AMERICAN WELDING SOCIETY AND AWS FOUNDATION
2003–2004 ANNUAL REPORT

Board of Directors’ Message

The Society’s 2003-2004 fiscal year reflected the economic trends our country experienced. There were promising indicators, but caution and prudence must remain the steering currents. There were some very encouraging signs though. The operating surplus was in excess of $200,000, which is the highest it has been in six years and the second highest in the past 17 years. A strong contributor to revenues continues to be the Society’s certification programs. The Seminars and Conferences Department experienced an encouraging turnaround. From a net operating loss during the prior fiscal year, it contributed almost $100,000 during this fiscal reporting period. A truly noteworthy development was the combined net assets of the Society and the Foundation were almost $11-million, which is a historical high.

To provide guidance and direction to the Society’s pursuits, the Board of Directors instructed the Executive Director and Staff to develop a strategic plan. The result was a plan extended over the next three years that pinpointed 13 initiatives, which included growth in membership and certification programs; a broader scope for conferences and seminars; exploration of alliances and partnering opportunities; determination of the future direction of the Welding Show; promotion of welding education, training, and research; the development of new technical documents; increased marketing of products; and maintaining the excellence of the Welding Journal while investigating other periodical opportunities. Additionally, the Executive Director and Staff have developed an on-going business plan to guide the Society’s future ventures.

In conjunction with the development of the strategic plan, the Board of Directors, recognizing the Society’s plans must include the broad range of disciplines that fill the interests and professional pursuits of its members, made an adjustment to the Society’s mission statement as follows: “The mission of the American Welding Society is to advance the science, technology, and application of welding and allied processes, including joining, brazing, soldering, cutting, and thermal spraying.

Other developments during the reporting period included entering into a contract with Open Text AG to develop a web-based environment for the development of AWS standards. The system went live on November 24, 2003, enabling the electronic circulation of committee documents, drafts and ballots, as well as conducting Web-based meetings and discussions. This system should speed up the standards development process while at the same time reduce postage and in-house copying expenses. It will also allow more volunteers to participate through virtual meetings and electronic discussion groups. The system is open for use by all AWS committees from the Board of Directors down to subcommittee level.

The newest volume of the Welding Handbook, Welding Processes, Part 1, made its debut at the 2004 AWS Welding Show in Chicago. This publication contains new and updated information on welding, brazing, soldering, and thermal cutting processes, as well as power sources. Approximately 100 experts were involved in its review and production, making the final 720-page book a reflection of the strength of the Society’s committee system.

The Gases and Welding Distributors Association (GAWDA) held its first Spring Management Conference in conjunction with the AWS Welding Show in Chicago last April, and it plans to do so again at the AWS Welding Show in Dallas next spring.

During the reporting period, a letter of intent was signed by the AWS and organizers of FABTECH International to pursue discussion of a mutually beneficial business alliance. The results of that pursuit are reported on page 4 in this issue of the Welding Journal.

The Society faced many challenges during this past fiscal year, but with firm and steady leadership, those challenges were met and new initiatives were launched. The Society finished the fiscal year in a very promising financial position.
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying combined statement of financial position of American Welding Society, Inc. and AWS Foundation (the Organizations) as of May 31, 2004 and the related combined statements of activities, changes in net assets and cash flows for the year then ended. These combined financial statements are the responsibility of the Organizations’ management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The financial statements of the prior period were audited by other auditors whose report dated August 1, 2003, expressed an unqualified opinion on those statements. Information for the year ended May 31, 2003 is presented for comparative purposes only and was extracted from the audited combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 combined 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, 2004, 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 23, 2004
## American Welding Society, Inc. and AWS Foundation

### Combined Statement of Financial Position

**MAY 31, 2004 (WITH COMPARATIVE TOTALS FOR MAY 31, 2003)**

<table>
<thead>
<tr>
<th>Operating Reserve</th>
<th>AWS Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund</td>
<td>Fund</td>
<td>Foundation</td>
</tr>
</tbody>
</table>

