

1994 FINANCIAL REPORTS

Balance Sheet December 31, 1994

| | General Fund | | Reserve Fund | | Building Fund | December 31, 1994 Combined |
|---|---------------|-----------------------|---------------|-------------------------|-------------------------|-------------------------------|
| ASSETS | | | | | | |
| Cash | | | | | | |
| Checking accounts | \$ 62,445 | | | | | \$ 62,445 |
| Money markets and savings | 374,452 | | \$ 75,095 | | | 449,547 |
| Petty cash | <u>400</u> | \$ 437,297 | <u> </u> | \$ 75,095 | | <u>400</u> \$ 512,392 |
| Investments | | | | | | |
| United States Treasury Bills—at cost, due February through June 1995 | | | 1,529,022 | | | 1,529,022 |
| Corporate bonds—at cost (market \$23,719) | | | <u>25,000</u> | 1,554,022 | | <u>25,000</u> 1,554,022 |
| Accounts receivable | | | | | | |
| Test film and publications | 35,031 | | | | | 35,031 |
| Accrued interest | | | 13,847 | | | 13,847 |
| Other | <u>5,347</u> | 40,378 | <u> </u> | 13,847 | | <u>5,347</u> 54,225 |
| Due from (to) other funds | | 42,964 | | (42,964) | | — |
| Inventory of test films—at cost | | 60,753 | | | | 60,753 |
| Prepaid expenses | | | | | | |
| Employees' retirement plan | 68,219 | | | | | 68,219 |
| Future conferences | 13,471 | | | | | 13,471 |
| Other | <u>36,214</u> | 117,904 | | | | <u>36,214</u> 117,904 |
| Land and building, White Plains, New York—at cost, net of accumulated depreciation of \$329,865) | | | | | \$1,505,302 | 1,505,302 |
| Equipment—test film, office furniture and computer | | <u>3</u> | | | | <u>3</u> |
| Total Assets | | <u>699,299</u> | | <u>1,600,000</u> | <u>1,505,302</u> | <u>3,804,601</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Accounts payable | \$ 67,163 | | | | | \$ 67,163 |
| Payroll withholding taxes | 1,409 | | | | | 1,409 |
| Employees' retirement plan contribution | <u>91,218</u> | \$ 159,790 | | | | <u>91,218</u> \$ 159,790 |
| Deferred income | | | | | | |
| Membership dues paid in advance | 284,498 | | | | | 284,498 |
| Prepaid journal subscriptions | 145,635 | | | | | 145,635 |
| Advance payment for test films, etc. | 45,507 | | | | | 45,507 |
| Future conferences | <u>10,110</u> | 485,750 | | | | <u>10,110</u> 485,750 |
| Fund Balances (Exhibit B) | | <u>53,759</u> | | \$1,600,000 | \$1,505,302 | <u>3,159,061</u> |
| Total Liabilities and Fund Balances | | <u>699,299</u> | | <u>1,600,000</u> | <u>1,505,302</u> | <u>3,804,601</u> |

Exhibit A

1994 FINANCIAL REPORTS

Statement of Income and Expenses and Changes in Balances of Funds —Year Ended December 31, 1994

| | General Fund | Reserve Fund | Building Fund | December 31, 1994 Combined |
|--|------------------|------------------|------------------|----------------------------|
| INCOME | | | | |
| Membership dues | | \$ 469,300 | | \$ 469,300 |
| Test film sales | \$ 187,375 | | | \$ 187,375 |
| Less: Direct costs | <u>114,005</u> | 73,370 | | <u>114,005</u> 73,370 |
| Technical conferences | | | | |
| Income from registrations, exhibits, banquets, etc. | 1,006,596 | | | 1,006,596 |
| Less: Direct costs | <u>310,753</u> | 695,843 | | <u>310,753</u> 695,843 |
| Interest income | | 2,648 | \$ 67,964 | 70,612 |
| Sales of standards and other (net) | | <u>47,290</u> | | <u>47,290</u> |
| Total Income | 1,288,451 | 67,964 | \$ — | 1,356,415 |
| EXPENSES | | | | |
| Publications | | | | |
| Cost of publishing Journal, books, reprints, etc. | 470,701 | | | 470,701 |
| Less: Income from subscriptions, advertising and other | <u>331,083</u> | 139,618 | | <u>331,083</u> 139,618 |
| Membership records and promotion | | 93,382 | | 93,382 |
| Engineering services | | 275,438 | | 275,438 |
| Office salaries | | 245,109 | | 245,109 |
| Occupancy (net of rental income - \$56,460) | | 64,018 | | 64,018 |
| Payroll taxes | | 68,051 | | 68,051 |
| Retirement plan | | 134,733 | | 134,733 |
| General and administrative | | 212,383 | | 212,383 |
| Sections and chapters | | 82,524 | | 82,524 |
| Affiliations | | 13,555 | | 13,555 |
| Severance expense | | — | | — |
| Tutorial programs (net) | | <u>(18,925)</u> | | <u>(18,925)</u> |
| Total Operating Expenses | 1,309,886 | | | 1,309,886 |
| EDP equipment and system development | | 13,071 | | 13,071 |
| Office equipment | | 725 | | 725 |
| Depreciation expense | | | <u>44,198</u> | <u>44,198</u> |
| Total Expenses | 1,323,682 | — | 44,198 | 1,367,880 |
| Excess of Income (Expense) for Year | (35,231) | 67,964 | (44,198) | (11,465) |
| Fund Balances, beginning of year | (178,974) | 1,800,000 | 1,549,500 | 3,170,526 |
| Transfer of Funds | <u>267,964</u> | <u>(267,964)</u> | | |
| Fund Balances, end of year (Exhibit A) | 53,752 | 1,600,000 | 1,505,302 | 3,159,054 |

Exhibit B

Accountant's Report

April 24, 1995

To the Members and Board of Governors of the Society of Motion Picture and Television Engineers, Inc.

