

**WRITERS GUILD OF AMERICA, west, INC.**  
**(A Not-For-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2004**

**1. Summary of Significant Accounting Policies**

Organization

The Writers Guild of America, west, Inc. (the "Guild") is a non-profit labor union registered in the State of California, formed to negotiate through collective bargaining and other negotiations the basic working conditions, minimum pay scales and creative rights of those individuals employed in the entertainment industry as writers; to distribute to those individuals any royalties, residuals, foreign levies or other payments assigned to it for distribution; and to educate the entertainment industry and the general public about the importance of the work performed by those individuals who are its members. The Guild's main office is in Southern California, and it also maintains worldwide affiliations.

Description of Funds

To ensure observance of limitations and restrictions placed on the use of resources available to the Guild, the accounts of the Guild are maintained on the accrual basis in accordance with the AICPA's Audit and Accounting Guide, *Not-for-Profit Organizations*. Fund accounting provides that resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to their nature and purposes.

The assets, liabilities, and net assets of the Guild are reported in five self-balancing fund groups as follows:

Guild Operations Fund, which includes undesignated and designated resources, represents the portion of the funds that are available for Guild operations and member services.

Theater Operations Fund represents funds restricted for use in activities associated with the Film Society for members' use and theater operations for non-members' use.

The Strike Fund was created in 1986 to provide loans and/or grants as determined by the Board of Directors to members adversely affected by a strike.

The Year 2000 and Good & Welfare Funds were created in October 1992 to provide special purpose funds for Guild operations and members.

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**1. Summary of Significant Accounting Policies, continued**

Net Assets

Unrestricted net assets are assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Temporarily restricted net assets are assets whose use has been restricted by donors to a specific period or purpose. When a donor restriction expires (a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Statements of Activities as assets released from restrictions. Interest income earned on temporarily restricted contributions received and expended in the same fiscal year is recorded as unrestricted revenues. Temporarily restricted net assets are to be utilized to promote a greater appreciation of writers.

Designated Net Assets

The Board of Directors has designated \$1,000,000 of the Guild's operating net assets as a reserve for emergency situations in accordance with the Guild Constitution.

The Strike Fund net assets have been designated in accordance with the Guild Constitution to provide loans and/or grants to members who are adversely affected by a strike. Effective October 1, 1992, the Strike Fund balance shall be maintained at a cost-of-living adjusted six million dollars (\$6,000,000) of funds previously allocated from member dues. Interest and investment income earned from Strike Fund investments in excess of the current year change in the cost-of-living index is transferred to the Good & Welfare and/or Year 2000 funds. The current year cost-of-living index is 1.7%.

The Good and Welfare Fund was established to provide interest-free, short-term loans for current members in good standing who are experiencing acute financial distress in emergency situations. Loans to members are financed from the interest and investment revenue generated by the principal of the fund.

The Year 2000 Fund was established to provide the Guild with resources to more effectively meet the challenges and address the issues raised by the significant changes in the domestic and international marketplace; to ensure that writers' future participation in revenues generated by the exploitation of their literary materials is better protected and guaranteed; and to further the creative, artistic and professional standing of screen and television writers. Expenditures from this fund are approved by the Board of Directors.

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**1. Summary of Significant Accounting Policies, continued**

Funds Held in Trust

Funds held in trust are comprised of member payments, the client trust account, foreign levy monies, undeliverable funds, and small residuals trust.

Member payments include monies received from production companies as a result of the use of excerpts and are to be paid to Guild members.

The client trust account represents funds received by the Guild on behalf of members as a result of legal proceedings and enforcement of the collective bargaining agreement initiated by the Guild.

Foreign levies monies are received from various European countries, and are due Guild members as a result of the exhibition of productions on foreign television. Currently, the Guild is holding monies, on behalf of members, from Argentina, Australia, Austria, Denmark, France, Germany, Hungary, Italy, Mexico, Netherlands, Poland, Slovakia, Spain and Switzerland.

Undeliverable funds include checks and other monies due writers that are returned by the post office because the writer is unknown at the address indicated (or the writer has moved without leaving a forwarding address), and foreign levies monies held more than seven years after all reasonable efforts to identify and locate the recipients of the funds were exhausted. In accordance with Guild Constitution, Article VIII, ¶ B.4, the Board approved the policy of transferring funds undeliverable after seven years into the Guild treasury to defray the costs of Guild operations. The Constitutional obligation to pay funds from the Guild treasury to the recipients should they later be identified and located will apply.