### ASSETS

- **Cash and cash equivalents**
  - 2004: $826,756
  - 2003: $42,637
  - 2004 Foundation: $475,251
  - 2003 Foundation: $1,344,644
  - 2004 Total: $1,219,176

- **Grants and contracts receivable**
  - 2004: $13,000
  - 2003: $50,000
  - 2004 Foundation: $63,000
  - 2003 Foundation: $69,655

- **Accounts receivable, less allowance for possible losses of approximately $79,000 and $95,000 in 2004 and 2003, respectively**
  - 2004: $1,262,262
  - 2003: $32,302
  - 2004 Foundation: $63,000
  - 2003 Foundation: $69,655

- **Pledges receivable**
  - 2004: $73,291
  - 2003: $73,291
  - 2004 Foundation: $73,291
  - 2003 Foundation: $73,291

- **Inventory**
  - 2004: $205,093
  - 2003: $-?
  - 2004 Foundation: $205,093
  - 2003 Foundation: $369,391

- **Prepaid and other assets**
  - 2004: $580,121
  - 2003: $-?
  - 2004 Foundation: $113,245
  - 2003 Foundation: $693,366

- **Deposits and other receivables**
  - 2004: $11,967
  - 2003: $-?
  - 2004 Foundation: $76,434
  - 2003 Foundation: $88,401

- **Investments**
  - 2004: $4,446,441
  - 2003: $3,418,775
  - 2004 Foundation: $7,865,216
  - 2003 Foundation: $6,761,363

- **Property and equipment, less accumulated depreciation**
  - 2004: $2,595,835
  - 2003: $-?
  - 2004 Foundation: $3,418,775
  - 2003 Foundation: $7,865,216

- **Total assets**
  - 2004: $5,495,034
  - 2003: $4,489,078
  - 2004 Foundation: $4,239,298
  - 2003 Foundation: $14,223,410
  - 2004 Total: $13,566,348

### LIABILITIES AND NET ASSETS

#### Liabilities:

- **Accounts payable and accrued expenses**
  - 2004: $1,303,777
  - 2003: $27,905
  - 2004 Foundation: $1,922,051
  - 2003 Foundation: $1,927,421

- **Deferred membership, subscription and convention income**
  - 2004: $205,063
  - 2003: $-?
  - 2004 Foundation: $205,063
  - 2003 Foundation: $369,391

- **Capital leases**
  - 2004: $-?
  - 2003: $-?
  - 2004 Foundation: $78,084
  - 2003 Foundation: $78,084

- **Total liabilities**
  - 2004: $3,225,828
  - 2003: $27,905
  - 2004 Foundation: $3,369,366
  - 2003 Foundation: $3,264,368

#### Net Assets:

- **Unrestricted**
  - 2004: $2,180,819
  - 2003: $4,489,078
  - 2004 Foundation: $53,590
  - 2003 Foundation: $6,723,487
  - 2004 Total: $6,279,131

- **Temporarily restricted**
  - 2004: $88,387
  - 2003: $1,688,829
  - 2004 Foundation: $1,777,216
  - 2003 Foundation: $1,856,501

- **Permanently restricted**
  - 2004: $-?
  - 2003: $2,468,974
  - 2004 Foundation: $2,468,974
  - 2003 Foundation: $2,166,348

- **Total net assets**
  - 2004: $2,209,206
  - 2003: $4,489,078
  - 2004 Foundation: $4,211,393
  - 2003 Foundation: $10,969,677
  - 2004 Total: $10,301,390

- **Total liabilities and net assets**
  - 2004: $5,495,034
  - 2003: $4,489,078
  - 2004 Foundation: $4,239,298
  - 2003 Foundation: $14,223,410
  - 2004 Total: $13,566,348

See notes to combined financial statements.
# AMERICAN WELDING SOCIETY, INC. AND AWS FOUNDATION
## COMBINED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

