

THE AMERICAN INSTITUTE OF ARCHITECTS



May 8, 2001

Norman L. Koonce, FAIA
*Executive Vice President/
Chief Executive Officer*

Dear Fellow Member:

As you know, the annual meeting of The American Institute of Architects occurs next week in Denver, and I am looking forward to seeing many of our members there. At the meeting, as is our customary practice, we will share with attendees information and perspective on critical internal issues and initiatives shaping the Institute's future, and our key plans going forward.

Foremost among these issues has been the Institute's financial health – a primary focus of my efforts and those of the elected leadership and AIA management since I assumed the position of chief executive officer in mid-1999.

This year's annual meeting falls within the second year of an ambitious – and absolutely essential – four-year plan we have undertaken to address important issues of financial management and to dramatically enhance our fiscal position. Because of the far-reaching nature of these efforts, I wanted to offer you this update on the progress of and prospects for this very important initiative – for the benefit of members who will not be able to attend the meeting, as well as those who will have the opportunity to see our presentation on this topic in Denver.

In this letter, I will review some of the circumstances that have shaped the direction of our four-year financial turnaround plan, and our very heartening progress to date. I also want to share with you news of a recent event that has heightened the financial challenges facing our organization – and tell you how we plan to manage this event and its impact. And, I want to discuss our long-term goals for the AIA as embodied in our financial management efforts and how I believe our members and all of our constituencies will benefit.

Whether you plan to attend the annual meeting or not, I hope that you will take a few minutes to read this letter, and I strongly encourage your feedback regarding our work in this area.

After I assumed the position of AIA's chief executive officer in mid-1999 and formed our current management team in early 2000, we quickly identified – quite frankly – a host of institutional financial management problems that required the immediate and energetic attention of the AIA Board, Executive Committee and management.

In general, we determined that AIA financial oversight was unacceptably weak and many practices – including deficit spending and lack of accountability – had contributed to a steady weakening of our overall financial condition.

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At that point, the AIA had not operated with a balanced budget since 1996, with significant operating deficits being incurred each year. The Institute's total "net worth" – in simplest terms, the difference between assets and liabilities on our balance sheet – had been seriously depleted, dipping from the \$9 million range to \$1.3 million over the period 1997 to 1999.

The AIA leadership made improved financial management an immediate and top priority. After thoroughly analyzing our total financial picture, we instituted a comprehensive program of new and enhanced oversight and controls, in order to start restoring our cash flow and to rebuild our depleted reserve base.

Among the key steps taken was the creation of an AIA Finance Committee as well as a project-based budgeting process with built-in measurement and accountability – attributes of our financial process that had been deficient in the past.

These and many other steps contributed to a steady improvement in our financial condition. During the year 2000, we operated on a balanced budget basis for the first time since 1996. Achieving that balanced budget required a \$3.6 million cut in operating expenses and a reversal of previous patterns of financial management. In 2000, we added over \$100,000 to our unrestricted liquid reserves. We have been greatly gratified and encouraged by this steady improvement, which has bolstered our conviction that our approach is indeed sound and likely to yield even further value. In referring to the 2000 AIA financial audit, our accountants at PricewaterhouseCoopers note that "it was clear throughout the audit process that the Finance Committee and management of AIA have taken on their respective responsibilities related to AIA with conviction."

But even as we have worked to implement this new approach, we have encountered a significant event that poses a new financial challenge for the Institute.

Over the past several months, we have seen the gradual deterioration of AECdirect, the Internet-based work site for the design and construction industry in which the AIA was majority shareholder. Before undertaking this venture the AIA Board carefully considered its formation, recognizing its alignment with the Institute's AIM long-range strategic plan. AECdirect was intended to empower AIA members through enhanced productivity tools; demonstrate members' leadership in the industry by fostering widespread use of AIA standards and guidelines; and generate additional revenue for AIA to invest in better member services and professional knowledge.

