



**FILM ACTION OREGON**

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**Audited  
Financial Statements**

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**For the Year Ended  
June 30, 2014**



**MCDONALD JACOBS**  
ACCOUNTANTS & CONSULTANTS



## INDEPENDENT AUDITOR'S REPORT

Jake Jacobs, CPA  
Shareholder

Susan J. Marks, CPA  
Shareholder

Mark A. Clift, CPA  
Shareholder

Karin S. Wandtke, CPA  
Shareholder

Sang Ahn, CPA  
Shareholder

Gerard DeBlois Jr., CPA  
Shareholder

Mary Strasdin, CPA  
Shareholder

Jill Oswald  
Shareholder

Anthony Almer, CPA  
Principal

Tyee Carr, CPA  
Principal

Dennis C. Johnson, CPA  
of counsel

To the Board of Directors  
Film Action Oregon

We have audited the accompanying financial statements of Film Action Oregon (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the 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 organization'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Film Action Oregon as of June 30, 2014, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Report on Summarized Comparative Information*

We have previously audited Film Action Oregon's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 12, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McDonald Jacobson, P.C.*

Portland, Oregon  
November 14, 2014

**FILM ACTION OREGON**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2014**  
**(With comparative totals for 2013)**

	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 235,325	\$ 130,557
Accounts receivable	11,983	16,973
Grants receivable	100,000	85,035
Prepaid expenses and other assets	10,410	83,594
Property and equipment, net, <i>as restated for 2013</i>	1,528,314	1,379,881
 TOTAL ASSETS	 \$ 1,886,032	 \$ 1,696,040
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 72,837	\$ 78,751
Deferred revenue	19,913	16,184
Unearned rent revenue	89,774	120,746
Notes payable	299,448	337,096
Total liabilities	481,972	552,777
Net assets (deficit):		
Unrestricted:		
Undesignated	62,374	(6,919)
Net property and equipment, <i>as restated for 2013</i>	1,139,092	922,039
Total unrestricted	1,201,466	915,120
Temporarily restricted	202,594	228,143
Total net assets	1,404,060	1,143,263
 TOTAL LIABILITIES AND NET ASSETS	 \$ 1,886,032	 \$ 1,696,040

See notes to financial statements.

**FILM ACTION OREGON**  
**STATEMENT OF ACTIVITIES**  
**For the year ended June 30, 2014**  
**(With comparative totals for 2013)**

	2014			2013
	Unrestricted	Temporarily Restricted	Total	
<b>Revenue and support:</b>				
Tickets and concession revenue	\$ 1,222,857	\$ -	\$ 1,222,857	\$ 915,133
Contributions and grants	72,712	233,035	305,747	304,707
Donated assets and services	45,328	-	45,328	28,984
Dues and memberships	54,837	-	54,837	25,405
Program fees and tuition	20,099	-	20,099	27,722
Rent income	108,122	-	108,122	84,772
Interest income	225	-	225	-
Other income	3,516	-	3,516	8,052
Net assets released from restrictions:				
Satisfaction of purpose restrictions	258,584	(258,584)	-	-
Total revenue and support	1,786,280	(25,549)	1,760,731	1,394,775
<b>Expenses:</b>				
Program:				
Theater programs	1,068,081	-	1,068,081	863,349
Building operation	196,282	-	196,282	123,083
Total program expenses	1,264,363	-	1,264,363	986,432
Supporting services:				
General and administrative	153,642	-	153,642	139,527
Fundraising	81,929	-	81,929	71,279
Total expenses	1,499,934	-	1,499,934	1,197,238
Change in net assets	286,346	(25,549)	260,797	197,537
<b>Net assets:</b>				
Beginning of the year, <i>as restated (Note 10)</i>	915,120	228,143	1,143,263	945,726
End of the year	\$ 1,201,466	\$ 202,594	\$ 1,404,060	\$ 1,143,263

See notes to financial statements.