### YEAR ENDED MAY 31, 2004 (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MAY 31, 2003)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>Expenses</td>
<td>Net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convention</td>
<td>$ 2,190,737</td>
<td>$ 1,431,469</td>
<td>$ 759,268</td>
<td>$ 759,268</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>337,217</td>
<td>418,307</td>
<td>(81,090)</td>
<td>(81,090)</td>
</tr>
<tr>
<td>Seminar and conference</td>
<td>1,630,779</td>
<td>1,531,175</td>
<td>99,604</td>
<td>99,604</td>
</tr>
<tr>
<td>Marketing and corporate communications</td>
<td>-</td>
<td>644,746</td>
<td>(644,746)</td>
<td>(644,746)</td>
</tr>
<tr>
<td>International marketing and government affairs</td>
<td>16,752</td>
<td>147,348</td>
<td>(130,596)</td>
<td>(130,596)</td>
</tr>
<tr>
<td>AWS Foundation</td>
<td>-</td>
<td>176,717</td>
<td>(176,717)</td>
<td>(176,717)</td>
</tr>
<tr>
<td>WEMCO</td>
<td>79,940</td>
<td>179,123</td>
<td>(99,183)</td>
<td>(99,183)</td>
</tr>
<tr>
<td>Membership</td>
<td>2,146,888</td>
<td>1,436,966</td>
<td>709,922</td>
<td>709,922</td>
</tr>
<tr>
<td>Certification</td>
<td>4,410,946</td>
<td>1,528,891</td>
<td>3,154,057</td>
<td>3,154,057</td>
</tr>
<tr>
<td>Technical</td>
<td>1,880,580</td>
<td>1,528,891</td>
<td>351,690</td>
<td>351,690</td>
</tr>
<tr>
<td>Publications</td>
<td>2,705,916</td>
<td>2,365,204</td>
<td>430,712</td>
<td>430,712</td>
</tr>
<tr>
<td>Administration</td>
<td>35,153</td>
<td>4,078,694</td>
<td>(4,043,541)</td>
<td>(4,043,541)</td>
</tr>
<tr>
<td>Building operations</td>
<td>52,217</td>
<td>52,217</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,427</td>
<td>-</td>
<td>1,427</td>
<td>1,427</td>
</tr>
<tr>
<td>International Accreditation Registry</td>
<td>9,475</td>
<td>125,048</td>
<td>(115,573)</td>
<td>(115,573)</td>
</tr>
<tr>
<td>Board approved programs</td>
<td>-</td>
<td>15,105</td>
<td>(15,105)</td>
<td>(15,105)</td>
</tr>
<tr>
<td>Total operating fund</td>
<td>15,588,027</td>
<td>15,387,649</td>
<td>200,378</td>
<td>200,378</td>
</tr>
</tbody>
</table>

### Reserve:

| Gain on investments      | 101,992                          | -                                 | 101,992               | 182,685               |
| TFPS, Inc.               | 435                              | -                                 | 435                   | 274                   |
| Interest and dividends   | 87,960                           | -                                 | 87,960                | 145,492               |
| Total reserve fund       | 190,387                          | -                                 | 190,387               | 328,451               |

### AWS Foundation:

| Donations                | 235,394                          | -                                 | 235,394               | 550,416               |
| Interest                 | 34,237                           | -                                 | 34,237                | 91,449                |
| Gain on investments      | 210,308                          | -                                 | 210,308               | 83,952                |
| Net assets released from restrictions by satisfaction of purpose restrictions | 72,560 | - | 72,560 | - |
| Operating expenses       | -                                 | 166,296                          | (166,296)             | (135,838)             |
| Scholarships             | -                                 | 157,130                          | (157,130)             | (155,688)             |
| Fellowships              | -                                 | 116,666                          | (116,666)             | (116,666)             |
| Fundraising and other    | -                                 | 58,816                           | (58,816)              | (32,739)              |
| Total AWS Foundation     | $ 552,490                        | $ 498,908                        | 53,591                | 53,591                |

### Change in Net Assets:

| Transfer In/Out          | 444,356                          | 138,833                          | 84,408                | 667,607               |
| Net Assets, Beginning    | 6,279,131                        | 1,856,501                        | 2,166,348             | 10,301,980            |
| Net Assets, End          | $ 6,723,487                      | $ 1,777,216                      | $ 2,468,974           | $ 10,969,677          |

