

**AFM & SAG-AFTRA INTELLECTUAL PROPERTY RIGHTS
DISTRIBUTION FUND AND SUBSIDIARY**

Consolidated Financial Statements

March 31, 2018 and 2017

With Independent Auditors' Report

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund
March 31, 2018 and 2017

TABLE OF CONTENTS	
Independent Auditors' Report	1 - 2
Consolidated Financial Statements	
Consolidated Statements of Financial Position – Modified Cash Basis	3
Consolidated Statements of Activities – Modified Cash Basis	4
Consolidated Statements of Cash Flows – Modified Cash Basis	5
Notes to Consolidated Financial Statements	6 – 15

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
AFM & SAG-AFTRA Intellectual Property
Rights Distribution Fund

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary (the Fund), which comprise the consolidated statement of financial position - modified cash basis as of March 31, 2018 and the related consolidated statement of activities - modified cash basis for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the consolidation financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary as of March 31, 2018, and the changes in its net assets and cash flows for the year then ended in accordance with the basis of accounting described in Note 2.

Other Matter - Basis of Accounting

We draw attention to Note 2 to the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter - Restatement to March 31, 2017 Financial Statements

The consolidated financial statements of the AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary as of and for the year ended March 31, 2017, before the restatement described in Note 14, were audited by other auditors whose report, dated March 14, 2018, expressed an unmodified opinion on those statements. As discussed in Note 14, the Fund has restated its 2017 financial statements during the current year to remove amounts recorded as prepaid expenses and accounts payable, to adjust investment income, property and equipment, general and administrative expenses, building expenses, distributions to performers and distributions payable in accordance with the modified cash basis of accounting. As part of our audit of the March 31, 2018 consolidated financial statements, we also audited managements' adjustments described in Note 14 that were applied to restate the March 31, 2017 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the March 31, 2017 consolidated financial statements of the Fund other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the March 31, 2017 consolidated financial statements as a whole.

Withum Smith & Brown, PC

Bethesda, MD
April 3, 2019

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary
Consolidated Statements of Financial Position – Modified Cash Basis
March 31, 2018 and 2017

	<u>2018</u>	<u>2017 (Restated)</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 76,721,256	\$ 64,313,780
Investments - at fair value	80,578,567	77,607,572
Due from related parties	2,000	28,185
Due from SAG-AFTRA and Industry Sound Recording Distribution Fund	<u>47,487</u>	<u>3,629</u>
Total current assets	157,349,310	141,953,166
Security deposits	45,764	45,964
Property and equipment, net	<u>10,710,440</u>	<u>11,140,994</u>
Total assets	<u>\$ 168,105,514</u>	<u>\$ 153,140,124</u>
Liabilities and net assets		
Liabilities		
Current liabilities		
Distributions payable	\$ 52,654,323	\$ 36,586,662
Tenant security deposits	20,885	20,885
Notes payable - current	<u>119,262</u>	<u>111,777</u>
Total current liabilities	52,794,470	36,719,324
Notes payable - long term	<u>3,067,787</u>	<u>3,187,048</u>
Total liabilities	55,862,257	39,906,372
Unrestricted net assets	<u>112,243,257</u>	<u>113,233,752</u>
Total liabilities and net assets	<u>\$ 168,105,514</u>	<u>\$ 153,140,124</u>

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary
Consolidated Statements of Activities – Modified Cash Basis
Years Ended March 31, 2018 and 2017

	<u>2018</u>	<u>2017 (Restated)</u>
Revenue		
Royalty receipts	\$ 65,339,258	\$ 52,001,911
Investment income, net	3,328,709	3,337,043
Building	544,908	663,606
Loss on disposal of property and equipment	(496)	(11,025)
Total revenue	<u>69,212,379</u>	<u>55,991,535</u>
Expenses		
Program Services		
Distributions to performers, net of unclaimed distributions returned from prior years	55,847,132	56,169,632
Management and general		
General and administrative	12,936,211	11,887,748
Professional fees	1,419,531	692,537
Total management and general	<u>14,355,742</u>	<u>12,580,285</u>
Total expenses	<u>70,202,874</u>	<u>68,749,917</u>
Change in unrestricted net assets	(990,495)	(12,758,382)
Net assets		
Beginning of the year	<u>113,233,752</u>	<u>125,992,134</u>
End of the year	<u>\$ 112,243,257</u>	<u>\$ 113,233,752</u>