**FILM ACTION OREGON**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the year ended June 30, 2014**  
**(With comparative totals for 2013)**

	2014				2013	
	Program		Supporting Services		Total	Total
	Theater Programs	Building Operation	General and Administrative	Fundraising	Expenses	Expenses
Salaries and related expenses	\$ 316,295	\$ -	\$ 94,625	\$ 54,471	\$ 465,391	\$ 411,711
Professional fees	28,417	-	34,475	18,060	80,952	84,059
Film and facility rental	344,805	-	-	-	344,805	257,625
Production expenses	2,728	-	263	-	2,991	5,825
Advertising	36,397	-	-	-	36,397	18,734
Grants	2,702	-	-	-	2,702	-
Building repairs and maintenance	-	26,128	-	-	26,128	23,255
Equipment and maintenance	6,693	-	1,093	347	8,133	5,744
Occupancy	4,338	53,109	5,610	3,388	66,445	55,541
Telephone	3,273	-	1,220	849	5,342	5,565
Depreciation and amortization	777	79,489	-	-	80,266	52,790
Insurance	-	11,962	1,316	-	13,278	12,284
Concessions and supplies	255,238	-	814	727	256,779	166,439
Postage	9,750	-	252	413	10,415	10,702
Printing	6,124	-	165	1,737	8,026	7,019
Conferences and travel	4,866	-	2,584	52	7,502	12,221
Bank fees	38,339	-	369	-	38,708	34,056
Interest	-	20,523	-	-	20,523	23,200
Miscellaneous	7,339	8,842	8,970	-	25,151	10,468
Allocation of building expenses	-	(3,771)	1,886	1,885	-	-
<b>Total expenses</b>	<b><u>\$ 1,068,081</u></b>	<b><u>\$ 196,282</u></b>	<b><u>\$ 153,642</u></b>	<b><u>\$ 81,929</u></b>	<b><u>\$ 1,499,934</u></b>	<b><u>\$ 1,197,238</u></b>

See notes to financial statements.

**FILM ACTION OREGON**  
**STATEMENT OF CASH FLOWS**  
**For the year ended June 30, 2014**  
**(With comparative totals for 2013)**

	2014	2013
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 260,797	\$ 197,537
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	80,266	52,790
(Increase) decrease in:		
Accounts and grants receivable	(9,975)	44,954
Other assets	72,407	(74,710)
Increase (decrease) in:		
Accounts payable and accrued expenses	(5,914)	16,561
Deferred revenue	3,729	(7,423)
Unearned rent revenue	(30,972)	(22,472)
Net cash provided by operating activities	370,338	207,237
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(227,922)	(173,656)
Net cash used in investing activities	(227,922)	(173,656)
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	(37,648)	(35,323)
Net cash used in financing activities	(37,648)	(35,323)
Net increase (decrease) in cash and cash equivalents	104,768	(1,742)
Cash and cash equivalents - beginning of year	130,557	132,299
Cash and cash equivalents - end of year	\$ 235,325	\$ 130,557
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest	\$ 20,523	\$ 23,200
Non-cash operating and investing activities:		
Building improvements received in exchange for rent	-	95,644

See notes to financial statements.

**FILM ACTION OREGON**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

**1. THE ORGANIZATION**

Film Action Oregon (the Organization) is a nonprofit organization founded in 1992 to support independent Oregon film and video. In 1997 the Organization purchased the Hollywood Theater (the Theater). At that time, the Organization's goal was to immediately preserve and gradually rehabilitate this nationally recognized historic venue. Since reopening under Organization management, the Theater has once again become a vital part of the neighborhood that bears its name.

In addition to serving as a movie house for classic, family and art films, the Hollywood Theater is also a venue for concerts, theatrical performances, and community events. The Theater screens over 300 independent, foreign and documentary films each year and continues to assist the Oregon film community by serving as a venue for the world premieres of locally produced films and videos.

For the last decade, the Hollywood Theatre has offered an impressive array of media arts programs for young people, providing enriching educational experiences for tens of thousands of youth. In 2014, the Organization created a state of the art media lab and arts integration incubator at Open Meadow Middle School, which will help to inform statewide best practices. Other Hollywood Theatre educational programs include "Animate It!", fun, educational, and affordable animation workshops for youth; "Hollywood Theatre Studio," a number of production labs across Portland that engage youth in media making; "Stories in Movement," a digital storytelling program that provides young artists with a sense of awareness that their individual stories are part of the collective history of their community; and the "Hollywood Arts Collective", a collaboration amongst Portland teens interested in film programming, digital art creation and critique.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as unrestricted or restricted net assets. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets are subject to donor-imposed stipulations that will be met, either by actions of the Organization and/or the passage of time.



