

**THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2005



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 as of September 30, 2005, 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, 2004 financial statements and, in our report dated October 28, 2004, 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, 2005, 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  
November 4, 2005

**THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

STATEMENT OF FINANCIAL POSITION



SEPTEMBER 30, 2005

(With comparative amounts at September 30, 2004)

ASSETS

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents		
Operating cash	\$ 2,306,274	\$ 408,789
Short term deposits	268,309	1,035,489
	<u>2,574,583</u>	<u>1,444,278</u>
Accounts receivable	305,499	98,397
Prepaid expenses and deposits	69,256	230,189
Investments	1,638,601	1,400,521
Restricted cash - escrow account for debt service		124,552
Property and equipment, net	2,543,423	2,487,110
Mortgage financing cost, net	84,817	93,126
	<u>\$ 7,216,179</u>	<u>\$ 5,878,173</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$ 876,005	\$ 435,940
Deferred revenue	1,217,831	1,526,704
Loan payable		218,117
Mortgage payable	<u>1,868,867</u>	<u>1,155,000</u>
Total liabilities	<u>3,962,703</u>	<u>3,335,761</u>
Net assets		
Unrestricted		
Undesignated	2,919,764	2,252,398
Board designated	<u>279,483</u>	<u>218,150</u>
	3,199,247	2,470,548
Temporarily restricted	<u>54,229</u>	<u>71,864</u>
Total net assets	<u>3,253,476</u>	<u>2,542,412</u>
	<u>\$ 7,216,179</u>	<u>\$ 5,878,173</u>

See notes to financial statements.

**THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2005

(With summarized totals for the year ended September 30, 2004)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2005</u>	<u>2004</u>
Revenue				
Membership dues	\$ 2,828,142		\$ 2,828,142	\$ 2,556,979
Programs	3,563,994		3,563,994	2,701,121
Publications	86,976		86,976	34,605
Grants and contributions	144,366	\$ 27,000	171,366	116,951
Investment return and other interest	154,479		154,479	75,036
Miscellaneous	174,835		174,835	164,209
	<u>6,952,792</u>	<u>27,000</u>	<u>6,979,792</u>	<u>5,648,901</u>
Net assets released from restrictions	<u>44,635</u>	<u>(44,635)</u>		
Total revenue	<u>6,997,427</u>	<u>(17,635)</u>	<u>6,979,792</u>	<u>5,648,901</u>
Expenses				
Program services	5,395,470		5,395,470	4,370,948
Management and general	743,460		743,460	586,567
Fund raising	129,798		129,798	95,076
Total expenses	<u>6,268,728</u>		<u>6,268,728</u>	<u>5,052,591</u>
Change in net assets	728,699	(17,635)	711,064	596,310
Net assets, beginning of year	<u>2,470,548</u>	<u>71,864</u>	<u>2,542,412</u>	<u>1,946,102</u>
Net assets, end of year	<u>\$ 3,199,247</u>	<u>\$ 54,229</u>	<u>\$ 3,253,476</u>	<u>\$ 2,542,412</u>

See notes to financial statements.

**THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2005

(With comparative amounts for the year ended September 30, 2004)

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Change in net assets	\$ 711,064	\$ 596,310
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	226,406	141,060
Net realized and unrealized gain on investments	(90,963)	(17,086)
Stock donation		(10,166)
Gain on reimbursement for stolen property		(8,052)
Changes in operating assets and liabilities		
Accounts receivable	(207,102)	23,140
Prepaid expenses and deposits	160,933	16,968
Escrow account	124,552	(460)
Accounts payable and accrued expenses	440,065	120,716
Deferred revenue	<u>(308,873)</u>	<u>(741,074)</u>
Net cash provided by operating activities	<u>1,056,082</u>	<u>121,356</u>
Cash flows from investing activities		
Proceeds from sale of investments	1,898,711	969,341
Purchase of investments	(2,045,828)	(1,198,839)
Proceeds from insurance reimbursement		9,251
Acquisition of property and equipment	(187,169)	(118,643)
Net change in custodial funds	<u></u>	<u>(34,275)</u>
Net cash used in investing activities	<u>(334,286)</u>	<u>(373,165)</u>
Cash flows from financing activities		
Refinancing costs	(87,241)	
Proceeds from loan	1,900,000	
Payment on mortgage bonds payable	(1,155,000)	(20,000)
Payments on loan	<u>(249,250)</u>	<u>(47,526)</u>
Net cash provided by financing activities	<u>408,509</u>	<u>(67,526)</u>
Net increase in cash and cash equivalents	1,130,305	(319,335)
Cash and cash equivalents		
Beginning of year	<u>1,444,278</u>	<u>1,763,613</u>
End of year	<u>\$ 2,574,583</u>	<u>\$ 1,444,278</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 133,094	\$ 111,567

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-two 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 when purchased.

