

**THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2004



O'Connor Davies Munns & Dobbins, llp  
ACCOUNTANTS AND CONSULTANTS

## 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 ("AIGA") as of September 30, 2004, 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 AIGA's September 30, 2003 financial statements and, in our report dated November 18, 2003, 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 AIGA as of September 30, 2004, 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.

*O'Connor Davies Munns & Dobbins, LLP*

New York, New York  
October 28, 2004

**THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2004

(With comparative totals for 2003)

ASSETS

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents		
Operating cash	\$ 408,789	\$ 390,563
Short term deposits	1,035,489	1,373,050
	<u>1,444,278</u>	<u>1,763,613</u>
Accounts receivable	98,397	121,537
Prepaid expenses and deposits	230,189	247,157
Investments	1,400,521	1,143,771
Restricted cash - escrow account for debt service	124,552	124,092
Property and equipment, net	2,487,110	2,505,760
Mortgage financing cost, net	93,126	98,094
	<u>\$ 5,878,173</u>	<u>\$ 6,004,024</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 435,940	\$ 315,226
Deferred revenue	1,526,704	2,267,778
Custodial funds		34,275
Loan payable	218,117	265,643
Mortgage bonds payable	1,155,000	1,175,000
Total liabilities	<u>3,335,761</u>	<u>4,057,922</u>
Net assets		
Unrestricted		
Undesignated	2,252,398	1,731,035
Board designated	218,150	143,203
	<u>2,470,548</u>	<u>1,874,238</u>
Temporarily restricted	71,864	71,864
Total net assets	<u>2,542,412</u>	<u>1,946,102</u>
	<u>\$ 5,878,173</u>	<u>\$ 6,004,024</u>

See notes to financial statements.

**THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2004

(With summarized comparative information for 2003)

	<u>Unrestricted</u>	Temporarily Restricted	<u>Total</u>	
			<u>2004</u>	<u>2003</u>
Revenue				
Membership dues	\$ 2,556,979	\$	\$ 2,556,979	\$ 2,533,626
Programs	2,701,121		2,701,121	1,237,314
Publications	34,605		34,605	103,346
Grants and contributions	116,951		116,951	93,157
Investment return and other interest	75,036		75,036	93,585
Miscellaneous	<u>164,209</u>		<u>164,209</u>	<u>67,101</u>
Total revenue	<u>5,648,901</u>		<u>5,648,901</u>	<u>4,128,129</u>
Expenses				
Program services	4,370,948		4,370,948	3,358,306
Management and general	586,567		586,567	563,487
Fund raising	<u>95,076</u>		<u>95,076</u>	<u>59,960</u>
Total expenses	<u>5,052,591</u>		<u>5,052,591</u>	<u>3,981,753</u>
Change in net assets	596,310		596,310	146,376
Net assets, beginning of year	<u>1,874,238</u>	<u>71,864</u>	<u>1,946,102</u>	<u>1,799,726</u>
Net assets, end of year	<u>\$ 2,470,548</u>	<u>\$ 71,864</u>	<u>\$ 2,542,412</u>	<u>\$ 1,946,102</u>

See notes to financial statements.

**THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2004

(With comparative totals for 2003)

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Change in net assets	\$ 596,310	\$ 146,376
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	141,060	160,558
Net realized and unrealized gain on investments	(17,086)	(45,217)
Stock donation	(10,166)	
Loss on sale of property and equipment		4,095
Gain on reimbursement for stolen property	(8,052)	
Changes in operating assets and liabilities		
Accounts receivable	23,140	28,927
Prepaid expenses and deposits	16,968	(47,840)
Escrow account	(460)	23,528
Accounts payable and accrued expenses	120,716	(97,167)
Deferred revenue	(741,074)	744,538
	<u>121,356</u>	<u>917,798</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Proceeds from sale of investments	969,341	637,359
Purchase of investments	(1,198,839)	(730,617)
Proceeds from sale of property and equipment		13,125
Proceeds from insurance reimbursement	9,251	
Acquisition of property and equipment	(118,643)	(27,532)
Net change in custodial funds	(34,275)	2,160
	<u>(373,165)</u>	<u>(105,505)</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)
Payments on loan	(47,526)	(348,750)
	<u>(67,526)</u>	<u>(98,750)</u>
Net cash used in financing activities		
Net increase (decrease) in cash and cash equivalents	(319,335)	713,543
Cash and cash equivalents		
Beginning of year	<u>1,763,613</u>	<u>1,050,070</u>
End of year	<u>\$ 1,444,278</u>	<u>\$ 1,763,613</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 111,567	\$ 119,724

See 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. Fifty 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***

The accompanying financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

#### ***Use of Estimates***

AIGA's management has made 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***

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. 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***

Investments are stated at fair value based on quoted market prices. Investment income is recognized in the period earned. Changes in the fair value of investments are included in investment return on the statement of activities.

#### ***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 paid in the current period 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.

Revenue from contractual obligations for the performance of certain services is deferred on the statement of financial position until expenses related to such services are incurred or until the obligations of the contract are met.