**FILM ACTION OREGON**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**June 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Management writes off account balances at the time accounts are determined to be uncollectible. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial. Accounts receivable are unsecured and include accounts over 90 days past due of approximately \$200 and \$2,000 at June 30, 2014 and 2013, respectively.

Grants Receivable

Grants and contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Organization is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Property and Equipment

Additions to property and equipment of \$500 and greater are capitalized. Property and equipment purchased are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which is generally 39 years for buildings and building improvements and 3 to 7 years for furniture and equipment.

Income Tax Status

Film Action Oregon is a nonprofit corporation exempt from federal and state income tax under section 501(c)(3) of the Internal Revenue Code and applicable state law. The Organization has income from advertising and rental activities not directly related to the Organization's tax exempt purpose which is subject to taxation; however, the provision for income taxes, if any, is not significant. Organization is not a private foundation.

The Organization follows the provisions of FASB ASC *Topic Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

**FILM ACTION OREGON**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**June 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Income Tax Status, Continued

The Organization's information returns for years ended June 30, 2010 and prior are generally no longer subject to examination by taxing authorities in its major tax jurisdictions.

Ticket Sales, Concession Revenue and Group Rent

Ticket sales and concession revenue are recognized as revenues in the period earned as the related films are presented. Additionally, all or a portion of the Theater is periodically rented out to private groups. Income from group rentals is recorded in the period in which the space is rented. Payments received in advance for tickets and group rentals are recorded as deferred revenue.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the year ended June 30, 2014, the Organization received donated services of approximately \$33,600 included in expenses as follows: \$17,600 in fundraising and \$16,000 in general and administrative for legal and branding services. During the year ended June 30, 2013, the Organization received donated services of approximately \$24,500 included in expenses as follows: \$2,200 in fundraising for marketing services and \$22,300 in general and administrative for legal, accounting services and branding services.

**FILM ACTION OREGON**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**June 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Agency Transactions – Sponsored Film Projects

The Organization holds funds on behalf of the film partners as part of the sponsored film projects. The Organization receives and disburses funds as agreed upon by the Organization and film partners. No contribution revenue or expense is reported in the financial statements for these transactions. Instead, the activity is accounted for in a liability account. Total funds received through the film partners program approximated \$16,400 and \$21,000, respectively, and related disbursements approximated \$16,900 and \$22,200, respectively, for the years ended June 30, 2014 and 2013. Amounts held at June 30, 2014 and 2013 total \$495 and \$1,070, respectively, and are included in deferred revenue.

Advertising

The Organization expenses advertising costs in the year in which the advertising first takes place. Advertising expenses approximated \$36,400 and \$18,700 during the years ended June 30, 2014 and 2013, respectively.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of 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 reporting period. Actual results could differ from those estimates.

Summarized Financial Information for 2013

The financial information as of June 30, 2013 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

The Organization has evaluated all subsequent events through November 14, 2014, the date the financial statements were available to be issued.

**FILM ACTION OREGON**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**June 30, 2014**

**3. GRANTS RECEIVABLE**

Grants receivable at June 30, 2014 and 2013 are collectible within one year. Management believes grants receivable are fully collectible and that no allowance is deemed necessary.

The Organization was awarded a three-year conditional grant whereby payments of \$30,000 for years 2 and 3 are contingent on meeting matching requirements. Accordingly, the conditional payments receivable have not been recorded as revenue. Grant revenue will be recorded when the conditions have been met.

**4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 84,650	\$ 84,650
Building and improvements	1,321,819	1,183,581
Furniture and equipment	717,670	627,986
	<u>2,124,139</u>	<u>1,896,217</u>
Less accumulated depreciation	595,825	516,336
	<u>1,528,314</u>	<u>1,379,881</u>
Property and equipment, net	\$ 1,528,314	\$ 1,379,881

**5. NOTES PAYABLE AND LINE OF CREDIT**

Notes payable at June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Note payable to the State of Oregon, Department of Energy in monthly installments of \$2,254 including interest at 6.5% through November 30, 2020. The note is secured by real and personal property.	\$ 139,647	\$ 157,131
Note payable to the State of Oregon, Department of Energy in monthly installments of \$2,614 including interest at 6.5% through November 2020. The note is secured by real and personal property.	<u>159,801</u>	<u>179,965</u>
Total notes payable	\$ <u>299,448</u>	\$ <u>337,096</u>

