

# FILM ACTION OREGON

Audited Financial Statements

For the Year Ended June 30, 2016



McDONALD JACOBS

## INDEPENDENT AUDITOR'S REPORT

### Shareholders

MARK A. CLIFT, CPA  
KARIN S. WANDTKE, CPA  
SANG AHN, CPA  
GERARD DEBLOIS JR., CPA  
MARY STRASDIN, CPA  
ANTHONY ALMER, CPA  
TYEE CARR, CPA

### Principals

JAKE JACOBS, CPA  
SUSAN J. MARKS, CPA

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, 2016, 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McDonald Jacobson, P.C.*

Portland, Oregon  
January 24, 2017

**FILM ACTION OREGON**  
**STATEMENT OF FINANCIAL POSITION**  
 June 30, 2016  
 (With comparative totals for 2015)

	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 774,157	\$ 545,100
Accounts receivable	17,944	5,734
Grants receivable	173,750	-
Prepaid expenses and other assets, net	13,595	11,419
Property and equipment, net	1,765,515	1,505,253
 TOTAL ASSETS	 \$ 2,744,961	 \$ 2,067,506
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 152,537	\$ 81,528
Deferred revenue	26,708	25,014
Unearned rent revenue	27,830	58,802
Notes payable	216,480	259,381
Total liabilities	423,555	424,725
Net assets:		
Unrestricted:		
Undesignated	536,996	275,305
Net property and equipment	1,521,205	1,187,070
Total unrestricted	2,058,201	1,462,375
Temporarily restricted	263,205	180,406
Total net assets	2,321,406	1,642,781
 TOTAL LIABILITIES AND NET ASSETS	 \$ 2,744,961	 \$ 2,067,506

See notes to financial statements.

FILM ACTION OREGON  
STATEMENT OF ACTIVITIES  
For the year ended June 30, 2016  
(With comparative totals for 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	
<b>Revenue and support:</b>				
Tickets and concession revenue	\$ 2,050,512	\$ -	\$ 2,050,512	\$ 1,633,900
Contributions and grants	449,690	403,462	853,152	366,790
Donated assets and services	75,341	-	75,341	12,557
Dues and memberships	191,884	-	191,884	101,278
Program fees and tuition	5,133	-	5,133	9,510
Rent income	86,430	-	86,430	77,043
Other income	4,510	-	4,510	8,994
Loss on disposal of property and equipment	(53,580)	-	(53,580)	-
Net assets released from restrictions:				
Satisfaction of purpose restrictions	320,663	(320,663)	-	-
Total revenue and support	<u>3,130,583</u>	<u>82,799</u>	<u>3,213,382</u>	<u>2,210,072</u>
<b>Expenses:</b>				
Program:				
Theater programs	1,790,581	-	1,790,581	1,162,869
Building operation	217,352	-	217,352	233,957
Total program expenses	2,007,933	-	2,007,933	1,396,826
Supporting services:				
General and administrative	76,741	-	76,741	188,976
Fundraising	92,707	-	92,707	103,227
Concessions	357,376	-	357,376	282,322
Total expenses	<u>2,534,757</u>	<u>-</u>	<u>2,534,757</u>	<u>1,971,351</u>
Change in net assets	595,826	82,799	678,625	238,721
<b>Net assets:</b>				
Beginning of the year	<u>1,462,375</u>	<u>180,406</u>	<u>1,642,781</u>	<u>1,404,060</u>
End of the year	<u>\$ 2,058,201</u>	<u>\$ 263,205</u>	<u>\$ 2,321,406</u>	<u>\$ 1,642,781</u>

See notes to financial statements.

**FILM ACTION OREGON**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the year ended June 30, 2016  
(With comparative totals for 2015)

	2016						2015	
	Program		Supporting Services				Total	Total
	Theater Programs	Building Operation	General and Administrative	Fundraising	Concessions	Expenses	Expenses	
Salaries and related expenses	\$ 608,436	-	\$ 44,345	\$ 75,413	\$ -	\$ 728,194	\$ 570,871	
Professional fees	185,820	-	24,508	443	-	210,771	67,384	
Film and facility rental	624,541	-	-	-	-	624,541	478,255	
Production expenses	12,443	-	-	-	-	12,443	7,947	
Advertising	31,627	-	-	-	-	31,627	40,545	
Building repairs and maintenance	-	24,321	-	-	-	24,321	59,188	
Equipment and maintenance	7,443	-	218	7,904	-	15,565	24,464	
Occupancy	17,612	50,251	1,811	1,875	-	71,549	58,935	
Telephone	7,233	-	197	354	-	7,784	5,464	
Depreciation and amortization	777	100,813	-	-	-	101,590	87,705	
Insurance	-	27,682	1,376	-	-	29,058	16,158	
Concessions and supplies	124,706	-	920	524	357,376	483,526	407,380	
Postage	15,790	-	30	357	-	16,177	12,822	
Printing	7,996	-	30	1,616	-	9,642	10,966	
Conferences and travel	47,266	-	590	989	-	48,845	32,195	
Bank fees	74,034	-	-	1,726	-	75,760	58,764	
Interest	-	16,042	(437)	-	-	15,605	18,348	
Miscellaneous	24,857	125	2,212	565	-	27,759	13,960	
Allocation of building expenses	-	(1,882)	941	941	-	-	-	
Total expenses	<u>\$ 1,790,581</u>	<u>\$ 217,352</u>	<u>\$ 76,741</u>	<u>\$ 92,707</u>	<u>\$ 357,376</u>	<u>\$ 2,534,757</u>	<u>\$ 1,971,351</u>	

See notes to financial statements.

