

# AMERICAN WELDING SOCIETY AND AWS FOUNDATION

## 2004–2005 ANNUAL REPORT

### We Are Financially Fit

It is always fun to write a report when I have good news to tell. I am, therefore, pleased to report that the American Welding Society is financially well. This has been the case for quite a while, and there is no reason to think this present situation should change anytime soon.

When an organization has a good change in the direction of its finances, there are always more than a couple of reasons for its new route. While I would like to tell you that all of this has been due to my leadership regarding the Society's monetary life, the truth is this turnaround took a strong team effort, and I would like to acknowledge those groups that have played a role in making AWS strong financially.

We can start with the Board of Directors. A while back, they recognized AWS needed a change in direction, and they began to make the operational changes that would allow the Society to do so. The members offered their combined expertise, and gave the necessary direction that would allow AWS to improve its condition.

The American Welding Society is fortunate to have a strong Finance Committee, which is made up of individuals from all segments of our industry. The members are corporate leaders who freely give their time and talents to assist us in making the proper financial decisions to guide the Society forward and to continually improve our financial position. I, as Finance Committee chair, feel most fortunate to have these individuals working for the benefit of AWS.

Volunteer groups are the backbone of our Society. Therefore, I also acknowledge and thank the many volunteers who make a commitment of their time for the work of all the AWS committees and subcommittees. These committees work constantly to improve our offerings and to give all of our operations guidance on how to do a better job.

I want to emphasize that all these committee members serve as volunteers. Many have the support of their respective corporations, and these companies also need to be recognized for allowing their people to serve and for the support they give to AWS. The volunteers are the Society's eyes and ears, and they keep us focused on the course we need to travel. A good example of the direction they've given the Society will be seen this month with the first-ever FABTECH International and AWS Welding Show.

I have often mentioned the value of our staff and would certainly be remiss if I failed to do so again as I acknowledge those responsible for our growth. The staff does the work to fulfill the directions given by the volunteers. The staff organizes the meetings required. They serve as committee secretaries, dispense the minutes, answer questions, and do research as directed. They do all they can to ensure the success of all the programs the volunteers put forth. We have a very good staff and are pleased with the results we get when we work with them on any project. They, too, are dedicated people who serve the Society with professionalism and with an attitude that always produces the results we are working so hard to achieve.

The results of the year-end audit and the Society's financial report follow. Take the time to read them. You will see it is evident that AWS is financially fit. My thanks, and the thanks of the entire Society, go to all who have contributed to these results.



Earl Liphhardt  
AWS Treasurer

#### Officers

**President** *Damian J. Kotecki*

The Lincoln Electric Co.

**Vice President** *Gerald D. Uttrachi*

WA Technology, LLC

**Vice President** *Gene E. Lawson*

ESAB Welding & Cutting Products

**Vice President** *Victor Y. Matthews*

The Lincoln Electric Co.

