

# 1995 FINANCIAL REPORTS

## Balance Sheet — December 31, 1995 — Exhibit A

ASSETS	General Fund	Reserve Fund	Building and Capital Projects Fund	December 31, 1995 Combined
Cash				
Checking accounts	\$ 72,011			\$ 72,011
Money markets and savings	251,290	\$ 99,157		350,447
Petty cash	<u>400</u>	<u>          </u>	\$ 99,157	<u>400</u> \$ 422,858
Investments (Note 2)				
United States Treasury Bills				
- at cost, due February through June 1996		1,557,662		1,557,662
Corporate bonds - at cost (market \$25, 375)		<u>25,000</u>	1,582,662	<u>25,000</u> 1,582,662
Accounts receivable				
Test film and publications	45,156			45,156
Accrued interest		14,299		14,299
Other	<u>22,487</u>	67,643	<u>          </u> 14,299	<u>22,487</u> 81,942
Due from (to) other funds		96,118	(96,118)	—
Inventory of test films - at cost		56,779		56,779
Prepaid expenses				
Employees' retirement plan	77,516			77,516
Future conferences	20,838			20,838
Other	<u>30,030</u>	128,384		<u>30,030</u> 128,384
Land			\$ 268,860	268,860
Building and improvements (at cost, net of accumulated depreciation of \$374,063)			1,192,244	1,192,244
Equipment - Computer hardware and software (Note 5)			<u>86,533</u>	<u>86,533</u>
<u>Total Assets</u>	<u>672,625</u>	<u>1,600,000</u>	<u>1,547,637</u>	<u>3,820,262</u>
 LIABILITIES AND NET ASSETS				
Accounts payable	\$ 56,268			\$ 56,268
Payroll withholding taxes	1,513			1,513
Employees' retirement plan contribution	<u>84,563</u>	\$ 142,344		<u>84,563</u> \$ 142,344
Deferred income				
Membership dues paid in advance	382,273			382,273
Prepaid journal subscriptions	145,042			145,042
Advance payment for test films, etc.	45,373			45,373
Future conferences	<u>26,925</u>	599,613		<u>26,925</u> 599,613
Net Assets (Liabilities) (Exhibit B)	<u>(69,332)</u>	\$1,600,000	\$1,547,637	<u>3,078,305</u>
<u>Total Liabilities and Net Assets</u>	<u>672,625</u>	<u>1,600,000</u>	<u>1,547,637</u>	<u>3,820,262</u>

*The accompanying notes are an integral part of these financial statements.*

## 1995 FINANCIAL REPORTS

### Statement of Income and Expenses and Changes in Net Assets — Year Ended December 31, 1995 — Exhibit B

	General Fund	Reserve Fund	Building and Capital Projects Fund	December 31, 1995 Combined
<b>INCOME</b>				
Membership dues	\$ 532,130			\$ 532,130
Test film sales	\$ 261,659			\$ 261,659
Less: Direct costs	<u>160,998</u>	100,661		<u>160,998</u> 100,661
Technical conferences				
Income from registrations, exhibits, banquets, etc.	960,085			960,085
Less: Direct costs	<u>309,498</u>	650,587		<u>309,498</u> 650,587
Interest income	8,583	\$ 96,058		104,641
Sales of standards and other (net)	<u>31,568</u>	<u>          </u>		<u>31,568</u>
<b>Total Income</b>	<b><u>1,323,529</u></b>	<b><u>96,058</u></b>	<b><u>\$ —</u></b>	<b><u>1,419,587</u></b>
<b>EXPENSES</b>				
<b>Publications</b>				
Cost of publishing Journal, books, reprints, etc.	495,215			495,215
Less: Income from subscriptions, advertising and other	<u>342,678</u>	152,537		<u>342,678</u> 152,537
Membership records and promotion		83,145		83,145
Engineering services		324,986		324,986
Office salaries		293,533		293,533
Occupancy (net of rental income - \$56,460)		54,945		54,945
Payroll taxes		80,162		80,162
Retirement plan		113,423		113,423
General and administrative		246,792		246,792
Sections and chapters		62,215		62,215
Affiliations		26,911		26,911
Tutorial programs (net)		<u>(10,917)</u>		<u>(10,917)</u>
<b>Total Operating Expenses</b>		<b>1,427,732</b>		<b>1,427,732</b>
EDP equipment and system development		6,966		6,966
Office equipment		21,447		21,447
Depreciation expense		<u>          </u>	<u>44,198</u>	<u>44,198</u>
<b>Total Expenses</b>		<b>1,456,145</b>	<b><u>44,198</u></b>	<b>1,500,343</b>
<b>Excess of Income (Expense) for Year</b>		<b>(132,616)</b>	<b>(44,198)</b>	<b>(80,756)</b>
<b>Net Assets, beginning of year</b>	<b>53,759</b>	<b>1,600,000</b>	<b>1,505,302</b>	<b>3,159,061</b>
Transfer of Funds	<u>9,525</u>	<u>(96,058)</u>	<u>86,533</u>	<u>          </u>
<b>Net Assets, end of year (Exhibit A)</b>	<b><u>(69,332)</u></b>	<b><u>1,600,000</u></b>	<b><u>1,547,637</u></b>	<b><u>3,078,305</u></b>

