

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

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016 AND 2015

AFM & SAG-AFTRA INTELLECTUAL PROPERTY RIGHTS
DISTRIBUTION FUND

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
AFM & SAG-AFTRA Intellectual Property Rights
Distribution Fund
4705 Laurel Canyon Boulevard, Suite 400
Valley Village, California 91607

Members of the Board:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund (the "Fund"), which comprise the consolidated statements of assets, liabilities and net assets - modified cash basis as of March 31, 2016 and 2015, and the related consolidated statements of revenue and expenses - modified cash basis and cash flows - modified cash basis for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 as described in Note 2-A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditor's 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 respect, the assets, liabilities and net assets of AFM & SAG-AFTRA Intellectual Property Rights Distribution Fund as of March 31, 2016 and 2015, and its revenue and expenses and cash flows for the years then ended in accordance with the basis of accounting as described in Note 2-A.

Basis of Accounting

We draw attention to Note 2-A of 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 that matter.



MILLER KAPLAN ARASE LLP

North Hollywood, California

February 27, 2017

AFM & SAG-AFTRA INTELLECTUAL PROPERTY RIGHTS
DISTRIBUTION FUND
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
ALL FUNDS - MODIFIED CASH BASIS

	March 31, 2016			
<u>ASSETS</u>	<u>Total</u>	<u>Elimination</u>	<u>Distribution Fund</u>	<u>Building Corporation</u>
<u>CURRENT ASSETS</u>				
Cash and Cash Equivalents	\$ 69,455,476	\$ -	\$ 69,438,558	\$ 16,918
Accounts Receivable - Related Parties:				
SAG-AFTRA and Industry Sound Recordings				
Distribution Fund	19,737	-	19,737	-
Film Musicians Secondary Markets Fund	57,957	-	57,957	-
Building Corporation	-	(405,922)	405,922	-
Prepays	84,423	-	82,810	1,613
Investments at Market Value	74,572,840	-	74,572,840	-
Loan Receivable - Related Party - Current	-	(130,752)	130,752	-
<u>TOTAL CURRENT ASSETS</u>	<u>144,190,433</u>	<u>(536,674)</u>	<u>144,708,576</u>	<u>18,531</u>
Security Deposits	30,350	-	-	30,350
Loan Receivable - Related Party - Long Term	-	(6,575,468)	6,575,468	-
	<u>30,350</u>	<u>(6,575,468)</u>	<u>6,575,468</u>	<u>30,350</u>
<u>PROPERTY AND EQUIPMENT</u>				
Land	2,955,000	-	-	2,955,000
Building	6,795,000	-	-	6,795,000
Leasehold Improvements	935,418	-	393,840	541,578
Computer Software and Equipment	323,557	-	323,557	-
Furniture and Fixtures	97,033	-	97,033	-
Website	38,950	-	38,950	-
Office Equipment	45,709	-	45,709	-
	<u>11,190,667</u>	<u>-</u>	<u>899,089</u>	<u>10,291,578</u>
Less: Accumulated Depreciation and Amortization	837,579	-	286,998	550,581
<u>PROPERTY AND EQUIPMENT, NET</u>	<u>10,353,088</u>	<u>-</u>	<u>612,091</u>	<u>9,740,997</u>
<u>TOTAL ASSETS</u>	<u>\$ 154,573,871</u>	<u>\$ (7,112,142)</u>	<u>\$ 151,896,135</u>	<u>\$ 9,789,878</u>
<u>LIABILITIES AND NET ASSETS (DEFICIT)</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 102,764	\$ -	\$ 28,128	\$ 74,636
Accounts Payable - Related Party	-	(405,922)	-	405,922
Distributions Payable	25,074,898	-	25,074,898	-
Note Payable - Related Party - Current	-	(130,752)	-	130,752
Note Payable - Current	105,247	-	-	105,247
<u>TOTAL CURRENT LIABILITIES</u>	<u>25,282,909</u>	<u>(536,674)</u>	<u>25,103,026</u>	<u>716,557</u>
Note Payable - Long Term	3,298,825	-	-	3,298,825
Note Payable - Related Party - Long Term	-	(6,575,468)	-	6,575,468
<u>TOTAL LIABILITIES</u>	<u>28,581,734</u>	<u>(7,112,142)</u>	<u>25,103,026</u>	<u>10,590,850</u>
<u>NET ASSETS (DEFICIT) UNRESTRICTED</u>				
Balance, April 1	114,406,513	-	114,859,611	(453,098)
Net Increase (Decrease) for the Year	11,585,624	-	11,933,498	(347,874)
Balance, March 31	<u>125,992,137</u>	<u>-</u>	<u>126,793,109</u>	<u>(800,972)</u>
<u>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</u>	<u>\$ 154,573,871</u>	<u>\$ (7,112,142)</u>	<u>\$ 151,896,135</u>	<u>\$ 9,789,878</u>