# **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. 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:

Building 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.

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

Donation of materials, generally printing and paper supplies, are estimated at \$249,405 and \$136,207 for the years ended September 30, 2005 and 2004, 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, 2004 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. Accounts Receivable**

Accounts receivable at September 30, 2005 are expected to be collected within one year. 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>2005</u>	<u>2004</u>
365: Year in Design	\$ 1,307	\$ 12,493
Conferences	1,379	135,403
Other prepayments	<u>66,570</u>	<u>82,293</u>
	<u>\$69,256</u>	<u>\$230,189</u>

**THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**6. Investments and Investment Return**

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

	<u>2005</u>	<u>2004</u>
Common stock	\$ 655,184	\$ 553,615
U.S. Government bonds	461,614	348,347
Corporate bonds	278,156	314,195
International bonds	16,011	38,925
Mutual funds	202,115	71,711
Short term deposits	<u>25,521</u>	<u>73,728</u>
	<u>\$1,638,601</u>	<u>\$1,400,521</u>

Investment return for the year ended September 30, 2005 is summarized as follows

	<u>2005</u>	<u>2004</u>
Interest and dividends	\$ 50,193	\$46,369
Net unrealized gain on investments	52,765	15,480
Net realized gain on sale of investments	<u>38,198</u>	<u>1,606</u>
	<u>\$141,156</u>	<u>\$63,455</u>

**7. Property and Equipment**

Property and equipment at September 30 consist of the following

	<u>2005</u>	<u>2004</u>
Land	\$ 388,800	\$ 388,800
Building	806,200	806,200
Building improvements	2,164,965	2,019,183
Office machinery and equipment	463,000	449,130
Furniture and fixtures	<u>234,636</u>	<u>207,119</u>
	4,057,601	3,870,432
Accumulated depreciation	<u>(1,514,178)</u>	<u>(1,383,322)</u>
	<u>\$ 2,543,423</u>	<u>\$ 2,487,110</u>

Depreciation expense for the years ended September 30, 2005 and 2004 was \$130,856 and \$136,094, 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 associated with the March 2005 refinancing, is amortized over the life of the loan and consists of the following at September 30

	<u>2005</u>
Legal fees	\$ 5,073
Other	<u>82,168</u>
	87,241
Accumulated amortization	<u>(2,424)</u>
	<u><u>\$84,817</u></u>

The mortgage financing cost from the original loan was fully amortized, and consisted of \$93,126 of the total expense for the year ended September 30, 2005.

Amortization expense for the years ended September 30, 2005 and 2004 was \$95,371 and \$4,965, respectively.

**9. Deferred Revenue**

Deferred revenue at September 30 consists of the following

	<u>2005</u>	<u>2004</u>
Conferences and other	\$ 98,096	\$ 574,730
Membership dues	<u>1,119,735</u>	<u>951,974</u>
	<u><u>\$1,217,831</u></u>	<u><u>\$1,526,704</u></u>

# **THE AMERICAN INSTITUTE OF GRAPHIC ARTS**

## **NOTES TO FINANCIAL STATEMENTS**

(Continued)

### **10. 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 that 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. In March 2005, AIGA paid the loan in full.

In August 2003, AIGA received an unsecured five year loan from the Bank of New York at 6.5% interest per annum. In March 2005, AIGA paid the loan in full.

In March 2005, AIGA entered into a 15 year mortgage loan agreement with Citibank, N.A. for \$1,900,000, at a fixed interest rate of 6.69% that matures on April 1, 2020. The loan proceeds were used to pay the remaining outstanding balance of \$1,130,000 of the mortgage bonds payable and to satisfy the remaining balance of \$193,173 of AIGA's loan with the Bank of New York.

Future principal payments are as follows

September 30, 2006	\$ 78,350
2007	83,756
2008	89,534
2009	95,711
2010	102,314
2011 and thereafter	1,419,202

Interest expense on all debt for the year ended September 30, 2005 and 2004 was \$133,094 and \$111,567, 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, AIGA Disaster Relief Fund, 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, 2005 consist of the following

Design Experience Fund	\$ 95,266
Archives Fund	<u>184,217</u>
	<u>\$279,483</u>

Temporarily restricted net assets at September 30, 2005 consist of the following

Scholarship Fund	\$53,864
Archives Fund	<u>365</u>
	<u>\$54,229</u>

**12. Net Assets Released from Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes during the year ended September 30, 2005

Scholarship Fund	\$20,000
Archives Fund	<u>24,635</u>
	<u>\$44,635</u>

**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, 2005 and 2004 amounted to \$81,484 and \$42,599, respectively.

**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, 2005 and 2004 totaled the following

	<u>2005</u>	<u>2004</u>
Management fees	\$ 12,000	\$ 12,000
Payroll and related benefits	<u>109,334</u>	<u>106,408</u>
	<u>\$121,334</u>	<u>\$118,408</u>