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary
Consolidated Statements of Cash Flows – Modified Cash Basis
Years Ended March 31, 2018 and 2017

	<u>2018</u>	<u>2017 (Restated)</u>
Cash flows from operating activities		
Change in net assets	\$ (990,495)	\$ (12,758,382)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	511,534	403,012
Loss on disposal of property and equipment	496	11,025
Net (appreciation) depreciation in value of investments	1,556,342	(1,323,687)
(Increase) decrease in		
Due from related parties	26,185	78,093
Due from SAG-AFTRA and Industry Sound Recording Distribution Fund	(43,858)	(23,366)
Security deposits	200	(15,614)
Increase (decrease) in Distributions payable	16,067,661	11,500,267
Total cash flows from operating activities	<u>17,128,065</u>	<u>(2,128,652)</u>
Cash flows from investing activities		
Purchase of property and equipment	(80,717)	(1,196,751)
Purchase of investments	(122,533,513)	(93,939,619)
Proceeds from sale of investments	118,005,417	92,228,573
Total cash flows from investing activities	<u>(4,608,813)</u>	<u>(2,907,797)</u>
Cash flows from financing activities		
Payments on notes payable	(111,776)	(105,247)
Increase (decrease) in cash and cash equivalents	12,407,476	(5,141,696)
Cash and cash equivalents		
Beginning of the year	64,313,780	69,455,476
End of the year	<u>\$ 76,721,256</u>	<u>\$ 64,313,780</u>
Supplementary information		
Cash paid for interest	\$ 211,191	\$ 219,890
Cash paid for income taxes	\$ 35,226	\$ -
Non-cash payments for income taxes	\$ 29,212	\$ 17,006

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary

Notes to Consolidated Financial Statements

Years Ended March 31, 2018 and 2017

1. ORGANIZATION

The American Federation of Musicians of the United States and Canada ("AFM") and American Federation of Television and Radio Artists ("AFTRA") created the AFM & AFTRA Intellectual Property Rights Distribution Fund (the Fund) on September 16, 1998 for receiving and distributing royalties and remuneration that are created pursuant to U.S. and foreign law that are payable to non-featured instrumentalists and vocalists. With the merger of the Screen Actors Guild and AFTRA ("SAG-AFTRA") in March 2012, the Fund was renamed the AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund (the Fund).

The Fund is operated and administered by a Board of Trustees, one-half of which is appointed by AFM (one of whom must be a rank and file representative) and one-half of which is appointed by SAG-AFTRA (one of whom must be a rank and file representative). All royalties received from the various organizations are for the benefit of non-featured instrumentalists and vocalists, except as expressly provided for the distribution of audiovisual royalties and for the distribution of symphonic featured artist royalties along with costs necessary to administer the Fund.

On September 12, 2013, the Fund established a building corporation, Studio City Plaza Title Holding Company LLC (the "Building Corporation"), to hold property purchased by the Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the modified cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenue and related assets are recognized when cash is received rather than when earned, and expenses are recognized when paid rather than when the obligations are incurred, except for amounts due from related parties (Film Musicians Secondary Markets Fund, Participants), amounts due from the SAG-AFTRA and Industry Sound Recording Distribution Fund ("SRDF"), distributions approved by the Trustees for payment, reporting investments at fair value, notes payable, security deposits made and held, and the capitalization and depreciation and amortization of property and equipment.

Consolidation

The consolidated financial statements include the accounts and transactions of the Fund and the Building Corporation. All interfund accounts and activities have been eliminated.