### Statement of Cash Flows — Year Ended December 31, 1995 — Exhibit C

<b>CASH FLOWS PROVIDED (USED)</b>		<b>From Investing Activities</b>	
<b>From Operating Activities</b>		<b>From Investing Activities</b>	
Excess of income (expenses) for year	\$ (80,756)	Equipment purchases capitalized	(86,533)
Depreciation	44,198	Purchases of U.S. Treasury Bills	(3,102,061)
Decrease (Increase) in accounts receivable	(27,717)	Redemption of U.S. Treasury Bills	<u>3,073,421</u>
Decrease in inventory	3,974		
Decrease (Increase) in prepaid expenses	(10,477)	<b>Net Cash Flows Provided (Used) by Investing Activities</b>	<b><u>(115,173)</u></b>
Decrease (Increase) in accounts and accruals payable	(17,446)	<b>Net Increase (Decrease) in Cash</b>	<b>(89,534)</b>
Increase in deferred income	<u>113,863</u>	Cash, beginning year	<u>512,392</u>
<b>Net Cash Flows Provided By Operating Activities</b>	<b><u>25,639</u></b>	Cash, end of year	<b><u>422,858</u></b>

*The accompanying notes are an integral part of these financial statements.*

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# 1995 FINANCIAL REPORTS

## Notes to Financial Statements — December 31, 1995

### 1. Organization

The Society of Motion Picture and Television Engineers, Inc., is a not-for-profit organization which was incorporated in the District of Columbia in 1916. Its primary function is the dissemination of technical and scientific information for the motion picture and television industry. This is accomplished through the publication of a monthly journal, sales of test films, industry standards, books and other publications, and holding technical conferences.

### 2. Accounting Policies

The Society uses the accrual method of accounting whereby income is recorded in the period earned and expenses are recorded in the period incurred and to which they pertain.

The portion of membership dues pertaining to journal subscriptions is allocated to journal subscription revenue. The amount allocated in 1995 was \$158,588.

Inventory of test films are valued at purchase cost under the first-in first-out method. Proper allowance is made for slow moving and obsolete items. The cost of printing technical books is charged to expense in the year published and no inventory value is attributed to unsold books. No value is attributed to internal production and purchasing costs.

Investments of the Reserve Fund are carried at cost which is not significantly different from market.

The cost of fixed assets which are considered material in nature are capitalized and depreciated using the straight-line method over the following useful lives:

Furniture and equipment	5 years
Tenant building improvements	Life of lease
Building	40 years

The cost of ordinary furniture and equipment which is not material in nature is charged to expense in the year of purchase.

Management uses estimates in preparing financial statements in accordance with generally accepted accounting principles. These estimates affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates used.

For purpose of cash flows, cash consists of checking accounts, money market accounts and petty cash.

The net assets of the Organization are all unrestricted.

### 3. Retirement Plan

The Society adopted a defined benefit pension plan effective December 1, 1969 to provide retirement benefits to eligible employees.

The Society's actuarial consultants reported the following pertinent financial data as of December 1, 1995.

Present value of accrued benefits	\$1,031,089
Present value of vested accrued benefits	\$1,020,778
Plan assets	\$ 909,666

The assumed rate of investment return was 6.5 percent.

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.

Pension expense in 1995 was \$113,423.

### 4. Reserve Fund

The Reserve Fund was established in 1960 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 1995 the Board of Governors authorized the use of Reserve Fund earnings to upgrade the Organization's computer accounting and membership system. The balance of earnings not used for this purpose were transferred to the General Fund for the purchase of office equipment.

Funds may not be withdrawn from the Reserve Fund for general Society activities without the express approval of the Board of Governors.

### 5. Building and Capital Projects Fund

Prior to 1995 this Fund was known as the Building Fund. It was established in 1972 to account for the acquisition costs of the land and building of the Society's headquarters. Beginning January 1, 1990 depreciation has been provided on a straight-line basis. During 1993 the Society made improvements to the leased portion of its building. This amount, \$42,763, was capitalized and is being depreciated over the term of the lease — 7 years.

During 1995 the Fund was expanded to include the new computer system which was capitalized in accordance with FASB No. 93. Depreciation will not be provided until 1996 when the equipment is fully operational.

### 6. 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 1995 the Journal showed a net loss so no tax provision was required.

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## Independent Auditors' Report

May 8, 1996

### 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, 1995 and the related statement of income and expenses and changes in net assets and statement of cash flows 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 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 SOCIETY OF MOTION PICTURE AND TELEVISION ENGINEERS, INC., as of December 31, 1995 and the results of its operations and cash flows 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