**FILM ACTION OREGON**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**June 30, 2014**

**5. NOTES PAYABLE AND LINE OF CREDIT, Continued**

Future principal payments on notes payable are as follows:

For the year ending June 30, 2015	\$	39,762
2016		42,389
2017		45,278
2018		48,319
2019		51,564
Thereafter		72,136
	\$	<u>299,448</u>

The Organization has an active line of credit with a borrowing rate of 10% and maximum credit limit of \$35,000. No draws were outstanding as of June 30, 2014.

**6. UNEARNED RENT REVENUE**

During the year ended June 30, 2013, the Organization entered into a leasing arrangement to lease space to an unrelated party beginning December 1, 2012. The tenant incurred all costs for building improvements in exchange for rent payments over the term of the lease through November 30, 2017. Improvements totaling \$95,644 were capitalized by the Organization with an offset to unearned rent revenue. The Organization recognizes rent revenue equal to \$1,700 per month as outlined in the lease agreement.

During the year ended June 30, 2012, the Organization entered into a leasing arrangement to lease space to an unrelated party beginning January 1, 2012. The tenant incurred all costs for building improvements in exchange for rent payments over the term of the lease through December 31, 2017. Improvements totaling \$52,860 were capitalized by the Organization with an offset to unearned rent revenue. The Organization recognizes rent revenue equal to the total costs of the improvements over the term of the lease, which equates to \$881 of rent revenue per month.

For the years ended June 30, 2014 and 2013, rent revenue of approximately \$31,000 and \$22,500, respectively, was recognized relating to the above leasing arrangements.

**FILM ACTION OREGON**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**June 30, 2014**

**7. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at June 30, 2014 and 2013 are as follows:

	2014	2013
Purpose restricted:		
Project Youth Doc	\$ -	\$ 30,242
Open Meadow Middle School Media Lab	164,167	-
DCI conversion	-	161,660
Marque restoration	-	29,289
Development director	30,000	-
Sponsorships	5,000	4,250
Other purposes	3,427	2,702
Total temporarily restricted net assets	\$ 202,594	\$ 228,143

**8. LEASE COMMITMENTS**

During 2013, the Organization began leasing office space under a lease agreement expiring August 2015. Monthly base rent is \$1,671 with annual rent increases. The lease agreement includes rent concessions of \$684 per month for the entire term of the lease. The Organization also leases a color copier for \$229 per month under an operating lease agreement for through April 2015.

Total lease expense for the years ended June 30, 2014 and 2013, approximated \$15,700 and \$14,700, respectively.

Future annual minimum lease payments are as follows:

For the year ending June 30, 2015	\$	15,250
2016		1,090
	\$	16,340

**FILM ACTION OREGON**  
**NOTES TO THE FINANCIAL STATEMENTS, Continued**  
**June 30, 2014**

**9. CONCENTRATIONS OF CREDIT RISK**

The Organization maintains its cash balances in several financial institutions located in Portland, Oregon. Balances in each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Cash balances at June 30, 2014 and 2013 are fully insured.

Credit risk for contributions, grants and other receivables is concentrated at June 30, 2014 in that 89% of the combined balance is from two entities. At June 30, 2013, 79% of the combined balance is from one entity.

**10. RELATED PARTY DISCLOSURE**

A board member provided in-kind legal services approximating \$1,400 and \$4,100 during the years ended June 30, 2014 and 2013, respectively. An employee in charge of programming is contracted for various independent programs throughout the year. The employee received approximately \$18,500 and \$19,200 in ticket sales for independent programming for the years ended June 30, 2014 and 2013, respectively.

**11. RESTATEMENT TO 2013 BEGINNING NET ASSETS**

Beginning net assets for the year ended June 30, 2013 were restated to correct an error in the calculation of depreciation expense. The effect of the restatement increased both total assets and net assets by \$35,698. The impact of the correction was immaterial for the year ended June 30, 2013; therefore, depreciation expense was not restated and there was no impact on the change in net assets for 2013.