Accounting Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingencies, if any, at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Fund considers all highly liquid short-term investments with maturities of three months or less to be cash equivalents.

Investment Valuation and Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 5 for discussion of fair value measurements.

Purchases and sales of investments are recorded on a trade date basis. Interest and dividends are recorded when received. Investment income is recorded net of interest, dividends and the gains and losses on investments bought, sold and held during the year.

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary

Notes to Consolidated Financial Statements

Years Ended March 31, 2018 and 2017

Property and Equipment

Property and equipment are capitalized at cost. Depreciation and amortization are computed using the straight-line method, half-year convention, over the following estimated useful lives:

Building and building improvements	3 - 39 years
Computer equipment and software	3 - 10 years
Office Equipment and Furniture	5 - 10 years

Building and building improvements are amortized over the estimated useful lives or the remaining term of the lease. Repairs and maintenance which do not materially extend the life of the asset are expensed as incurred.

Due from SAG-AFTRA and Industry Sound Recording Distribution Fund

The Fund acts as an independent third-party administrator to the SAG-AFTRA and Industry Sound Recording Distribution Fund ("SRDF"). The Fund records amounts due for all expenses paid on behalf of the SRDF, which have not yet been reimbursed.

Distributions Payable

As of March 31 each year, the Fund reports the value of amounts calculated but not yet distributed because of missing information relating to the whereabouts of intended recipients or because the calculated distribution, when aggregated to other distributions of the artist, participant or their qualified beneficiary falls under the Fund's de minimis policy. When information is subsequently identified that enables the Fund to issue a payment, or in some cases reissue payment, the amount is charged against this payable.

Administrative Expenses

Administrative expenses of the Fund are deducted from the funds to be distributed prior to determining the distributable amounts. Administrative expenses of the Fund include, but are not limited to, any costs of staff, consultants, research, insurance, administration, services, equipment, distribution costs or other fees at the discretion of the Board of Trustees.

De Minimis Policy

The Fund has a de minimis policy pursuant to which no distribution payments less than \$10 are made. However, de minimis amounts of less than \$10 are added to performers' accounts and included with distributions payable. When an account reaches the \$10 threshold, a payment is made. Any payment may be comprised of royalties from several sources, including one or more de minimis amounts.

Net Assets

Net assets of the Fund were unrestricted as of March 31, 2018 and 2017. Since the Fund has not received contributions, there are no stipulations on net assets by donors.

Reclassifications

Certain amounts have been reclassified from the amounts presented in the March 31, 2017 consolidated financial statements in order to conform to the presentation of the March 31, 2018 consolidated financial statements. These reclassifications had no effect on the total unrestricted net assets of the Fund at March 31, 2017.

Subsequent Events

In preparing these consolidated financial statements, management of the Fund and Building Corporation has evaluated events and transactions that occurred after March 31, 2018 for potential recognition or disclosure in the consolidated financial statements. These events and transactions were evaluated through April 3, 2019, the date that the consolidated financial statements were available to be issued, and no items have come to the attention of management that require recognition or disclosure.

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary

Notes to Consolidated Financial Statements

Years Ended March 31, 2018 and 2017

3. ROYALTY SOURCES

The Fund collects royalties from various sources both foreign and domestic summarized as follows:

Domestic Royalties

Digital Performance Rights

The Digital Performance Rights in Sound Recordings Act of 1995 (DPRA) and the Digital Millennium Copyright Act of 1998 (DMCA) require the allocation of 5% of compulsory license fees to non-featured performers – 2½% to non-featured musicians and 2½% to non-featured vocalists. Compulsory license fees are collected in the first instance by SoundExchange, an independent, nonprofit performance rights organization designated by the United States Copyright Office to collect and distribute digital performance royalties for featured recording artists and sound recording copyright owners. SoundExchange collects both the featured artists' and the non-featured artists' shares of these fees, and transfers the non-featured performers' shares to the Fund for distribution.