See notes to combined financial statements.
## AMERICAN WELDING SOCIETY, INC. AND AWS FOUNDATION
### COMBINED STATEMENT OF CASH FLOWS

**YEAR ENDED MAY 31, 2004** (WITH COMPARATIVE TOTALS FOR THE YEAR ENDED MAY 31, 2003)

<table>
<thead>
<tr>
<th>Operating Fund</th>
<th>Reserve Fund</th>
<th>AWS Foundation</th>
<th>Total 2004</th>
<th>Total 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows from Operating Activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$200,378</td>
<td>$100,387</td>
<td>$270,932</td>
<td>$667,697</td>
<td>$1,152,496</td>
</tr>
<tr>
<td><strong>Adjustments to reconcile change in net assets to net cash provided by operating activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Gains on investments</td>
<td>(101,992)</td>
<td>(210,308)</td>
<td>(312,300)</td>
<td>(265,737)</td>
</tr>
<tr>
<td>- Depreciation</td>
<td>264,010</td>
<td>-</td>
<td>-</td>
<td>260,769</td>
</tr>
<tr>
<td>- Provision for losses on accounts receivable</td>
<td>20,000</td>
<td>-</td>
<td>-</td>
<td>25,000</td>
</tr>
<tr>
<td>- (Increase) decrease in accounts receivable (4,696)</td>
<td>-</td>
<td>115,134</td>
<td>115,134</td>
<td>27,001</td>
</tr>
<tr>
<td>- Decrease in grants and contract receivable</td>
<td>6,655</td>
<td>-</td>
<td>-</td>
<td>13,245</td>
</tr>
<tr>
<td>- Decrease in inventory</td>
<td>164,290</td>
<td>-</td>
<td>-</td>
<td>69,227</td>
</tr>
<tr>
<td>- Decrease in prepaids and other assets</td>
<td>134,444</td>
<td>-</td>
<td>6,655</td>
<td>289,533</td>
</tr>
<tr>
<td>- (Increase) decrease in deposits and other receivables</td>
<td>64,811</td>
<td>-</td>
<td>(3,739)</td>
<td>38,387</td>
</tr>
<tr>
<td>- Increase (decrease) in accounts payable and accrued expenses</td>
<td>50,425</td>
<td>-</td>
<td>13,396</td>
<td>(703,558)</td>
</tr>
<tr>
<td>- Decrease in deferred membership subscription and convention income</td>
<td>(5,371)</td>
<td>-</td>
<td>-</td>
<td>(263,072)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>923,955</td>
<td>88,395</td>
<td>201,672</td>
<td>1,214,022</td>
</tr>
<tr>
<td><strong>Cash Flows from Investing Activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Purchases of property and equipment, net</td>
<td>(241,507)</td>
<td>-</td>
<td>-</td>
<td>(273,880)</td>
</tr>
<tr>
<td>- Loss on disposal of property and equipment</td>
<td>22,595</td>
<td>-</td>
<td>-</td>
<td>22,595</td>
</tr>
<tr>
<td>- Proceeds from sales and maturities of investment securities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>329,968</td>
</tr>
<tr>
<td>- Purchases of investment securities</td>
<td>-</td>
<td>(287,960)</td>
<td>(503,595)</td>
<td>(1,010,467)</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(218,912)</td>
<td>(287,960)</td>
<td>(503,595)</td>
<td>(1,010,467)</td>
</tr>
<tr>
<td><strong>Cash Flows from Financing Activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interfund transfers</td>
<td>(111,613)</td>
<td>200,000</td>
<td>(88,887)</td>
<td>-</td>
</tr>
<tr>
<td>- Payments on capital leases</td>
<td>(78,088)</td>
<td>-</td>
<td>-</td>
<td>(81,508)</td>
</tr>
<tr>
<td><strong>Net cash used in (provided by) financing activities</strong></td>
<td>(189,701)</td>
<td>200,000</td>
<td>(88,887)</td>
<td>(81,508)</td>
</tr>
<tr>
<td><strong>Net Increase (Decrease) in Cash and Cash Equivalents</strong></td>
<td>515,342</td>
<td>405</td>
<td>(300,310)</td>
<td>125,467</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents, Beginning of Year</strong></td>
<td>311,413</td>
<td>42,202</td>
<td>865,561</td>
<td>1,219,176</td>
</tr>
<tr>
<td><strong>Cash and Cash Equivalents, End of Year</strong></td>
<td>$826,755</td>
<td>$42,637</td>
<td>$475,251</td>
<td>$1,219,176</td>
</tr>
</tbody>
</table>

See notes to combined financial statements.
NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

The accompanying combined 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 conditional promises to give as of May 31, 2004.