(Attached notes are an integral part of this statement)

March 31, 2015			
Total	Elimination	Distribution Fund	Building Corporation
\$ 101,582,454	\$ -	\$ 101,498,365	\$ 84,089
40,795	-	40,795	-
-	-	-	-
-	(113,023)	113,023	-
83,243	-	72,981	10,262
23,496,047	-	23,496,047	-
-	(125,321)	125,321	-
<u>125,202,539</u>	<u>(238,344)</u>	<u>125,346,532</u>	<u>94,351</u>
25,350	-	-	25,350
-	(6,706,000)	6,706,000	-
<u>25,350</u>	<u>(6,706,000)</u>	<u>6,706,000</u>	<u>25,350</u>
2,955,000	-	-	2,955,000
6,795,000	-	-	6,795,000
893,925	-	389,740	504,185
194,213	-	194,213	-
89,583	-	89,583	-
38,950	-	38,950	-
37,534	-	37,534	-
<u>11,004,205</u>	<u>-</u>	<u>750,020</u>	<u>10,254,185</u>
<u>450,317</u>	<u>-</u>	<u>145,315</u>	<u>305,002</u>
<u>10,553,888</u>	<u>-</u>	<u>604,705</u>	<u>9,949,183</u>
<u>\$ 135,781,777</u>	<u>\$ (6,944,344)</u>	<u>\$ 132,657,237</u>	<u>\$ 10,068,884</u>
\$ 75,887	\$ -	\$ -	\$ 75,887
-	(113,023)	-	113,023
17,797,626	-	17,797,626	-
-	(125,321)	-	125,321
97,679	-	-	97,679
<u>17,971,192</u>	<u>(238,344)</u>	<u>17,797,626</u>	<u>411,910</u>
3,404,072	-	-	3,404,072
-	(6,706,000)	-	6,706,000
<u>21,375,264</u>	<u>(6,944,344)</u>	<u>17,797,626</u>	<u>10,521,982</u>
85,289,572	-	85,390,986	(101,414)
29,116,941	-	29,468,625	(351,684)
<u>114,406,513</u>	<u>-</u>	<u>114,859,611</u>	<u>(453,098)</u>
<u>\$ 135,781,777</u>	<u>\$ (6,944,344)</u>	<u>\$ 132,657,237</u>	<u>\$ 10,068,884</u>

AFM & SAG-AFTRA INTELLECTUAL PROPERTY RIGHTS
DISTRIBUTION FUND
CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSES
ALL FUNDS - MODIFIED CASH BASIS

	April 1, 2015 to March 31, 2016			
	Total	Elimination	Distribution Fund	Building Corporation
<u>REVENUE</u>				
Royalty Receipts	\$ 46,051,587	\$ -	\$ 46,051,587	\$ -
Dividends and Interest	168,128	-	168,128	-
Building Loan Interest	-	(290,082)	290,082	-
Net Appreciation (Depreciation) of Investments	1,022,581	-	1,022,581	-
Rental Income	764,105	(464,384)	-	1,228,489
Parking Income	65,661	(47,080)	-	112,741
Other Income	2,720	-	-	2,720
Common Area Maintenance	43,063	-	-	43,063
<u>TOTAL REVENUE</u>	<u>48,117,845</u>	<u>(801,546)</u>	<u>47,532,378</u>	<u>1,387,013</u>
<u>EXPENSES</u>				
Distributions to Performers (Net of Unclaimed Distributions Returned from Prior Years)	28,248,731	-	28,248,731	-
Omissions Distribution Correction	-	-	-	-
Omissions	11,725	-	11,725	-
General and Administrative Expenses	6,411,158	(511,464)	6,918,166	4,456
Professional Fees	420,258	-	420,258	-
Loss on Disposal of Property and Equipment	-	-	-	-
Building Operating Expenses	862,535	-	-	862,535
Building Non-Operating Expenses	577,814	(290,082)	-	867,896
<u>TOTAL EXPENSES</u>	<u>36,532,221</u>	<u>(801,546)</u>	<u>35,598,880</u>	<u>1,734,887</u>
<u>CHANGE IN NET ASSETS</u>	<u>11,585,624</u>	<u>-</u>	<u>11,933,498</u>	<u>(347,874)</u>
<u>NET ASSETS (DEFICIT) (UNRESTRICTED)</u>				
<u>BEGINNING OF YEAR</u>	<u>114,406,513</u>	<u>-</u>	<u>114,859,611</u>	<u>(453,098)</u>
<u>END OF YEAR</u>	<u>\$ 125,992,137</u>	<u>\$ -</u>	<u>\$ 126,793,109</u>	<u>\$ (800,972)</u>