Audio Home Recording Act

The Audio Home Recording Act (AHRA) imposes an obligation on importers and manufacturers of digital audio recording devices and media to submit a royalty payment set by statute to the Register of Copyrights. The AHRA provides that 66⅔% of those royalties shall be allocated to a Sound Recordings Fund. The AHRA further provides that 2⅝% of the Sound Recordings Fund shall be distributed to non-featured musicians who have performed on sound recordings distributed in the United States, and that 1⅜% shall be similarly distributed to non-featured vocalists.

Foreign Royalties

Private Copy/Record Rental Remuneration

The Fund collects Private Copy royalties (similar to AHRA royalties in the US) and/or Record Rental royalties with numerous collectives in foreign territories via bi-lateral (reciprocal) agreements negotiated in conjunction with the Association of Artists and Record Companies (AARC) and the applicable foreign collectives. (There are some exceptions where the Fund has an agreement solely with a foreign collective that does not involve AARC).

Digital Performance Royalties

The Fund collects Digital Performance royalties (similar to DPRA and DMCA royalties in the US) and/or certain other broadcast royalties with numerous collectives in foreign territories via bi-lateral (reciprocal) agreements negotiated in conjunction with SoundExchange and the applicable foreign collective. (There are some exceptions where the Fund has an agreement solely with a foreign collective that does not involve SoundExchange).

Audiovisual Royalties

In February 2010, the Fund entered into an agreement with AIE (the Spanish collective for featured and non-featured musicians and vocalists) for the distribution of audiovisual rights for motion pictures and television programs scored in whole or in part in the U.S. that are broadcast on Spanish television. This agreement also includes featured artists and non-featured artist royalties for the underscore (music originally recorded for the motion picture or television film) as well as for sound recordings licensed for use in motion pictures or television films.

Similarly, in May 2015 the Fund, in conjunction with SoundExchange and AARC (Alliance of Artists and Record Companies) entered into an agreement with GWFF (the German collecting society for audiovisual rights) and GVL (the German collective for Featured and non-featured musicians and vocalists) for the distribution of audiovisual rights for U.S. motion pictures broadcast or exhibited in Germany. This agreement also covers featured and non-featured artists for royalties for the underscore as for sound recordings licensed for use in motion pictures. Under the German agreement, the Fund receives all the featured and non-featured royalties, and forwards the featured artists' share to SoundExchange and AARC respectively based on the Fund's research.

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary

Notes to Consolidated Financial Statements

Years Ended March 31, 2018 and 2017

4. TAX STATUS

The Internal Revenue Service has recognized the Fund as exempt from federal income taxation under Section 501(c)(6) of the Internal Revenue Code, except for taxes on unrelated business income. For the years ended March 31, 2018 and 2017, the Fund incurred unrelated business income tax from debt financed rental of the building. In addition, as required by the Tax Cut and Jobs Act of 2018, the Fund incurred unrelated business income tax for the three months ended March 31, 2018 as a result of the Fund providing parking to employees which is considered a qualified transportation fringe benefit and taxable to the employer beginning January 1, 2018. The Building Corporation is a single member limited liability company and a disregarded entity for federal tax purposes. It is exempt under the state of California Revenue and Taxation Code Section 23701h. Accordingly, no provision for federal or state tax is made.

Management of the Fund and the Building Corporation are required to evaluate tax positions taken and recognize an income tax liability if the Fund or Building Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has evaluated the tax positions taken by the Fund and the Building Corporation, and concluded that as of March 31, 2018, there are no uncertain positions taken or expected to be taken that would require recognition or disclosure in the consolidated financial statements. The Fund and Building Corporation are subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. In addition, there have been no significant tax related interest or penalties for periods presented in these consolidated financial statements. The Fund's policy is to recognize penalties and interest incurred as general and administrative expenses in the period paid.

5. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs and valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access at the measurement date.

Level 2

Inputs to the valuation methodology are quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary
Notes to Consolidated Financial Statements
Years Ended March 31, 2018 and 2017

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies during the year ended March 31, 2018.