Small residuals trust include residuals checks with a gross amount of less than one hundred dollars (\$100) payable to writers who have enrolled in a program for depositing their small residuals into a trust account to permit aggregation of multiple small payments into larger payment. It is the Guild's practice to accumulate such payments until the aggregate is equal to two hundred fifty dollars (\$250.00), at which time the payment shall be paid by no later than thirty (30) days following the close of the calendar month in which the \$250 threshold is reached. In any event all accumulated amounts due to writers shall be paid by no later than December 31<sup>st</sup> of the calendar year in which accumulated.

Revenue Recognition

In accordance with industry practice, membership dues and assessments are recognized as revenue over the period of time in which the members perform the services upon which the dues income is based. Membership dues are payable on a quarterly basis.

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**1. Summary of Significant Accounting Policies, continued**

Income Taxes

The Guild is a not-for-profit organization and is exempt from Federal and state income taxes under Section 501(c)(5) of the Internal Revenue Code.

Statement of Cash Flows

For purposes of the statement of cash flows, the Guild considers highly liquid investments, purchased with an initial maturity of three months or less, to be cash equivalents, with the exception of those classified as investments.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided for using the straight-line method over the estimated useful lives of assets of follows:

|                         |               |
|-------------------------|---------------|
| Building                | 39.5 years    |
| Building improvements   | 7 years       |
| Computers and equipment | 3 years       |
| Furniture and fixtures  | 7 years       |
| Equipment               | 7 years       |
| Tenant improvements     | Life of lease |

Repairs and maintenance are charged to expense as incurred; significant improvements, which materially increase values or extend useful lives, are capitalized and depreciated over the estimated useful lives of the related assets.

The cost of assets retired or otherwise disposed of, and the related accumulated depreciation, are eliminated from the accounts in the year of disposal. Gains or losses resulting from the disposal of assets are charged to expense currently.

Software Development Costs

The Guild capitalizes production costs of computer software developed for internal use and amortizes such costs over a three-year estimated useful life. Costs capitalized totaling \$828,900 are included in "computers and equipment" in the accompanying statement of financial position.

Severance

The Guild's severance pay policies, affecting certain Guild employees, provide for severance payments in the event of specified terminations of employment. The severance liability is accrued in accordance with the terms of the severance pay policies.

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**1. Summary of Significant Accounting Policies, continued**

Concentration of Credit Risk

The Guild holds investments primarily in the form of marketable debt securities, equity mutual fund and money market funds. The Guild is exposed to credit risk for the amount of the investments in the event of nonperformance by other parties to the investment transactions. To date, the Guild has not incurred losses related to these investments and does not anticipate nonperformance by other parties.

The Guild places its cash with various financial institutions. At March 31, 2004, the Guild has bank deposits in excess of federally insured limits. To date, the Guild has not incurred losses related to these deposits.

The composition of the investment portfolio as of March 31, 2004 is diversified, with holdings primarily in U.S. Agencies and government-backed securities and no other security or group of securities from the same issuer in excess of 10% of the Guild's investment portfolio.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**2. Investments**

Investments are stated at fair value as reported by City National Bank, McMorgan & Company, and Banc of America Securities, LLC, the investment managers, and consist primarily of investments in marketable debt securities, which mature between the years 2004 and 2033, an equity mutual fund and money market funds. Fair value of investments is determined based on quoted market prices.

Fair value of investments at March 31, 2004 is as follows:

|   | <u>Investments</u>  |                     | <u>Funds Held in Trust for Members<br/>and Undeliverable Funds</u> |                     |
|---|---------------------|---------------------|--|---------------------|
|   | <u>Market Value</u> | <u>Cost</u>         | <u>Market Value</u>  | <u>Cost</u>         |
| U.S. Agencies and government<br>backed securities | \$ 8,353,486        | \$ 8,311,026        | \$11,320,470   | \$11,312,274        |
| Corporate bonds                                   | 5,025,235           | 4,901,526           | 4,425,134  | 4,384,652           |
| Equity mutual fund                                | 3,371,739           | 3,504,517           | -  | -                   |
| Money market funds                                | 530,330             | 530,330             | 10,791,472   | 10,791,472          |
| Total   | <u>\$17,280,790</u> | <u>\$17,247,399</u> | <u>\$26,537,076</u>  | <u>\$26,488,398</u> |

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