**Treasurer** *Earl C. Liphhardt*

Consultant

**Executive Director** *Ray W. Shook*

American Welding Society

#### Directors

T. R. Alberts (Dist. 4), *New River Community College*

B. P. Albrecht (At Large), *Miller Electric Mfg. Co.*

O. Al-Erhayem (At Large), *JOM*

A. J. Badeaux, Sr. (Dist. 3), *Charles Cty. Career & Tech. Center*

K. S. Baucher (Dist. 22), *Technicon Engineering Services, Inc.*

J. C. Bruskotter (Dist. 9), *Bruskotter Consulting Services*

C. F. Burg (Dist. 16), *Ames Laboratory IPRT*

N. M. Carlson (Dist. 20), *Idaho National Laboratory*

H. R. Castner (At Large), *Edison Welding Institute*

N. A. Chapman (Dist. 6), *Entergy Nuclear Northeast*

S. C. Chapple (At Large), *Consultant*

N. C. Cole (At Large), *NCC Engineering*

J. D. Compton (Dist. 21), *College of the Canyons*

L. P. Connor (Dist. 5), *Consultant*

J. E. Greer (Past President), *Moraine Valley C. C.*

M. V. Harris (Dist. 15), *Reynolds Welding Supply*

R. A. Harris (Dist. 10), *Penton Publishing Co.*

W. E. Honey (Dist. 8), *Anchor Research Corp.*

D. C. Howard (Dist. 7), *Concurrent Technologies Corp.*

J. L. Hunter (Dist. 13), *Mitsubishi Motor Mfg. of America, Inc.*

J. L. Mendoza (Dist. 18), *City Public Service*

S. P. Moran (Dist. 12), *Miller Electric Mfg. Co.*

T. M. Mustaleski (Past President), *BWXT Y-12, LLC*

R. L. Norris (Dist. 1), *Merriam Graves Corp.*

T. C. Parker (Dist. 14), *Miller Electric Mfg. Co.*

O. P. Reich (Dist. 17), *Texas State Technical College at Waco*

W. A. Rice (At Large), *OKI Bering, Inc.*

E. Siradakis (Dist. 11), *Airgas Great Lakes*

K. R. Stockton (Dist. 2), *PSE&G, Maplewood Testing Serv.*

P. F. Zammit (Dist. 19), *Brooklyn Iron Works, Inc.*

# REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

## Board of Directors American Welding Society, Inc. and AWS Foundation

We have audited the accompanying combining statement of financial position of American Welding Society, Inc. and AWS Foundation (the Organizations) as of May 31, 2005, and the related combining statements of activities and cash flows for the year then ended. These combining financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these combining financial statements based on our audit. Information for the year ended May 31, 2004 is presented for comparative purposes only and was extracted from the audited combining financial statements represented for that year.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combining 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 combining financial statements referred to above present fairly, in all material respects, the financial position of American Welding Society, Inc. and AWS Foundation as of May 31, 2005, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Rachlin Cohen & Holtz LLP  
Certified Public Accountants  
Miami, Florida  
July 22, 2005



## American Welding Society

550 N.W. LeJeune Road  
Miami, Florida 33126

800-443-9353  
305-443-9353  
305-443-7559 Fax  
e-mail: [info@aws.org](mailto:info@aws.org)  
[www.aws.org](http://www.aws.org)



## Foundation, Inc.

*Building Welding's Future through Education*

550 N.W. LeJeune Road  
Miami, Florida 33126

800-443-9353, ext. 293  
305-445-6628  
305-443-7559 Fax  
e-mail: [found@aws.org](mailto:found@aws.org)  
[www.aws.org/foundation/index.html](http://www.aws.org/foundation/index.html)

# AMERICAN WELDING SOCIETY, INC. AND AWS FOUNDATION COMBINING STATEMENT OF FINANCIAL POSITION

MAY 31, 2005 (WITH COMPARATIVE TOTALS FOR MAY 31, 2004)

	Operating Fund	Reserve Fund	AWS Foundation	Total 2005	Total 2004
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,809,432	\$ 43,037	\$ 730,539	\$ 2,583,008	\$ 2,518,108
Grants and contracts receivable	-	-	-	-	63,000
Accounts receivable, less allowance for possible losses of approximately \$94,000 and \$79,000 in 2005 and 2004, respectively	1,095,978	-	38,156	1,134,134	1,294,564
Pledges receivable	-	-	45,500	45,500	73,291
Inventory	103,924	-	-	103,924	205,093
Prepaid and other assets	396,108	-	114,547	510,655	693,366
Deposits and other receivables	17,614	-	44,120	61,734	88,401
Investments	-	5,353,514	3,538,894	8,892,408	6,691,752
Property and equipment, less accumulated depreciation	2,623,929	-	-	2,623,929	2,595,835
<b>Total assets</b>	<b>\$ 6,046,985</b>	<b>\$ 5,396,551</b>	<b>\$ 4,511,756</b>	<b>\$ 15,955,292</b>	<b>\$ 14,223,410</b>
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities:					
Accounts payable and accrued expenses	\$ 1,437,262	\$ -	\$ 34,806	\$ 1,472,068	\$ 1,331,682
Deferred membership, subscription and convention income	1,670,267	-	-	1,670,267	1,922,051
<b>Total liabilities</b>	<b>3,107,529</b>	<b>-</b>	<b>34,806</b>	<b>3,142,335</b>	<b>3,253,733</b>
Commitments and Contingencies	-	-	-	-	-
Net Assets:					
Unrestricted	2,881,346	5,396,551	151,479	8,429,376	6,723,487
Temporarily restricted	58,110	-	1,747,027	1,805,137	1,777,216
Permanently restricted	-	-	2,578,444	2,578,444	2,468,974
<b>Total net assets</b>	<b>2,939,456</b>	<b>5,396,551</b>	<b>4,476,950</b>	<b>12,812,957</b>	<b>10,969,677</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,046,985</b>	<b>\$ 5,396,551</b>	<b>\$ 4,511,756</b>	<b>\$ 15,955,292</b>	<b>\$ 14,223,410</b>