Ultimately, like so many other promising businesses in the Internet arena, AECdirect could not be sustained when the dot-com bubble burst, and sources of investment capital disappeared almost overnight. As a result, AECdirect is now inactive, and we are in the process of dissolving the enterprise.

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Now, we must manage the financial fallout from the business' termination. As I noted, on an operating basis our budget was balanced in 2000 and, were it not for AECdirect, \$400,000 would also be added to our reserves this year. However, accounting rules require that liabilities associated with AECdirect must be included in AIA's balance sheet for 2000. The result is further erosion in our net worth, and requires us to place significantly larger amounts in the AIA reserves during 2001 through 2003.

Faced with this unique circumstance, we have intensified our financial management and control efforts. Since the March AIA Board meeting, AIA management, Executive Committee and Finance Committee have prepared a plan to deal with the AECdirect situation. On May 15, the AIA Board will consider approval of this plan – primarily a set of cost reductions – to address the deficits associated with AECdirect.

The Board directed that the first cost reductions should come from Board expenses. They then prescribed reductions in advertising expenses, contributions to related architectural organizations, and scholarship support. The proposed cuts are targeted so that none will have an adverse impact on vital professional services to our members. We firmly intend to maintain this stance throughout this turnaround period.

This even more aggressive financial management plan will do what needs to be done: yield over \$8 million to rebuild our net worth and liquid reserves. The AIA Board has pledged to ensure that in just 30 months' time, we will increase our unrestricted liquid reserves to restore financial stability. Furthermore, our total net worth will improve from a negative \$5.6 million this year, resulting from the collapse of AECdirect, to a positive \$2.5 million in 2003.

This plan addresses all the costs we foresee associated with AECdirect – and it will also continue to respond to the fundamental financial management issues that we have been attacking in the first half of our four-year plan.

I also am convinced that we are creating a much stronger foundation for enhanced and expanded services and benefits for our members – which has been the ultimate goal and at the heart of all our financial management efforts from the beginning.

Even as we have worked to implement these critical financial initiatives, we are encouraged by AIA member response to strides we have made in serving your professional needs.

I believe you will benefit from these AIA service and advocacy initiatives:

- Although AECdirect as a new technology-based service did not succeed, we have significantly enhanced AIA electronic information offerings, including the new state-of-the-art members-only Web portal, an on-line daily and weekly newsletter, an improved version of electronic contract documents, and the automating of our library to provide full and complete on-line access to its catalog by our members.

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- AIA Professional Interest Areas (PIAs) are both enabled and challenged to generate relevant knowledge and set standards for key industry and business sectors, much in the spirit of the recent edition of “Guidelines for the Design & Construction of Hospital & Health Care Facilities.”
- Information Central, is now a full service call center for efficient direction and access to all AIA member resources.
- “The Architect’s Handbook of Professional Practice, 13th Ed.” and other publications and guidelines will be published under a new partnership with Wiley.
- AIA government affairs is instrumental in achieving legislation releasing billions of dollars for school construction, and the defeat of legislation that sought to prevent private-sector architects from designing federal facilities.
- Consistent coverage of AIA architects on ABC’s “Nightline,” National Public Radio, MSNBC and other national media complements AIA national advertising, enhancing the influence of our profession.

There is no denying that our Institute must continue to work aggressively to reshape our financial picture. We are absolutely committed to maintaining – and expanding – our key member services during the months to come, even as this effort continues. I am very proud of the team of elected leaders and staff who have created the plan and who work diligently for its success.

The past several years and months have been challenging for the AIA and our members. But I am proud that we have taken the difficult, necessary steps to re-chart our financial future — and I am very confident that our current direction is the right one for our Institute, our profession, and our members.

I hope to see you in Denver – and I appreciate your continued commitment and dedication to our profession and the AIA.

Thank you.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Norman L. Koonce". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Norman L. Koonce, FAIA