- Money market funds, certificates of deposit, commercial paper and cash equivalents are valued at cost, which approximates fair value.
- Mutual funds and common stocks are valued using quoted market prices in an active market.
- Corporate bonds are valued using quoted prices of like assets, corroborated market data, indices and/or yield curves.
- Government agency securities are valued using quoted market prices and trade data adjusted by subsequent changes in related indices for identical or compatible securities.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. During the year ended March 31, 2018, there were no transfers in or out of levels 1, 2 or 3.

As of March 31, 2018 and 2017, assets measured at fair value on a recurring basis are summarized by level within the fair value hierarchy as follows:

	2018			
	Level 1	Level 2	Level 3	Total Fair Value
Money market funds	\$ -	\$ 1,824,698	\$ -	\$ 1,824,698
Certificates of deposit	-	674,609	-	674,609
Corporate bonds	-	22,586,126	-	22,586,126
Commercial paper	-	12,389,705	-	12,389,705
Government agency securities	-	12,925,750	-	12,925,750
Mutual funds	6,952,180	-	-	6,952,180
Common stocks	23,225,499	-	-	23,225,499
Total investments - at fair value	30,177,679	50,400,888	-	80,578,567
Cash equivalents	-	67,063,678	-	67,063,678
Total recurring fair value measurements	\$ 30,177,679	\$ 117,464,566	\$ -	\$ 147,642,245

	2017			
	Level 1	Level 2	Level 3	Total Fair Value
Money market funds	\$ -	\$ 2,368,784	\$ -	\$ 2,368,784
Certificates of deposit	-	600,012	-	600,012
Corporate bonds	-	21,829,481	-	21,829,481
Commercial paper	-	8,733,487	-	8,733,487
Government agency securities	-	18,727,174	-	18,727,174
Mutual funds	4,120,171	-	-	4,120,171
Common stocks	21,228,453	-	-	21,228,453
Total investments - at fair value	25,348,624	52,258,938	-	77,607,562
Cash equivalents	-	54,527,011	-	54,527,011
Total recurring fair value measurements	\$ 25,348,624	\$ 106,785,949	\$ -	\$ 132,134,573

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary
Notes to Consolidated Financial Statements
Years Ended March 31, 2018 and 2017

6. RELATED PARTY TRANSACTIONS

On July 22, 2013, the Fund entered into a Data Purchase and Services Agreement with the AFM and SAG-AFTRA, pursuant to which each union agreed (a) to provide the Fund with access to member databases, session reports and other recording information including contact information regarding members and non-members for the purpose of aiding the distribution of royalties collected by the Fund; (b) to use commercially reasonable efforts to further the interests of the Fund and the Fund's beneficiaries through their participation in SoundExchange, the Alliance of Artists and Record Companies; international performers' organizations, the musicFIRST Coalition and similar union activities; (c) to make commercially reasonable efforts to obtain from its membership authorizations to act on their behalf for the purpose of collecting and distributing domestic and foreign royalties and to negotiate and enter into agreements with the Fund and foreign societies for the collection of foreign royalties; and (d) other services as agreed. Pursuant to the Data Purchase and Services Agreement, and in exchange for the data and services provided, the Fund agreed to pay to each union 1.5% of the amount approved for distribution, net of administrative fees. During the years ended March 31, 2018 and 2017, the Fund paid \$864,759 and \$872,894, respectively, to each union. These amounts are included in general and administrative expenses on the consolidated statements of activities.

7. PROPERTY AND EQUIPMENT

As of March 31, 2018 and 2017, property and equipment consist of the following:

	2018	2017
Land	\$ 2,955,000	\$ 2,955,000
Building	6,795,000	6,795,000
Building improvement	616,312	575,903
Leasehold improvements	1,240,992	1,204,329
Computer equipment and software	402,402	400,493
Furniture and fixtures	119,292	119,292
Website	257,608	257,608
Office equipment	53,865	53,865
	12,440,471	12,361,490
Accumulated depreciation and amortization	(1,730,031)	(1,220,496)
Net property and equipment	\$ 10,710,440	\$ 11,140,994

Depreciation and amortization expense for the years ended March 31, 2018 and 2017 was \$511,534 and \$403,011, respectively. These amounts are included in general and administrative and building expenses on the consolidated statements of activities.

