u>

6. Property and Equipment

Property and equipment at September 30 consist of the following

	<u>2003</u>	<u>2002</u>
Land	\$ 388,000	\$ 388,800
Building	806,200	806,200
Building improvements	1,949,488	1,949,488
Office machinery and equipment	424,664	401,077
Furniture and fixtures	196,685	192,740
Automobile		<u>26,665</u>
	<u>3,765,837</u>	<u>3,764,970</u>
Less accumulated depreciation	<u>1,260,077</u>	<u>1,113,929</u>
	<u>\$2,505,760</u>	<u>\$2,651,041</u>

Depreciation expense for the years ended September 30, 2003 and 2002 was \$155,593 and \$176,202, respectively.

7. Mortgage Financing Cost

Mortgage financing cost, which represents the cumulative expenses incurred in obtaining the loans used to purchase AIGA's building at 164 Fifth Avenue, New York, New York and which are amortized over the life of the loan, consists of the following at September 30

	<u>2003</u>	<u>2002</u>
Legal fees	\$113,242	\$113,242
Other	<u>35,758</u>	<u>35,758</u>
	149,000	149,000
Less accumulated amortization	<u>50,906</u>	<u>45,941</u>
	<u>\$ 98,094</u>	<u>\$103,059</u>

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. Mortgage Financing Cost (Continued)

Amortization expense for the years ended September 30, 2003 and 2002 was \$4,965 in each year.

8. Deferred Revenue

Deferred revenue at September 30 consists of the following

	<u>2003</u>	<u>2002</u>
Conference	\$1,363,505	\$ 550,626
Membership dues	<u>904,273</u>	<u>972,614</u>
	<u>\$2,267,778</u>	<u>\$1,523,240</u>

9. Line of Credit

In April 1998, AIGA obtained a line of credit from The Bank of New York for \$300,000. The terms of the agreement provide for monthly payments of principal and interest with an interest rate equal to the bank's prime rate plus one percent. No draws upon this credit facility were made during the twelve-month period ended September 30, 2003. The terms of this agreement have expired as of September 30, 2003.

10. Loan Payable

In June 2001, AIGA received a loan commitment totaling \$500,000 for working capital and to finance renovations to the building. The loan bears interest at the rate of 8.5%. Equal payments of interest and principal are due over a period of eighty-four months. AIGA borrowed \$250,000 during the 2002 fiscal year and an additional \$250,000 during the 2003 fiscal year. In August 2003 AIGA repaid the loan in full.

In May 2002, AIGA obtained a 48 month loan of \$27,690 bearing interest at a rate of 6.99% for the purchase of a corporate car under a capital lease arrangement. In September 2003 AIGA paid off the remaining balance of the loan.

In August 2003 AIGA obtained a five year loan for \$270,000 bearing interest at a rate of 6.5%. A monthly payment of \$5,293 is due over the term of the loan.

The loan payable matures as follows

September 30, 2004	\$47,527
2005	50,710
2006	54,106
2007	57,729
2008	55,571

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. Loan Payable (Continued)

Loan interest expense for the years ended September 30, 2003 and 2002 was \$25,574 and \$31,267, respectively.

11. Mortgage Bonds Payable

On September 1, 1993, AIGA entered into an agreement with the New York City Industrial Development Agency ("IDA") to purchase a building, located at 164 Fifth Avenue, New York, New York for use as AIGA's national headquarters. Under the terms of the agreement, IDA financed the purchase by issuing Series 1993 Civic Facility Revenue bonds in the amount of \$1,315,000 which mature on December 30, 2023 and pay interest at 8.25% per annum. Per the agreement, AIGA occupies the building as a tenant of the IDA and makes quarterly payments equal to 8.25% of the unpaid principal balance beginning September 30, 1993 and ending December 30, 2023 at which time AIGA will own the building.

The bonds are secured by a lien on and security interest in the building, as well as a security interest in AIGA's interest in the building's fixtures and improvements. A sinking fund is maintained requiring principal payments to be made annually on December 30th. The transaction has been recorded as a financing lease whereby the building is reflected as an asset of AIGA and the mortgage as a corresponding liability.

Scheduled sinking fund payments during AIGA's future fiscal years are as follows

September 30, 2004	\$ 20,000
2005	25,000
2006	25,000
2007	25,000
2008	25,000
Thereafter to 2023	<u>1,055,000</u>
	<u>\$1,175,000</u>

Under the terms of the agreement, AIGA maintains a cash escrow account as a security for the payments due. The balance of this account at September 30, 2003 and 2002 was \$124,092 and \$147,620, respectively.

Bond interest expense for the years ended September 30, 2003 and 2002 was \$97,308 and \$99,534, respectively.

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

NOTES TO FINANCIAL STATEMENTS

(Continued)

12. Creative Leadership Campaign

The Creative Leadership Campaign is the banner under which a variety of funds have been created to channel charitable gifts toward the challenges facing the profession. The funds to which people giving to the campaign can direct their donations are considered either board designated or donor restricted, based on campaign provisions, and include: AIGA National Building Center Fund (for contributions to the capital expenses of the building renovation), AIGA Design Leadership Fund (for special projects), AIGA Scholarship Fund, AIGA Archives Fund, and AIGA Research and Development Fund.

Board designated net assets at September 30, 2003 consist of the following

National Building Center Fund	\$ 57,298
Design Leadership Fund	34,281
Archives Fund	46,006
Research and Development	<u>5,618</u>
	<u>\$143,203</u>

Temporarily restricted net assets at September 30, 2003 consist of the following

Scholarship Fund	<u>\$71,864</u>
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13. Retirement Plans

AIGA has a defined contribution retirement plan which covers substantially all full time employees. Contributions are made entirely by AIGA, which are budgeted and approved annually at the discretion of the Board of Directors and vary between 1% and 11% of compensation. Expense for the years ended September 30, 2003 and 2002 amounted to \$38,640 and \$65,421, respectively.

In 2002 AIGA initiated a deferred compensation plan for its executive director. To fund this plan, AIGA purchased a corporate-owned whole-life insurance policy on the executive director. The assets of the plan will remain the property of AIGA until the executive director meets the conditions contained within the plan's adoption agreement. At September 30, 2003 the insurance policy has no cash surrender value.

14. Related Party Transactions

AIGA provides management and personnel services to AIGA's New York Chapter. Fees and expenses billed by AIGA for the years ended September 30, 2003 and 2002 totaled the following

	<u>2003</u>	<u>2002</u>
Management fees	\$ 12,000	\$ 12,000
Payroll and related benefits	<u>98,374</u>	<u>76,134</u>
	<u>\$110,374</u>	<u>\$ 88,134</u>

THE AMERICAN INSTITUTE OF GRAPHIC ARTS

NOTES TO FINANCIAL STATEMENTS

(Continued)

15. Reclassification of Prior Year Net Assets

As a result of further evaluation of the underlying historical documentation of AIGA's net assets, a reclassification of \$143,203 has been made from temporarily restricted net assets to board designated net assets. The beginning net assets have been restated to reflect this change.