(Attached notes are an integral part of this statement)

April 1, 2014 to March 31, 2015			
Total	Elimination	Distribution Fund	Building Corporation
\$ 49,322,129	\$ -	\$ 49,322,129	\$ -
190,012	-	190,012	-
-	(405,915)	405,915	-
(84,913)	-	(84,913)	-
820,667	(313,321)	-	1,133,988
109,969	-	-	109,969
26,541	-	-	26,541
36,000	-	-	36,000
<u>50,420,405</u>	<u>(719,236)</u>	<u>49,833,143</u>	<u>1,306,498</u>
18,288,789	-	18,288,789	-
(5,418,448)	-	(5,418,448)	-
962,834	-	962,834	-
5,816,099	(313,321)	6,129,420	-
368,681	-	368,681	-
33,242	-	33,242	-
713,045	-	-	713,045
539,222	(405,915)	-	945,137
<u>21,303,464</u>	<u>(719,236)</u>	<u>20,364,518</u>	<u>1,658,182</u>
<u>29,116,941</u>	<u>-</u>	<u>29,468,625</u>	<u>(351,684)</u>
<u>85,289,572</u>	<u>-</u>	<u>85,390,986</u>	<u>(101,414)</u>
<u>\$ 114,406,513</u>	<u>\$ -</u>	<u>\$ 114,859,611</u>	<u>\$ (453,098)</u>

AFM & SAG-AFTRA INTELLECTUAL PROPERTY RIGHTS
DISTRIBUTION FUND
CONSOLIDATED SCHEDULES OF GENERAL AND ADMINISTRATIVE,
BUILDING OPERATING AND BUILDING NON-OPERATING EXPENSES
ALL FUNDS - MODIFIED CASH BASIS

	April 1, 2015 to March 31, 2016			
	Total	Elimination	Distribution Fund	Building Corporation
<u>GENERAL AND ADMINISTRATIVE EXPENSES</u>				
Administrative Wages and Benefits	\$ 4,646,129	\$ -	\$ 4,646,129	\$ -
Administrative Fees - Fund Administrator	-	-	(4,456)	4,456
Administrative Fees - Unions	840,908	-	840,908	-
Research and Subscriptions	12,078	-	12,078	-
Insurance	53,832	-	53,832	-
Printing	74,873	-	74,873	-
Occupancy	32,497	(464,384)	496,881	-
Equipment Lease	8,274	-	8,274	-
Promotion	38,341	-	38,341	-
Maintenance and Repairs	44,463	-	44,463	-
Seminars, Travel and Parking	131,092	(47,080)	178,172	-
Postage and Delivery	7,450	-	7,450	-
Office and Computer Expenses	146,166	-	146,166	-
Meals	36,974	-	36,974	-
Utilities	56,508	-	56,508	-
Depreciation and Amortization	141,685	-	141,685	-
Moving Expenses	-	-	-	-
Temporary Help	36,584	-	36,584	-
Bank and Investment Manager Fees	103,304	-	103,304	-
TOTALS	<u>\$ 6,411,158</u>	<u>\$ (511,464)</u>	<u>\$ 6,918,166</u>	<u>\$ 4,456</u>
<u>BUILDING OPERATING EXPENSES</u>				
Maintenance and Repairs	\$ 41,546	\$ -	\$ -	\$ 41,546
Cleaning and Janitorial Services	57,538	-	-	57,538
Parking Services	51,468	-	-	51,468
Temporary Help	-	-	-	-
Property Taxes	181,393	-	-	181,393
Insurance	69,142	-	-	69,142
Utilities	149,805	-	-	149,805
Salaries	192,660	-	-	192,660
Payroll Taxes	13,766	-	-	13,766
Benefits	75,286	-	-	75,286
Licenses and Permits	12,080	-	-	12,080
Supplies	7,847	-	-	7,847
Consulting Fees	-	-	-	-
Miscellaneous	10,004	-	-	10,004
TOTALS	<u>\$ 862,535</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 862,535</u>
<u>BUILDING NON-OPERATING EXPENSES</u>				
Depreciation and Amortization	\$ 245,578	\$ -	\$ -	\$ 245,578
Interest - Distribution Fund	-	(290,082)	-	290,082
Interest - Other	223,336	-	-	223,336
Legal Fees	76,508	-	-	76,508
Audit and Accounting Fees	14,325	-	-	14,325
Computers and Telephone	4,028	-	-	4,028
Miscellaneous	14,039	-	-	14,039
TOTALS	<u>\$ 577,814</u>	<u>\$ (290,082)</u>	<u>\$ -</u>	<u>\$ 867,896</u>