We have audited the accompanying balance sheet of the SOCIETY OF MOTION PICTURE AND TELEVISION ENGINEERS, INC., as of December 31, 1994 and the related statement of income and expenses and changes in balances of funds for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 presentations. 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 SOCIETY OF MOTION PICTURE AND TELEVISION ENGINEERS, INC., as of December 31, 1994 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

— Owen J. Flanagan & Co., Certified Public Accountants,
60 E. 42nd St., New York, NY 10165

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Notes to Financial Statements December 31, 1994

1. ACCOUNTING POLICIES

General Fund

Members' dues are billed on a monthly cycle basis and recorded as income when received in cash; the portion received which is applicable to subsequent years is deferred.

Subscription revenue applicable to subsequent years is deferred. In addition, the portion of membership dues pertaining to the Journal subscriptions contained therein is allocated to Journal subscription revenue. The amount allocated was \$157,136.

Sales of test films, technical books, conference registrations and exhibit rental, and other sundry sales are taken into income in the year in which they are earned.

The costs of printing technical books are charged to expense in the year published and no inventory value is attributed to unsold books.

Costs of test films sold, which are more substantial in amount, are determined by taking into account the inventory cost value of unsold films at the beginning and end of each year.

The cost of furniture, equipment and computer software is charged to expense in the year placed in service. Equipment acquired under lease/purchase agreements is charged to expense as the lease payments are made. Effective January 1, 1990, FASB #93 requires not-for-profit organizations to capitalize and depreciate fixed asset additions that are material in nature. The Society's recent furniture and equipment acquisitions charged to the General Fund have, for the most part, been replacements of existing assets that would otherwise have been fully depreciated. Further, the difference between the cost of equipment expensed and the amount of depreciation that would have been recorded is not material. Equipment acquisitions in future years, if material in amount, may warrant adoption of a capital/depreciation policy, similar to that adopted for the Building Fund in 1990 (see below).

All other publication, engineering and general and administrative expenses are taken into account by payment or accrual in the year to which the goods or services apply. Similarly, items of income or expense received or paid in advance are deferred to the year to which they apply.

Reserve Fund

The Reserve Fund was established to insure the continuation of essential services of the Society in the event of adverse general economic conditions. The objective of the Fund, as redefined by the Board of Governors in July 1989, is \$1,800,000. During 1994 the Board of Governors authorized the transfer of \$200,000 to the General Fund to eliminate its deficit in Fund Balance. Also, the Board stipulated that all earnings of the Reserve Fund be credited to the General Fund.

Investments of the Reserve Fund are carried at cost since the securities are held for long-term investment and the Society does not wish to recognize short-term market fluctuations. Income is recorded under the accrual method of accounting.

Building Fund

The Building Fund was established in 1972 to account for the acquisition costs of the land and building for the Society's headquarters. Beginning January 1, 1990, depreciation has been provided on the straight-line method based on a forty year useful life. Annual depreciation charges of \$38,089 will be provided as set forth in the attached Exhibit B.

During 1993, the Society made improvements to the leased portion of its building totaling \$42,763. This amount has been capitalized and will be depreciated at the rate of \$6,109 beginning in 1994 over the term of the lease — seven years.

2. RETIREMENT PLAN

The Society sponsors a defined benefit pension plan for all eligible employees. The benefit is equal to 50% of the participant's final average earnings, reduced by an Internal Revenue Service stipulated portion of such participant's primary Social Security benefit. The Society's actuarial consultants have reported the following information for the plan year beginning December 1, 1994:

| | |
|--|-------------|
| Present value of accrued benefits | \$1,120,064 |
| Present value of vested accrued benefits | \$1,110,241 |
| Value of plan assets | \$1,044,042 |

The accrued benefits have been calculated without an allowance for future salary increases.

Recent changes to the Internal Revenue Code will require the Society to amend the plan during 1995. These changes are not considered in the above numbers. When implemented, those changes could substantially increase the present value of accrued benefits. As of the date of this report, management is reviewing various options that will comply with IRS regulations, provide the employees with equivalent pension benefits and be cost effective to the Society.

Pension expense has been consistently reported as the contribution required to actuarially fund plan benefits, plus the actuarial fees and group life insurance premiums paid by the Society. That method of accounting was in accordance with generally accepted accounting principles that had been in effect since the issuance of Accounting Principles Board Statement No. 8 in 1966. Effective as of 1987, however, FASB Statement No. 87 introduced a new concept of "net periodic pension cost," in which pension cost would be accrued ratably over an employee's years of service based upon actuarial factors which would not necessarily be the same as those presently used in calculating the annual funding requirement. In addition, FASB No. 87 would require, on a deferred recognition basis, an employer to report an asset or liability on the organization's balance sheet depending upon whether the plan was considered to be over or under funded.

Management still believes that the annual funding requirement is a more relevant measure of pension expense and that the difference between the methods would not be material in amount.

The Society's retirement plan, as amended, has been approved as a qualified plan by the Internal Revenue Service.

3. TAX STATUS

The Society has been granted an exemption from Federal income taxes as a scientific organization under Sec. 501(c)(3) of the Internal Revenue Code. However, the Society's net advertising income from the Journal is subject to tax as unrelated business income. During 1994 the Journal showed a net loss so no tax provision was required.