See notes to combining financial statements.

# AMERICAN WELDING SOCIETY, INC. AND AWS FOUNDATION COMBINING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED MAY 31, 2005 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MAY 31, 2004)

	<u>Unrestricted Net Assets</u>			Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total 2005	Total 2004
	Revenues	Expenses	Net				
<b>Operating Activities:</b>							
Convention	\$ 2,167,878	\$ 1,352,080	\$ 815,798	\$ -	\$ -	\$ 815,798	\$ 759,268
Education	428,337	472,258	(43,921)	-	-	(43,921)	(81,090)
Seminar and conference	1,658,839	1,501,434	157,405	-	-	157,405	99,604
Marketing and corporate communications	-	677,223	(677,223)	-	-	(677,223)	(644,746)
International marketing and governmental affairs	14,373	154,785	(140,412)	-	-	(140,412)	(130,596)
AWS Foundation	-	184,513	(184,513)	-	-	(184,513)	(176,717)
WEMCO	88,215	186,409	(98,194)	-	-	(98,194)	(99,183)
Membership	2,213,615	1,461,342	752,273	-	-	752,273	709,922
Certification	4,549,853	1,248,524	3,301,329	-	-	3,301,329	3,154,307
Technical	1,786,846	1,425,752	361,094	-	-	361,094	351,689
Publications	2,847,174	2,167,940	679,234	-	-	679,234	430,712
Administration	43,041	3,671,752	(3,628,711)	-	-	(3,628,711)	(4,043,541)
Building operations	54,090	54,090	-	-	-	-	-
Interest income	16,938	-	16,938	-	-	16,938	1,427
Safety and Health	-	-	-	(30,277)	-	(30,277)	-
International Accreditation Registry	1,175	56,613	(55,438)	-	-	(55,438)	(115,573)
Board approved programs	-	55,130	(55,130)	-	-	(55,130)	(15,105)
Total operating fund	15,870,374	14,669,845	1,200,529	(30,277)	-	1,170,252	200,378
<b>Reserve:</b>							
Gain on investments	281,475	-	281,475	-	-	281,475	101,992
TFPS, Inc.	401	-	401	-	-	401	435
Interest and dividends	125,600	-	125,600	-	-	125,600	87,960
Total reserve fund	407,476	-	407,476	-	-	407,476	190,387
<b>AWS Foundation:</b>							
Donations	204,773	-	204,773	158,273	96,453	459,499	480,011
Interest	17,815	-	17,815	64,521	-	82,336	85,521
Gain on investments	198,589	-	198,589	-	-	198,589	210,308
Net assets released from restrictions by satisfaction of purpose restrictions	151,577	-	151,577	(151,577)	-	-	-
Operating expenses	-	129,303	(129,303)	-	-	(129,303)	(166,296)
Scholarships	-	185,619	(185,619)	-	-	(185,619)	(157,130)
Fellowships	-	91,666	(91,666)	-	-	(91,666)	(116,666)
Fundraising and other	-	68,282	(68,282)	-	-	(68,282)	(58,816)
Total AWS Foundation	\$ 572,754	\$ 474,870	97,884	71,217	96,453	265,554	276,932
Change in Net Assets			1,705,889	40,940	96,453	1,843,282	667,697
Transfer In/Out			-	(13,017)	13,017	-	-
Net Assets, Beginning			6,723,487	1,777,214	2,468,974	10,969,675	10,301,980
Net Assets, Ending			\$ 8,429,376	\$ 1,805,137	\$ 2,578,444	\$ 12,812,957	\$ 10,969,677

See notes to combining financial statements.