(Attached notes are an integral part of this statement)

SCHEDULE "B-1"

April 1, 2014 to March 31, 2015			
Total	Elimination	Distribution Fund	Building Corporation
\$ 3,962,764	\$ -	\$ 3,962,764	\$ -
279,139	-	279,139	-
545,690	-	545,690	-
6,056	-	6,056	-
47,061	-	47,061	-
106,197	-	106,197	-
132,917	(287,930)	420,847	-
2,862	-	2,862	-
24,178	-	24,178	-
16,683	-	16,683	-
121,824	(25,391)	147,215	-
5,761	-	5,761	-
238,146	-	238,146	-
30,553	-	30,553	-
69,054	-	69,054	-
91,670	-	91,670	-
54,105	-	54,105	-
64,986	-	64,986	-
16,453	-	16,453	-
<u>\$ 5,816,099</u>	<u>\$ (313,321)</u>	<u>\$ 6,129,420</u>	<u>\$ -</u>
\$ 46,856	\$ -	\$ -	\$ 46,856
75,665	-	-	75,665
54,563	-	-	54,563
38,005	-	-	38,005
88,790	-	-	88,790
57,110	-	-	57,110
154,624	-	-	154,624
113,339	-	-	113,339
9,712	-	-	9,712
36,112	-	-	36,112
13,962	-	-	13,962
10,414	-	-	10,414
5,975	-	-	5,975
7,918	-	-	7,918
<u>\$ 713,045</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 713,045</u>
\$ 231,273	\$ -	\$ -	\$ 231,273
-	(405,915)	-	405,915
230,730	-	-	230,730
58,442	-	-	58,442
5,420	-	-	5,420
5,043	-	-	5,043
8,314	-	-	8,314
<u>\$ 539,222</u>	<u>\$ (405,915)</u>	<u>\$ -</u>	<u>\$ 945,137</u>

AFM & SAG-AFTRA INTELLECTUAL PROPERTY RIGHTS
DISTRIBUTION FUND
CONSOLIDATED STATEMENTS OF CASH FLOWS
ALL FUNDS - MODIFIED CASH BASIS

	<u>April 1, 2015</u> to <u>March 31, 2016</u>	<u>April 1, 2014</u> to <u>March 31, 2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets:		
Distribution Fund	\$ 11,933,498	\$ 29,468,625
Building Corporation	(347,874)	(351,684)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:		
Depreciation and Amortization	387,263	322,943
Loss on Disposal of Property and Equipment	-	33,242
Net (Appreciation) Depreciation of Investments	(1,022,581)	84,913
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(36,899)	(40,781)
Prepaid Expense	(1,180)	(6,998)
Security Deposits	(5,000)	80
Accounts Payable	26,877	(29,280)
Distribution Payable	7,277,272	173,511
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>18,211,376</u>	<u>29,654,571</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Investments	(129,850,035)	(49,675,129)
Proceeds from Sale of Investments	79,795,823	49,510,237
Purchase of Property and Equipment	(186,463)	(874,511)
<u>NET CASH (USED) BY INVESTING ACTIVITIES</u>	<u>(50,240,675)</u>	<u>(1,039,403)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Payments on Notes Payable	(97,679)	(92,023)
<u>NET CASH (USED) BY FINANCING ACTIVITIES</u>	<u>(97,679)</u>	<u>(92,023)</u>
<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	<u>(32,126,978)</u>	<u>28,523,145</u>
<u>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</u>	<u>101,582,454</u>	<u>73,059,309</u>
<u>CASH AND CASH EQUIVALENTS - END OF YEAR</u>	<u>\$ 69,455,476</u>	<u>\$ 101,582,454</u>
<u>SUPPLEMENTAL INFORMATION:</u>		
Interest Paid	<u>\$ 223,336</u>	<u>\$ 230,730</u>