8. DISTRIBUTIONS PAYABLE

The Fund maintains an obligation for amounts determined as payable to participants or their qualified beneficiaries, but the Fund is missing information necessary to issue payment, and has not issued payment, as of March 31 each year.

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary
Notes to Consolidated Financial Statements
Years Ended March 31, 2018 and 2017

The Fund continuously attempts to locate and notify participants or their qualified beneficiaries whose distribution amounts are calculated but not yet issued because the Fund lacks the information necessary to issue payment. The methods used to gather additional information about participants or their qualified beneficiaries includes, but are not limited to, print advertising in publications, web-based advertising, listing of unclaimed distribution amounts on the Fund's website, participation and promotion at union meetings, union and industry conferences and seminars, and certain licensed research tools such as Lexis Nexis. Any payments issued as a result of these processes are charged against this obligation. If a participant or qualified beneficiary contacts the Fund office because a distribution check in their possession is too old and is considered stale dated by a bank or the payment was lost or destroyed, the Fund will reissue payment if proper proof is supplied to the Fund by the participant or their qualified beneficiary and the Fund office corroborates that the previously issued payment is still outstanding. Such reissued payments are charged against this obligation.

Amounts aggregated under the Fund's de minimis policy are also included in this account. Once a distribution or aggregated distributions under the de minimis policy for a participant or their beneficiary exceeds \$10, such payments are charged to this obligation.

The Fund does not credit or otherwise include interest on any amount reported in this account. Amounts are reported at the same value originally determined as distributable by the Fund under its distribution guidelines in the year of receipt. The amount reported as distributions payable as of March 31, 2018 and 2017 were \$52,654,323 and \$36,586,659, respectively.

9. LEASE INCOME

The Building Corporation is the lessor of commercial office space in Valley Village, CA. Future minimum rental payments due to the Building Corporation under non-cancelable operating leases with unrelated tenants in effect at March 31, 2018 are as follows:

2019	\$	385,914
2020		268,213
2021		150,261
2022		21,136
	\$	<u>825,524</u>

10. NOTES PAYABLE

The Building Corporation assumed the seller's existing mortgage loan from Symetra Life Insurance Company during 2013. The loan carries an interest rate of 6.5% and is secured by the building. The loan has monthly principal and interest payments of \$26,914, with a balloon payment of \$2,025,287 due at maturity in January 2026. The amounts due at March 31, 2018 and 2017 were \$3,187,048 and \$3,298,825, respectively.

2019	\$	119,262
2020		126,810
2021		136,188
2022		144,863
2023		154,565
Thereafter		2,505,360
	\$	<u>3,187,048</u>

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary
Notes to Consolidated Financial Statements
Years Ended March 31, 2018 and 2017

11. EMPLOYEE BENEFIT PLANS

The Fund contributes to a multiemployer defined benefit pension plan under the terms of a participation agreement that covers its employees. The risks of participating in a multiemployer plan are different from single employer plans in the following aspects:

- (a) Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- (b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- (c) If the Fund chooses to stop participating in the multiemployer plan, The Fund may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Fund's participation in this plan for the years ended March 31, 2018 and 2017 is outlined in the table below. The "EIN/Plan Number" column provides the employer identification number ("EIN") and the three-digit plan number. The Pension Protection Act of 2006 zone status is for the Plan's year end at March 31, 2018 and 2017. The zone status is based on information that the Fund received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the orange and yellow zones are less than 80% funded or projected to become insolvent within seven years and plans in the green zone are at least 80% funded. The "FIP/RP Status" column indicates plans for which a funding improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. There is no expiration date to the participation agreement to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Contributions		Surcharge Imposed	Expiration of Collective Bargaining Agreement
		2018	2017		2018	2017		
American Federation of Musicians and Employers Pension Fund	51-6120204/001	Red	Red	YES	\$ 436,346	\$ 435,562	No	n/a

The Fund's contributions to the American Federation of Musicians and Employers Pension Fund were less than 5% of total contributions received by the American Federation of Musicians and Employers Pension Fund for the years ended March 31, 2018 and 2017.