# AMERICAN WELDING SOCIETY, INC. AND AWS FOUNDATION COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED MAY 31, 2005 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MAY 31, 2004)

	Operating Fund	Reserve Fund	AWS Foundation	Total 2005	Total 2004
<b>Cash Flows from Operating Activities:</b>					
Change in net assets	\$ 1,170,252	\$ 407,476	\$ 265,554	\$ 1,843,282	\$ 667,697
Adjustments to reconcile change in net assets to net cash provided by operating activities:					
Gains on investments	-	(281,475)	(198,589)	(480,064)	(312,300)
Depreciation	216,215	-	-	216,215	284,010
Provision for losses on accounts receivable	45,000	-	-	45,000	20,000
(Increase) decrease in accounts receivable	121,284	-	(5,854)	115,430	800
Decrease in pledges receivable	-	-	27,791	27,791	115,134
Decrease in grants and contract receivable	13,000	-	50,000	63,000	6,655
Decrease in inventory	101,169	-	-	101,169	164,299
(Increase) decrease in prepaids and other assets	184,013	-	(1,302)	182,711	139,205
(Increase) decrease in deposits and other receivables	(5,647)	-	32,314	26,667	61,072
Increase in accounts payable and accrued expenses	133,482	-	6,901	140,383	72,821
Decrease in deferred membership, subscription and convention income	(251,784)	-	-	(251,784)	(5,371)
Net cash provided by operating activities	<u>1,726,984</u>	<u>126,001</u>	<u>176,815</u>	<u>2,029,800</u>	<u>1,214,022</u>
<b>Cash Flows from Investing Activities:</b>					
Purchases of property and equipment	(244,309)	-	-	(244,309)	(241,507)
Loss on disposal of property and equipment	-	-	-	-	22,595
Purchases of investment securities	-	(625,600)	(1,094,991)	(1,720,591)	(791,555)
Net cash used in investing activities	<u>(244,309)</u>	<u>(625,600)</u>	<u>(1,094,991)</u>	<u>(1,964,900)</u>	<u>(1,010,467)</u>
<b>Cash Flows from Financing Activities:</b>					
Interfund transfers	(500,000)	500,000	-	-	-
Payments on capital leases	-	-	-	-	(78,088)
Net cash (used in) provided by financing activities	<u>(500,000)</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>(78,088)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	982,675	401	(918,176)	64,900	125,467
Cash and Cash Equivalents, Beginning	826,757	42,636	1,648,715	2,518,108	1,219,176
Cash and Cash Equivalents, Ending	<u>\$ 1,809,432</u>	<u>\$ 43,037</u>	<u>\$ 730,539</u>	<u>\$ 2,583,008</u>	<u>\$ 1,344,643</u>

See notes to combining financial statements.

# AMERICAN WELDING SOCIETY, INC. AND AWS FOUNDATION

## NOTES TO COMBINING FINANCIAL STATEMENTS MAY 31, 2005

### NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### *Organization and Purpose*

The accompanying combining financial statements include the accounts of American Welding Society, Inc., its wholly-owned subsidiary TFPS, Inc. and its affiliate, AWS Foundation (collectively, the "Organizations").

All material inter-organization accounts and transactions have been eliminated in combination. American Welding Society, Inc. and AWS Foundation are not-for-profit entities, exempt from income tax under Section 501 (c)(3) of the Internal Revenue Code and are primarily engaged in welding technology, education and research activities. For income tax purposes, publication advertising revenue and rental income are considered unrelated business income and subject to income tax. TFPS, Inc., a taxable organization, engages in profit-oriented activities.

#### *Basis of Accounting*

The financial statements of the Organizations are prepared on the accrual basis of accounting. The accounts of the Organizations are maintained for internal reporting purposes in accordance with the principles of fund accounting.