AFM & SAG-AFTRA INTELLECTUAL PROPERTY RIGHTS
DISTRIBUTION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 1 - DESCRIPTION OF THE FUND

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 (“Fund”) or (“AFM & AFTRA Fund”) on September 16, 1998 for the purpose of receiving and distributing royalties and remuneration that are created pursuant to U.S. and foreign law and 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 (“AFM & SAG-AFTRA Fund”).

AFM & SAG-AFTRA 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 (with one of those appointees required to be a rank and file representative). All royalties received from the various organizations (see Note 3) are for the benefit of non-featured instrumentalists and vocalists, except as expressly provided for the distribution of Audiovisual royalties (see Note 3) and for the distribution of symphonic featured artist royalties. Expenses incurred in the administration of the Fund are allocated against the royalties received from the various organizations based on royalties received, from the date of receipt. Distribution expenses are allocated directly to the royalties distributed.

On September 12, 2013, the AFM & SAG-AFTRA Fund established a building corporation, Studio City Plaza Title Holding Company LLC (the “Building Corporation”), to hold property purchased by the AFM & SAG-AFTRA Fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The consolidated financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Fund’s policy is to recognize revenue and the related assets when cash is received rather than when earned and recognize expenses when paid rather than when the obligations are incurred, except for the recognition of payables or receivables to related parties, distributions payable and other immaterial items.

B. Estimates

The preparation of consolidated financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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.

C. Cash and Cash Equivalents

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

AFM & SAG-AFTRA INTELLECTUAL PROPERTY RIGHTS
DISTRIBUTION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Distributions Payable

Distributions payable include the amount of distribution checks outstanding as of the date of the consolidated financial statements, and amounts that were not distributable because of missing information relating to the whereabouts of intended recipients. The Fund may be contacted by performers who either did not cash or receive their distribution checks. In such cases, the Fund will re-issue payment. Such payments are charged against this account.

The Fund continuously attempts to locate and notify performers whose distribution checks have not been cashed or performers to whom payments are due but not yet issued using various methods including, but not limited to, print advertising in music publications, web-based advertising, listing of unclaimed checks on the Fund's website, participation at union and industry conferences and seminars, and licensed research tools (e.g. Lexis Nexis). At March 31, 2016 and 2015, unclaimed distributions were \$25,074,898 and \$17,797,626, respectively, which includes royalties held for producers pending a Board of Trustees decision.

E. Reserve for Omissions

The Fund seeks to identify all performers who are entitled to royalty distributions for their work. Occasionally, through inquiries from and information provided by performers as well as the Fund's ongoing research, instances are identified wherein performers who were entitled to distributions were omitted, which often results in overpayments to performers who were already credited on those titles. For the years ended March 31, 2016 and 2015, omission payments were \$11,725 and \$962,834, respectively. Of note is the variance between the 2015 and 2016 Omission Payments which was due to the fact that there was a robust sound recording Omission Distribution in 2015 and only a modest audiovisual Omission Distribution in 2016 in addition to incidental omission payments throughout the year. The Fund anticipates more normalized Omission Distributions on a going forward basis.

The reserve to provide for distributions to previously omitted performers was determined by management to be \$169,797 for 2016 and 2015 and included in net assets.