#### ***Donated Materials and Services***

Donation of materials, generally printing and paper supplies, are estimated at \$136,207 and \$12,182 for the years ended September 30, 2004 and 2003, 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)**

#### ***Summarized Comparative 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 AIGA's financial statements for the year ended September 30, 2003 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.

Concentrations of credit risk with respect to accounts receivable usually are limited due to a large number of contributions and their dispersion across different contributors and geographic areas.

### **4. Accounts Receivable**

Accounts receivable at September 30, 2004 are expected to be collected within five years. Management has decided, after review of these receivables, that an allowance for uncollectible amounts is not necessary.

### **5. Prepaid Expenses and Deposits**

Prepaid expenses and deposits at September 30 consist of the following

	<u>2004</u>	<u>2003</u>
Deferred program expenses		
365: AIGA Year in Design	\$ 12,493	\$ 28,504
Conferences	135,403	176,948
Other prepayments	<u>82,293</u>	<u>41,705</u>
	<u>\$230,189</u>	<u>\$247,157</u>

# **THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

### **6. Investments and Investment Return**

Investments at September 30 consist of the following

	<u>2004</u>	<u>2003</u>
Common stock	\$ 553,615	\$ 735,500
U.S. Government bonds	348,347	348,858
Corporate bonds	314,195	
International bonds	38,925	43,530
Mutual funds	71,711	
Short term deposits	<u>73,728</u>	<u>15,883</u>
	<u>\$1,400,521</u>	<u>\$1,143,771</u>

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

	<u>2004</u>	<u>2003</u>
Interest and dividends	\$46,369	\$ 45,249
Net unrealized gain on investments	15,480	63,685
Net realized gain (loss) on sale of investments	<u>1,606</u>	<u>(18,468)</u>
	<u>\$63,455</u>	<u>\$ 90,466</u>

### **7. Property and Equipment**

Property and equipment at September 30 consist of the following

	<u>2004</u>	<u>2003</u>
Land	\$ 388,800	\$ 388,800
Building	806,200	806,200
Building improvements	2,019,183	1,949,488
Office machinery and equipment	449,130	424,664
Furniture and fixtures	<u>207,119</u>	<u>196,685</u>
	3,870,432	3,765,837
Accumulated depreciation	<u>(1,383,322)</u>	<u>(1,260,077)</u>
	<u>\$ 2,487,110</u>	<u>\$ 2,505,760</u>

Depreciation expense for the years ended September 30, 2004 and 2003 was \$136,094 and \$155,593, respectively.

# **THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

### **8. Mortgage Financing Cost**

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

	<u>2004</u>	<u>2003</u>
Legal fees	\$113,242	\$113,242
Other	<u>35,758</u>	<u>35,758</u>
	149,000	149,000
Accumulated amortization	<u>(55,874)</u>	<u>(50,906)</u>
	<u>\$ 93,126</u>	<u>\$ 98,094</u>

Amortization expense for the years ended September 30, 2004 and 2003 was \$4,965 in each year.

### **9. Deferred Revenue**

Deferred revenue at September 30 consists of the following

	<u>2004</u>	<u>2003</u>
Conferences and other	\$ 574,730	\$1,363,505
Membership dues	<u>951,974</u>	<u>904,273</u>
	<u>\$1,526,704</u>	<u>\$2,267,778</u>

### **10. Bonds and Notes 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 AIGA's headquarters' 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 AMERICAN INSTITUTE OF GRAPHIC ARTS**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

### **10. Bonds and Notes Payable (Continued)**

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

September 30, 2005	\$ 25,000
2006	25,000
2007	25,000
2008	25,000
2009	25,000
Thereafter to 2023	<u>1,030,000</u>
	<u>\$1,155,000</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, 2004 and 2003 was \$124,552 and \$124,092, respectively.

In August 2003, AIGA received an unsecured five year loan from the Bank of New York at 6.5% interest per annum. Monthly payments of \$5,293 covering principal and interest are due monthly over the loan term.

Future principal payments are as follows

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

Interest expense on all debt for the year ended September 30, 2004 and 2003 was \$111,567 and \$122,882, respectively.

### **11. 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 commit their donations include the AIGA National Building Center Fund (for contributions to the capital expenses of the building renovation), the AIGA Design Leadership Fund (for special projects), the AIGA Scholarship Fund (also known as the Gianninoto Fund), AIGA Research & Development Fund (for research activities) and AIGA Archives Fund.

# **THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

### **11. Creative Leadership Campaign (Continued)**

Board designated net assets at September 30, 2004 consist of the following

National Building Center Fund	\$ 57,298
Design Leadership Fund	34,281
Archives Fund	120,953
Research and Development	<u>5,618</u>
	<u>\$218,150</u>

Temporarily restricted net assets at September 30, 2004 consist of the following

Scholarship Fund	<u>\$71,864</u>
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### **12. 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, 2004 and 2003 amounted to \$42,599 and \$38,640, 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, 2004 the insurance policy had no cash surrender value. The policy was cancelled subsequent to the year ended September 30, 2004.

### **13. 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, 2004 and 2003 totaled the following

	<u>2004</u>	<u>2003</u>
Management fees	\$ 12,000	\$ 12,000
Payroll and related benefits	<u>106,408</u>	<u>98,374</u>
	<u>\$118,408</u>	<u>\$110,374</u>