#### *Basis of Presentation*

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Statement (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Organizations are required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are not subject to donor-imposed stipulations. Temporarily restricted net assets are subject to donor-imposed restrictions that can be fulfilled by actions of the Organizations or by time restrictions pursuant to the donor-imposed restrictions. Permanently restricted net assets are restricted by donor restrictions to investments in perpetuity. Generally, the donors of such assets permit the Organizations to use all or part of the income earned on the assets.

The transactions of the Organizations are categorized into separate funds. The purpose and net asset classification are as follows:

**Operating** – This fund is used to account for all unrestricted net assets of American Welding Society, Inc., except for those accounted for in the reserve fund. The operating fund also provides administrative support to the AWS Foundation.

**Reserve** – This fund is used to account for Board designated reserve funds which are to be used to supplement the cash needs of the operating fund and to account for the activities of TFPS, Inc.

**AWS Foundation** – AWS Foundation's temporarily restricted net assets consist of donor-restricted contributions to be used for awards and scholarships. Permanently restricted net assets consist solely of an endowment fund.

#### *Membership Fees and Services*

The Organizations conduct an annual convention near the Organizations' fiscal year-end. The Organizations recognize convention revenue in the fiscal year the convention is held, or normally held, thereby recognizing one event during any fiscal year.

Membership and subscription revenues are deferred when received and recognized as revenue over the life of the membership and subscription.

#### *Contributions*

The Organizations account for contributions in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made Except for the Accounting for Unconditional Promises to Give*. In accordance with SFAS No. 116, contributed goods and services are recorded as contributions at their estimated fair value at date of receipt.

Contributed services are recognized as contributions at their estimated fair value, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organizations. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since these are not susceptible to objective measurement or valuation.

#### *Promises to Give*

Contributions are recognized when the donor makes a promise to give to the Organizations that is, in substance, unconditional. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets. The Organizations had no unconditional promises to give as of May 31, 2005.

The Organizations uses the allowance method to determine the estimated unconditional promises to give that are doubtful of collection. The allowance is based on prior years' experience and management's analysis of specific promises made.

#### *Cash Equivalents*

The Organizations consider all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

#### *Investments*

The Organizations carry investments in marketable securities with readily determinable market values at their fair value in

# AMERICAN WELDING SOCIETY, INC. AND AWS FOUNDATION

## NOTES TO COMBINING FINANCIAL STATEMENTS MAY 31, 2005

### NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Investments (continued)*

the statement of financial position. Investment income, including realized and unrealized gains and losses are reported as either unrestricted, temporarily restricted or permanently restricted, depending on the existence of donor imposed restrictions on the income from the investments in the statement of activities and changes in net assets.

#### *Property and Equipment*

Property and equipment are defined by the Organizations as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Property and equipment is stated at cost and is depreciated using the straight-line method over the following estimated useful lives of the respective assets:

#### Estimated Useful Lives (Years)

Building and improvements	14–29
Furniture and equipment	5–7

#### *Inventory*

Inventory consists primarily of work-in-process relating to various publications and is valued at cost. Cost is determined by the actual expenditures incurred in the production process.

#### *Concentration of Credit Risk*

Financial instruments that potentially subject the Organizations to a concentration of credit risk is cash. The Organizations maintains their cash in several commercial banks. Accounts at each bank are insured by the Federal Deposit Insurance Corporation up to \$100,000 per bank. As of May 31, 2005 the Organization maintained cash balances totaling approximately \$1,795,000 at institutions in excess of this federally insured limit; of this amount, approximately \$1,611,000 was invested in overnight repurchase agreements to obtain optimum investment income. The Organizations maintain their deposits in high quality financial institutions which the Organizations believe limits this risk. The Organizations' investments are subject to the normal "market risks" of these types of investments, which are traded on equity markets.

#### *Donated Services*

The Organization receives donated services from a variety of unpaid volunteers who assist in fund raising. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 has not been satisfied.

#### *Donated Assets*

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values as of the date of donation. Donated property and equipment is recorded at estimated fair value at the date of donation. There was no donated property or equipment during 2005.