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
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 maintain 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, 2004 the Organization maintained cash balances totaling approximately $750,000 at institutions in excess of this federally insured limit; of this amount, approximately $654,000 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 2004.

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, 2004.

Reclassifications

Certain items included in the 2003 combined financial statements have been reclassified to conform with the presentation in the 2004 combined financial statements.

NOTE 2. PLEDGES RECEIVABLE

Unconditional promises are expected to be realized as follows:

- In one year or less: $34,000
- Between one and five years: $34,791
- More than five years: $4,500

Pledges receivable in the amount of $44,437 as of May 31, 2004 are restricted for awards and scholarships. Management believes that all pledges are fully collectible and, therefore has not recorded an allowance for collection losses.
NOTE 3. INVESTMENTS

Investments, which are comprised entirely of mutual funds, are presented in the combined financial statements at their fair market values and consist of the following at May 31, 2004:

**Vanguard Investments**
- High-Yield Corporate Fund $236,656
- Intermediate-Term Corporate Fund 528,935
- Long-Term Bond Index Fund 235,060
- Short-Term Bond Index Fund 335,179
- Short-Term Corporate Fund 444,858
- Explorer Fund 155,950
- Total Stock Market Index Fund 1,067,051
- Strategic Equity Fund 155,896
- Total International Stock Index Fund 531,387
- U.S. Growth Fund 377,851
- Windsor II Fund 377,619
- Reserve Fund Investments 4,446,441

**Total Investments** $7,865,216

Investment income consisted of the following for the year ended May 31, 2004:

<table>
<thead>
<tr>
<th>Reserve Fund</th>
<th>AWS Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends $87,960</td>
<td>$85,521</td>
</tr>
<tr>
<td>Net realized and unrealized gains on investments $101,992</td>
<td>210,308</td>
</tr>
<tr>
<td><strong>Total</strong> $189,952</td>
<td>$295,829</td>
</tr>
</tbody>
</table>

NOTE 4. PROPERTY AND EQUIPMENT

- Land $816,726
- Building and improvements 4,369,999
- Furniture and equipment 3,938,784
- Less accumulated depreciation 9,125,509
- **Total** $2,505,835

Depreciation expense was $284,010 for the year ended May 31, 2004.

NOTE 5. TEMPORARILY RESTRICTED NET ASSETS

Net assets of the AWS Foundation in the amount of $1,688,829 as of May 31, 2004, are restricted for awards and scholarships. Net assets of $72,560 were released from donor restrictions by granting awards and scholarships.

NOTE 6. PERMANENTLY RESTRICTED NET ASSETS

Net assets in the amount of $2,468,974 as of May 31, 2004, 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, 2004, such special program expenses amounted to $15,000.

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 provides 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.

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.
NOTE 8. COMMITMENTS AND CONTINGENCIES (Continued)

Litigation (Continued)

During the year ended May 31, 2002, the Organizations filed a lawsuit against parties who contracted to provide services including the installation of a computer system. Management had determined that the computer system was not capable of handling the business requirements of the Organizations. As a result, the Organizations filed a lawsuit. On June 27, 2003, this case was settled favorably by the Organizations. The net income effect of approximately $406,000 is included under the caption Administration on the 2003 financial statements.

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 $1,600,000 during the year ended May 31, 2004.

NOTE 9. RELATED PARTY TRANSACTIONS

AWS Foundation administers investments on behalf of certain affiliated sections. The investments aggregated $1,173,463 at May 31, 2004 and are not included in the combined 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 paid 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, 2004 was approximately $7,000 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 $161,000 during the year ended May 31, 2004.