F. 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.

G. Property and Equipment

Property and equipment is stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives ranging from 5 to 30 years. Leasehold improvements are amortized over the life of the lease. Expenditures for major renewals and improvements that extend the useful life are capitalized. Expenditures for repairs and maintenance are expensed. Approximately \$74,236 and \$108,000 of assets were not depreciated during the fiscal years ended March 31, 2016 and 2015, respectively, as they have not been placed in service.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Income Tax Status

No provision for federal or state income tax is made. The AFM & SAG-AFTRA Fund has obtained tax-exempt status from the federal government under Internal Revenue Code Section 501(c)(6) and the state of California under Revenue and Taxation Code Section 23701a. The Fund administrator believes the Fund is currently designed and being operated in compliance with the requirements of the respective codes.

The Building Corporation is a single member limited liability company and is a disregarded entity for federal tax purposes and is exempt under the state of California Revenue and Taxation Code Section 23701h. No provision for federal or state tax is made.

The modified cash basis of accounting requires management to evaluate tax positions taken by the Fund and Building Corporation and recognize a tax liability if the Fund and Building Corporation take a tax position that more likely than not would not be sustained upon examination by a tax authority. Management believes that the Fund has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provision of this guidance. The Fund and Building Corporation are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

I. Investment Valuation and Income Recognition

Accounting standards establish a fair value hierarchy that prioritizes valuation inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. The levels are as follows:

Level 1 – Inputs are based on quoted prices in an active market.

Level 2 – Inputs are based on quoted prices for similar instruments and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data.

Level 3 – Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

The following tables summarize the Fund's investments based on the inputs used to value them.

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Money Market	\$ 68,255,096	\$ -	\$ -	\$ 68,255,096
Certificates of Deposit	-	500,065	-	500,065
Corporate Bonds	-	19,907,838	-	19,907,838
Commercial Paper - Corporate	-	10,645,403	-	10,645,403
U.S. Agencies and Discounts	-	16,293,461	-	16,293,461
Mutual Funds	3,756,519	-	-	3,756,519
Equities	19,026,854	-	-	19,026,854
	<u>\$ 91,038,469</u>	<u>\$ 47,346,767</u>	<u>\$ -</u>	<u>\$ 138,385,236</u>

AFM & SAG-AFTRA INTELLECTUAL PROPERTY RIGHTS
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Investment Valuation and Income Recognition (Continued)

	March 31, 2015			Total
	Level 1	Level 2	Level 3	
Money Market	\$ 101,131,726	\$ -	\$ -	\$ 101,131,726
Certificates of Deposit	-	4,548,668	-	4,548,668
Corporate Bonds	-	6,270,250	-	6,270,250
Commercial Paper - Corporate	-	8,568,723	-	8,568,723
U.S. Agencies	-	699,847	-	699,847
	<u>\$ 101,131,726</u>	<u>\$ 20,087,488</u>	<u>\$ -</u>	<u>\$ 121,219,214</u>

Level 1 investments include money market funds, mutual funds and equities valued based on quoted market prices in an active market. Level 2 investments include certificates of deposit, corporate bonds, commercial paper and U.S. agencies and discounts whose values are determined by reference to trades in similar securities or valued by third party pricing vendors. The allocation of investments is in accordance with the Fund's investment policy.

J. Accrued Vacation

The Fund provides vacation time off to its employees. The accrual is not recorded in the consolidated financial statements. As of March 31, 2016 and 2015, the amount owed was \$173,716 and \$130,288, respectively.

K. Consolidated Financial Statements

The Fund presents financial statements on a consolidated basis including the accounts of the Distribution Fund and Building Corporation. As the Fund has both an economic interest in and control of the Building Corporation, the accounts have been consolidated. Interorganization amounts and transactions have been eliminated in the presentation of the consolidated financial statements.

NOTE 3 - SUMMARY OF ROYALTY SOURCES

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

A. Domestic Royalties

1. Audio Home Recording Act ("AHRA")

The 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 66 $\frac{2}{3}$ % of those royalties shall be allocated to a Sound Recordings Fund. The AHRA further provides that 2 $\frac{5}{8}$ % 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 1 $\frac{3}{8}$ % shall be similarly distributed to non-featured vocalists.

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NOTE 3 - SUMMARY OF ROYALTY SOURCES (Continued)

A. Domestic Royalties (Continued)

2. Digital Performance Rights (“DPRA”)

The DPRA of 1995 and DMCA of 1998 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. SoundExchange is an independent, nonprofit performance rights organization that is 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’ share of this money, and transfers the non-featured performers’ share to the Fund for distribution.