#### *Allocation Expenses*

The costs of performing the Organizations' various activities have been summarized on a functional basis in the accompanying combined statement of activities. Certain occupancy costs have been allocated among the activities benefited.

#### *Prepays and Other Assets*

Prepays and other assets consist primarily of work-in-process costs relating to various publications that have not yet been released for distribution. Once the publication is complete and ready for its intended use, the costs are amortized over the life of the publications, usually between two to three years. Additionally, expenditures which relate to programs for the next fiscal year are reported as a prepaid asset and are expensed during the next year as the related program function takes place.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

#### *Income Taxes*

American Welding Society, Inc. and AWS Foundation are not-for-profit corporations are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organizations are taxed on unrelated business income. There was no unrelated business income during the year ended May 31, 2005.

#### *Reclassifications*

Certain items included in the 2004 combining financial statements have been reclassified to conform with the presentation in the 2005 combining financial statements.

### NOTE 2. PLEDGES RECEIVABLE

Unconditional promises are expected to be realized as follows:

In one year or less	\$ 14,500
Between one and five years	25,500
More than five years	5,500
	<u>\$ 45,500</u>

Pledges receivable in the amount of \$32,500 as of May 31, 2005 are restricted for awards and scholarships. Management believes that all pledges are fully collectible and, therefore has not recorded an allowance for collection losses.

# AMERICAN WELDING SOCIETY, INC. AND AWS FOUNDATION

## NOTES TO COMBINING FINANCIAL STATEMENTS MAY 31, 2005

### NOTE 3. INVESTMENTS

Investments, which are comprised entirely of mutual funds, are presented in the combining financial statements at their fair market values and consist of the following at May 31, 2005:

#### Vanguard Investments

High-Yield Corporate Fund	\$ 304,155
Intermediate-Term Corporate Fund	682,676
Long-Term Bond Index Fund	345,358
Short-Term Bond Index Fund	364,576
Short-Term Corporate Fund	455,748
Explorer Fund	193,357
Total Stock Market Index Fund	1,281,273
Strategic Equity Fund	193,519
Total International Stock Index Fund	637,250
U.S. Growth Fund	448,433
Windsor II Fund	447,169
Reserve Fund Investments	<u>5,353,514</u>

#### Vanguard Investments

Prime Money Market Fund	14,252
VBS Stock Holdings	7,296
High-Yield Corporate Fund	327,519
Intermediate-Term Bond Index Fund	346,411
Long-Term Bond Index Fund	386,483
Short-Term Bond Index Fund	394,617
Intermediate-Term Corporate Fund	462,458
Short-Term Corporate Fund	454,540
Explorer Fund	140,656
Total Stock Market Index Fund	1,104,922
Strategic Equity Fund	143,697
Total International Stock Index Fund	215,562
U.S. Growth Fund	375,465
Windsor II Fund	385,116
Less: Section Fund Investments	(1,220,100)
AWS Foundation Investments	<u>3,538,894</u>
Total Investments	<u>\$ 8,892,408</u>

Investment income consisted of the following for the year ended May 31, 2005:

	<u>Reserve Fund</u>	<u>AWS Foundation</u>
Interest and dividends	\$ 125,600	\$ 82,336
Net realized and unrealized gains on investments	<u>281,475</u>	<u>198,589</u>
	<u><u>\$ 407,075</u></u>	<u><u>\$ 280,925</u></u>

#### *Risks and Uncertainties*

The Organizations have investments in mutual funds that are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect balances and the amounts reported in the combining statement of financial position and combining

statement of activities. The Organizations, through their investment advisor, monitors the Organizations' investments and the risks associated on a regular basis, which the Organizations believe minimizes these risks.

### NOTE 4. PROPERTY AND EQUIPMENT

Land	\$ 816,726
Building and improvements	4,501,280
Furniture and equipment	<u>4,051,812</u>
	<u>9,369,818</u>
Less accumulated depreciation	<u>6,745,889</u>
	<u><u>\$ 2,623,929</u></u>

Depreciation expense was \$216,215 for the year ended May 31, 2005.