There were no changes that affect the comparability of the Fund's contributions for the years ended March 31, 2018 and 2017.

As required by the Pension Fund's Rehabilitation Plan adopted April 15, 2010 and updated June 27, 2016, the Fund is paying its 8% base rate per the Participation Agreement, plus 0.72% (a 9% surcharge on the 8% base rate) for a total contribution rate of 8.72%.

The Fund also contributes to a 401(k) Plan. The employer contribution is 3% of all employees' eligible gross pay, regardless of the employees' election amount, participation or lack thereof. Total Safe Harbor contributions for the years ended March 31, 2018 and 2017 was \$167,088 and \$156,947, respectively.

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary
Notes to Consolidated Financial Statements
Years Ended March 31, 2018 and 2017

12. CONCENTRATION OF CREDIT RISK

The Fund maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Fund has not experienced any losses on such accounts and management does not believe that it is exposed to any significant financial risk on cash.

13. INTERFUND TRANSACTIONS

In October 2013, the Building Corporation borrowed \$7,000,000 from the Fund. The note bears interest at 4.25% per annum and is payable in monthly installments over 30 years. The note is secured by a Deed of Trust on the real property. The amounts due at March 31, 2018 and 2017 were \$6,438,830 and \$6,575,249, respectively.

In March 2017, the Building Corporation borrowed \$515,617 from the Fund. Monthly interest only payments of \$2,363 commenced April 1, 2017 and are payable in monthly installments over five years. The last payment includes a balloon payment of the principal. The amount due at March 31, 2018 and 2017 was \$515,617.

Principal payments for the years ended March 31 are as follows:

2019	\$	142,330
2020		148,499
2021		154,934
2022		677,266
2023		168,654
Thereafter		<u>5,662,764</u>
		6,954,447
Less: current portion		<u>(142,330)</u>
	\$	<u><u>6,812,117</u></u>

The Fund leases office space from the Building Corporation. The combined monthly rent expense totals \$63,271, plus common area maintenance. The lease terminates in May 2019. The lease agreement has a rent abatement clause for April and May 2019. Minimum lease payments for the year ending March 31, 2019 are \$759,252.

14. RESTATEMENT

The following table reflects the changes to the Fund's consolidated financial statements for the year ended March 31, 2017.

	As Previously Reported	Restatement Adjustment	Restated 2017
Prepaid expenses	\$ 102,308	\$ (102,308)	\$ -
Property and equipment, net	\$ 11,135,803	\$ 5,191	\$ 11,140,994
Accounts payable	\$ 74,462	\$ (74,462)	\$ -
Investment income, net	\$ 3,354,048	\$ (17,005)	\$ 3,337,043
Distribution to performers	\$ 56,194,847	\$ (25,215)	\$ 56,169,632
General and Administrative expenses	\$ 10,782,286	\$ 48,038	\$ 10,830,324
Building expenses	\$ 1,171,875	\$ (48,727)	\$ 1,123,148

AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund and Subsidiary
Notes to Consolidated Financial Statements
Years Ended March 31, 2018 and 2017

15. CONCENTRATIONS

The Fund received approximately 86% and 89% of its royalty revenue from one source for the years ended March 31, 2018 and 2017, respectively.

16. CONTINGENCIES

The Fund is a party to a number of lawsuits. The liability, if any, associated with these matters is not presently determinable. In the opinion of management, resolution of these matters will not have a material effect on the Fund's financial position or net assets.