3. Digital Downloads (Vocalists)

In 2007, SAG-AFTRA concluded its negotiation with the Recording Industry for a successor Sound Recording Labor Agreement, commencing January 1, 2008. This agreement contains a new provision for Digital Exploitations of Covered Product (“Digital Downloads”) to be collected by the SAG-AFTRA and SAG-AFTRA and Industry Sound Recordings Distribution Fund (“SRDF”). The SRDF has appointed the AFM & SAG-AFTRA Fund as the Third Party Administrator to distribute royalties derived from the following products/sources:

- Permanent Audio Downloads - A Covered (i.e. recorded under the AFTRA Sound Recording Labor Agreement) Sound Recording sold via a digital transmission in the United States only in a manner which provides a permanent copy.
- Permanent Video Downloads - A Covered Music Video sold via a digital transmission in the United States only in a manner which provides a permanent copy.
- Non-Permanent (“Tethered”) Download - A Covered Sound Recording or a Music Video which is sold via digital transmission in the United States only on a temporary, conditional or “timed out” basis.
- Video Streams - A Covered Music Video sold via a digital transmission in the United States only using streaming technology and leaving no residual copy on the receiving device.

B. Foreign Royalties

1. 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).

2. 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

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NOTE 3 - SUMMARY OF ROYALTY SOURCES (Continued)

B. Foreign Royalties (Continued)

2. Digital Performance Royalties (Continued)

territories via bi-lateral (reciprocal) agreements negotiated in conjunction with the Sound Exchange and the applicable foreign collective. (There are some exceptions where the Fund has an agreement solely with a foreign collective that does not involve Sound Exchange).

3. 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 of 2015 the Fund, in conjunction with Sound Exchange 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 Sound Exchange and AARC respectively based on the Fund's research.

NOTE 4 - CONCENTRATION OF CREDIT RISK

During the year ended March 31, 2016, the Fund maintained bank accounts with cash balances in excess of the federally insured limits of \$250,000 per bank. Various cash accounts have minimum balance requirements. The amount in excess of the limits was subject to risk if the financial institution did not perform. The Fund has not incurred any losses on the uninsured balances. The Fund also owns sweep accounts that are not federally insured.

NOTE 5 - RELATED PARTY TRANSACTIONS

The Fund shared equipment and administrative staff with Film Musicians Secondary Markets Fund (FMSMF) and Live Television Video Supplemental Markets Fund (LTV), related parties through March 31, 2014. The Fund's administrator was also the administrator of the FMSMF and LTV until April 2014. FMSMF pays certain expenses and each entity reimburses its share of these costs based upon actual use.

The Fund periodically reimburses FMSMF for shared expenses totaling \$404,526 and \$715,693 for the years ended March 31, 2016 and 2015, respectively.

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NOTE 5 - RELATED PARTY TRANSACTIONS (Continued)

Expenses paid on behalf of the LTV, which periodically reimburses the Fund, totaled \$52,440 for the year ended March 31, 2015.

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 or 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 member 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 1-1/2% of the amount distributed in each distribution. During the years ended March 31, 2016 and 2015, the Fund paid \$420,454 and \$272,845, respectively, to each union.

SRDF is a related party. The Fund paid expenses on behalf of SRDF totaling \$19,737 and \$40,795 during the years ended March 31, 2016 and 2015, respectively.

NOTE 6 - INVESTMENTS

The Fund classifies as short-term, investments with maturities of greater than 3 months, but less than 12 months. These investments are classified as held-to-maturity securities as the Fund has the ability and intent to hold the securities until maturity. Dividend and interest income is recorded when received.

The Fund's investments consisted of the following:

	March 31, 2016	
	<u>Market Value</u>	<u>Cost</u>
Money Market	\$ 68,255,096	\$ 68,255,096
Certificates of Deposit	500,065	499,863
Corporate Bonds	19,907,838	19,616,659
Commercial Paper	10,645,403	10,644,128
U.S. Agencies and Discounts	16,293,461	16,223,725
Mutual Funds	3,756,519	3,741,584
Equities	19,026,854	18,351,096
<u>TOTALS</u>	<u>\$ 138,385,236</u>	<u>\$ 137,332,151</u>

AFM & SAG-AFTRA INTELLECTUAL PROPERTY RIGHTS
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NOTE 6 - INVESTMENTS (Continued)