### NOTE 5. TEMPORARILY RESTRICTED NET ASSETS

Net assets of the AWS Foundation in the amount of \$1,805,137 as of May 31, 2005, are restricted for awards and scholarships. Net assets of \$151,577 were released from donor restrictions by granting awards and scholarships.

### NOTE 6. PERMANENTLY RESTRICTED NET ASSETS

Net assets in the amount of \$2,578,444 as of May 31, 2005, are permanently restricted endowments which are to provide a source of funds predominantly for educational, research and other charitable purposes.

### NOTE 7. BOARD APPROVED PROGRAMS

American Welding Society, Inc.'s Board of Directors periodically approves expenditures for special programs designed, among other things, to further the development and public awareness of welding technology, education and standards. For the year ended May 31, 2005, such special program expenses amounted to \$55,130.

### NOTE 8. COMMITMENTS AND CONTINGENCIES

#### *Deferred Compensation Plan*

American Welding Society, Inc.'s former Executive Director was employed under the terms of an employment contract. The contract provided for base compensation and bonuses at the discretion of the Board of Directors as well as severance compensation under certain circumstances. Additionally, the contract addresses post-separation benefits.

In 2002, the Organizations elected not to renew the contract, and therefore the former Executive Director's employment with the Organizations ended. Pursuant to the former Executive Director's employment contract, he is claiming certain deferred compensation and employment benefits. On August 21, 2003, the former Executive Director filed a demand for arbitration.

# **AMERICAN WELDING SOCIETY, INC. AND AWS FOUNDATION NOTES TO COMBINING FINANCIAL STATEMENTS MAY 31, 2005**

## **NOTE 8. COMMITMENTS AND CONTINGENCIES (Continued)**

### ***Deferred Compensation Plan (Continued)***

The Organizations have engaged legal counsel and are vigorously defending this claim and believe that such is without merit. The Organizations have accrued approximately \$468,000 as their best estimate of the contingent liability associated with the former Executive Director's claim. Currently, the outcome of the case cannot be determined.

### ***Litigation***

The Organizations are exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Organizations' financial position or results of operations.

Various claims and lawsuits incidental to the Organizations' operations are pending against the Organizations. Although the outcome of these claims and lawsuits are not presently determinable in the opinion of the Organizations' counsel and management, any claims or lawsuits not covered by insurance would not have a material adverse effect on the financial condition of the Organizations.

### ***Royalty Agreement***

During 2001, American Welding Society, Inc. (the "Organization") entered into a Copyright License Agreement with Information Handling Services ("IHS"), whereby IHS has been given rights to duplicate, package, facsimile transmit, promote, distribute, sell or lease the Organization's standards and technical publications. The term of the agreement is for sixty months and commenced on January 1, 2001. IHS guarantees the Organization that the total royalty payments to the Organization will equal or exceed minimum amounts of \$1,300,000 for each of the upcoming years. The guarantee is contingent upon the Organization not entering into any other agreements with third parties that will adversely affect the economics of the agreement. The Organization will continue to produce new and revised publications and will continue to release these publications periodically as indicated, and the list price will be no less than the prices as indicated in the Organization's catalog. Under the terms of this agreement the Organization earned approximately \$1,300,000 during the year ended May 31, 2005.

## **NOTE 9. RELATED PARTY TRANSACTIONS**

AWS Foundation administers investments on behalf of certain affiliated sections. The investments aggregated \$1,220,100 at May 31, 2005 and are not included in the combining financial statements.

The American Welding Society has loaned monies to a number of employees at the Society. Generally, the loans bear interest at 8% per annum and are repaid via monthly payroll

deductions. The repayment terms range from less than a year to five years. The loans are not collateralized. The balance outstanding at May 31, 2005 was approximately \$3,700 and is reported with the financial statement caption "Deposits and Other Receivables".

## **NOTE 10. EMPLOYEE BENEFIT PLAN**

The Organizations have a simplified employee pension plan for all full-time employees. Full-time employees are eligible for participation in the plan the first day of the month after they are employed. The Organizations will contribute a maximum of 4% of the employees' base salary. 2% of the employees' contribution is a 50% match of the employees' contribution. The Organization made contributions totaling approximately \$187,000 during the year ended May 31, 2005.