

1996 FINANCIAL REPORTS

Balance Sheet — December 31, 1996 — Exhibit A

	General Fund		Reserve Fund		Building and Capital Projects Fund	December 31, 1996 Combined
ASSETS						
Cash						
Checking accounts	\$ 37,518					\$ 37,518
Money markets and savings	108,863		\$ 54,987			163,850
Petty cash	<u>400</u>	\$ 146,781	<u>54,987</u>	\$ 54,987		<u>400</u> \$ 201,768
Investments (Note 2)						
United States Treasury Bills						
- at cost, due February through June 1997			1,593,512			1,593,512
Corporate bonds - at cost			<u>25,000</u>	1,618,512		<u>25,000</u> 1,618,512
Accounts receivable						
Test films and publications	42,333					42,333
Accrued interest			13,352			13,352
Other	<u>316,550</u>	358,883	<u>13,352</u>	13,352		<u>316,550</u> 372,235
Inventory of test films - at cost		30,202				30,202
Prepaid expenses						
Employees' retirement plan	87,985					87,985
Future conferences	28,293					28,293
Other	<u>25,377</u>	141,655				<u>25,377</u> 141,655
Land					\$ 268,860	268,860
Building and improvements (at cost, net of accumulated depreciation of \$418,261)					1,148,046	1,148,046
Equipment - Computer hardware and software (net of accumulated depreciation of \$17,306)					<u>69,227</u>	<u>69,227</u>
Total Assets	<u>677,521</u>		<u>1,686,851</u>		<u>1,486,133</u>	<u>3,850,505</u>
LIABILITIES AND NET ASSETS						
Accounts payable	\$ 97,062					\$ 97,062
Payroll withholding taxes	2,578					2,578
Retirement plan contribution	<u>180,547</u>	\$ 280,187				<u>180,547</u> \$ 280,187
Deferred income						
Membership dues paid in advance	262,727					262,727
Prepaid journal subscriptions	121,432					121,432
Advance payment for test films, etc.	69,371					69,371
Future conferences	<u>13,585</u>	<u>467,115</u>				<u>13,585</u> <u>467,115</u>
Total Liabilities		747,302				747,302
Net Assets (Liabilities) (Exhibit B)		<u>(69,781)</u>		<u>\$1,686,851</u>	<u>\$1,486,133</u>	<u>3,103,203</u>
Total Liabilities and Net Assets		<u>677,521</u>		<u>1,686,851</u>	<u>1,486,133</u>	<u>3,850,505</u>

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

1996 FINANCIAL REPORTS

Statement of Activities — Year Ended December 31, 1996 — Exhibit B

	General Fund	Reserve Fund	Building and Capital Projects Fund	December 31, 1996 Combined
INCOME				
Membership dues	\$ 610,155			\$ 610,155
Test film sales	\$ 251,552			\$ 251,552
Less: Direct costs	<u>166,485</u>	85,067		<u>166,485</u> 85,067
Technical conferences				
Income from registrations, exhibits, banquets, etc.	1,031,713			1,031,713
Less: Direct costs	<u>300,089</u>	731,624		<u>300,089</u> 731,624
Interest income	7,033	\$ 86,851		93,884
Sales of standards and other (net)	<u>56,104</u>	—		<u>56,104</u>
Total Income	<u>1,489,983</u>	<u>86,851</u>	\$ —	<u>1,576,834</u>
EXPENSES				
Publications				
Cost of publishing Journal, books, reprints, etc.	493,717			493,717
Less: Income from subscriptions, advertising and other	<u>328,285</u>	165,432		<u>328,285</u> 165,432
Membership records and promotion		123,099		123,099
Engineering services		313,618		313,618
Office salaries		261,961		261,961
Occupancy (net of rental income - \$68,653)		50,998		50,998
Payroll taxes		74,978		74,978
Retirement plan		104,018		104,018
General and administrative		250,075		250,075
Sections and chapters		102,371		102,371
Affiliations		42,720		42,720
Office equipment		1,162		1,162
Depreciation expense		—	61,504	61,504
Total Expenses	<u>1,490,432</u>	<u>—</u>	<u>61,504</u>	<u>1,551,936</u>
Change in Net Assets for Year	(449)	86,851	(61,504)	24,898
Net Assets, beginning of year	<u>(69,332)</u>	<u>1,600,000</u>	<u>1,547,637</u>	<u>3,078,305</u>
Net Assets, end of year (Exhibit A)	<u>(69,781)</u>	<u>1,686,851</u>	<u>1,486,133</u>	<u>3,103,203</u>

Statement of Cash Flows — Year Ended December 31, 1996 — Exhibit C

CASH FLOWS PROVIDED (USED)		
From Operating Activities		From Investing Activities
Change in Net Assets for Year	\$ 24,898	Purchases of U.S. Treasury Bills
Depreciation	61,504	Redemption of U.S. Treasury Bills
Decrease (Increase) in accounts receivable	(290,293)	
Decrease in inventory	26,577	(3,156,820)
Decrease (Increase) in prepaid expenses	(13,271)	<u>3,120,970</u>
Increase (Decrease) in accounts and accruals payable	137,842	Net Cash Flows Provided (Used) by Investing Activities
Increase (Decrease) in deferred income	<u>(132,497)</u>	(35,850)
Net Cash Flows Provided (Used) By Operating Activities	<u>(185,240)</u>	Net Increase (Decrease) in Cash
		(221,090)
		Cash, beginning year
		<u>422,858</u>
		Cash, end of year
		<u>201,768</u>

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

1996 FINANCIAL REPORTS

Notes to Financial Statements — December 31, 1996

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 1996 was \$152,988.

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 plan provides an annual benefit equal to 45% of final average earnings reduced proportionately for less than 25 years of service at normal retirement age (age 65 or the completion of five years of service, if later).

The Society's actuarial consultants reported the following pertinent financial data as of December 1, 1996.

Present value of accrued benefits	\$759,071
Present value of vested accrued benefits	\$546,231
Plan assets - group annuity contract - Cigna	\$708,630

The assumed rate of investment return was 6.5 percent. The annual rate of compensation increase has been assumed to be 4%.

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 1996 was \$104,018.

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. The balance of the Reserve Fund at December 31, 1996 was \$1,686,581.

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.

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 1996 the Journal showed an overall loss so no tax provision was required.

7. Subsequent Event

Under an agreement signed in August 1993, the sale of exhibit space at the Society's fall technical conference was part of a joint venture with the National Association of Broadcasters (NAB). The amount of revenue the Society received under this agreement for 1996 was \$614,550. On March 24, 1997 an agreement was signed terminating this joint venture. As part of the termination agreement, the Society will receive a \$100,000 per year programming fee to provide a tutorial at NAB's fall event until the year 2000.

The termination agreement could have a significant impact on the Society's operations and management is presently working to minimize the loss of revenue.

Independent Auditors' Report

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

We have audited the accompanying statement of financial position of the SOCIETY OF MOTION PICTURE AND TELEVISION ENGINEERS, INC., as of December 31, 1996 and the related statement of activities 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, 1996 and the results of its changes in net assets 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

April 28, 1997