	March 31, 2015	
	Market Value	Cost
Money Market	\$ 101,131,726	\$ 101,131,726
Certificates of Deposit	4,548,668	4,548,024
Corporate Bonds	6,270,250	6,240,446
Commercial Paper	8,568,723	8,568,774
U.S. Agencies	699,847	699,740
<u>TOTALS</u>	<u>\$ 121,219,214</u>	<u>\$ 121,188,710</u>

NOTE 7 - NOTES PAYABLE

The Building Corporation assumed the seller's mortgage loan from Symetra Life Insurance Company during 2014. The note carries an interest rate of 6.5% and is secured by the purchased building. The note has monthly principal and interest payments of \$26,914, with a balloon payment of \$2,025,287 due at maturity in January 2026. The amount due at March 31, 2016 and 2015 was \$3,404,072 and \$3,501,751, respectively.

Principal repayments are due as follows:

<u>Year Ending March 31,</u>	<u>Amount</u>
2017	\$ 105,247
2018	111,777
2019	119,262
2020	126,810
2021	138,188
Thereafter	2,802,788
	<u>\$ 3,404,072</u>
Less: Current Portion	(105,247)
	<u>\$ 3,298,825</u>

NOTE 8 - LEASE INCOME

As of March 31, 2016, the Building Corporation is party to several non-related entity office lease agreements with combined monthly lease income of \$83,821, including common area maintenance and parking (Note 11). Future minimum lease income is as follows:

<u>Year Ending March 31,</u>	<u>Total</u>
2017	\$ 354,297
2018	362,011
2019	229,311
2020	102,208
2021	87,498
	<u>\$ 1,135,325</u>

AFM & SAG-AFTRA INTELLECTUAL PROPERTY RIGHTS
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NOTE 9 - MULTIEMPLOYER PENSION PLAN

The Fund contributes to the American Federation of Musicians and Employers' Pension Fund under the terms of a participation agreement that covers its employees. The risks of participating in a multiemployer plan are different from a single-employer plan in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Fund chooses to stop participating in its 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, 2016 and 2015 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, 2016 and 2015. 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.

The last column lists the expiration date of the participation agreement to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status	Contributions by the Fund		Surcharge Imposed	Expiration Date of Participation Agreement
		2016	2015		2016	2015		
American Federation of Musicians and Employers' Pension Fund	51-6120204/001	Red	Red	Yes	\$ 310,587	\$ 232,230	Yes	N/A

NOTE 10 - 401(k) PLAN

The Fund 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, 2016 and 2015 was \$116,771 and \$76,223, respectively.

NOTE 11 - INTERENTITY TRANSACTIONS

In October 2013, the Building Corporation borrowed \$7,000,000 from AFM & SAG-AFTRA 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, 2016 and 2015 were \$6,706,220 and \$6,831,321, respectively.

Principal repayments are due as follows:

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NOTE 11 - INTERENTITY TRANSACTIONS (Continued)

<u>Year Ending March 31,</u>	<u>Amount</u>
2017	\$ 130,752
2018	136,418
2019	142,330
2020	148,499
2021	154,934
Thereafter	<u>5,993,287</u>
	\$ 6,706,220
Less: Current Portion	<u>(130,752)</u>
	<u>\$ 6,575,468</u>

The AFM & SAG-AFTRA Fund leases office space from Building Corporation. The combined monthly rent expense totals \$28,906, plus common area maintenance. The leases terminate in May 2019. The lease agreement has a rent abatement clause for April and May 2019. Future minimum lease payments are as follows:

<u>Year Ending March 31,</u>	
2017	\$ 355,009
2018	365,797
2019	<u>376,790</u>
	<u>\$ 1,097,596</u>

NOTE 12 - COMMITMENT AND CONTINGENCIES

On August 11, 2016, a complaint was filed against the Fund alleging a breach of statutory and fiduciary duties against non-union performers. On October 18, 2016, the plaintiffs voluntarily withdrew the lawsuit without prejudice. On January 23, 2017, the plaintiffs filed a modified complaint alleging breach of fiduciary duty. The Fund intends to vigorously defend itself against the complaint and does not believe an adverse outcome will have a material effect on the Fund's financial position.

NOTE 13 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 27, 2017, the date on which the consolidated financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosures in these consolidated financial statements.