**FILM ACTION OREGON**  
**STATEMENT OF CASH FLOWS**  
 For the year ended June 30, 2016  
 (With comparative totals for 2015)

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 678,625	\$ 238,721
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	101,590	87,705
Loss on disposal of property and equipment	53,580	-
Capitalized donated services	(60,000)	-
(Increase) decrease in:		
Accounts and grants receivable	(185,960)	106,249
Other assets	(2,953)	(1,786)
Increase (decrease) in:		
Accounts payable and accrued expenses	71,009	8,691
Deferred revenue	1,694	5,101
Unearned rent revenue	(30,972)	(30,972)
Net cash provided by operating activities	<u>626,613</u>	<u>413,709</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	<u>(354,655)</u>	<u>(63,867)</u>
Net cash used in investing activities	<u>(354,655)</u>	<u>(63,867)</u>
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	<u>(42,901)</u>	<u>(40,067)</u>
Net cash used in financing activities	<u>(42,901)</u>	<u>(40,067)</u>
Net increase in cash and cash equivalents	229,057	309,775
Cash and cash equivalents - beginning of year	<u>545,100</u>	<u>235,325</u>
Cash and cash equivalents - end of year	<u>\$ 774,157</u>	<u>\$ 545,100</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest	\$ 15,605	\$ 18,348

See notes to financial statements.

FILM ACTION OREGON  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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.

The Hollywood Theatre offers 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, 2016

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.

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 \$2,000 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, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Income Tax Status, Continued

The Organization's information returns for years ended June 30, 2012 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, 2016, the Organization received donated services of approximately \$70,600; \$60,000 included in work in process and \$10,600 included in expenses as follows: \$7,600 in general and administrative for legal, accounting and branding services and \$3,000 in program for legal services. During the year ended June 30, 2015, the Organization received donated services of approximately \$5,200 included in expenses as follows: \$325 in fundraising for marketing services, \$420 in program for legal services and \$4,875 in general and administrative for legal, accounting and branding services.

FILM ACTION OREGON  
NOTES TO THE FINANCIAL STATEMENTS, Continued  
June 30, 2016

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. Unspent funds are recorded as deferred revenue. Total activity for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Beginning balance	\$ -	\$ 500
Funds received	52,335	39,800
Funds disbursed	(52,335)	(40,300)
Ending balance	\$ -	\$ -

Advertising

The Organization expenses advertising costs in the year in which the advertising first takes place. Advertising expenses approximated \$31,600 and \$40,500 during the years ended June 30, 2016 and 2015, 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 2015

The financial information as of June 30, 2015 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

FILM ACTION OREGON  
NOTES TO THE FINANCIAL STATEMENTS, Continued  
June 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Subsequent Events

The Organization has evaluated all subsequent events through January 24, 2017, the date the financial statements were available to be issued.

3. GRANTS RECEIVABLE

Grants receivable at June 30, 2016 include grants from private foundations which are expected to be collected within one year.

In 2015, the Organization was awarded conditional grants totaling \$40,000 whereby payments are contingent on meeting matching requirements. Of this amount, \$30,000 was recognized as revenue in 2016. The remaining conditional receivable of \$10,000 will be recorded when the matching requirement has been met.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 84,650	\$ 84,650
Building and improvements	1,523,682	1,321,819
Furniture and equipment	766,494	781,537
Work in process	<u>107,839</u>	<u>-</u>
	2,482,665	2,188,006
Less accumulated depreciation	<u>717,150</u>	<u>682,753</u>
Net property and equipment	<u>\$ 1,765,515</u>	<u>\$ 1,505,253</u>

FILM ACTION OREGON  
NOTES TO THE FINANCIAL STATEMENTS, Continued  
June 30, 2016

5. UNEARNED RENT REVENUE

The Organization is the lessor in two leasing arrangements whereby the tenants incurred all costs for building improvements in exchange for rent payments over the terms of the leases. Improvements totaling approximately \$148,500 were capitalized with an offset to unearned rent revenue. The Organization recognizes rent revenue of approximately \$2,600 per month over the terms of the leases. The leases expire December 2016 and November 2017.

Rent revenue of approximately \$31,000 was recognized relating to the above leasing arrangements for the years ended June 30, 2016 and 2015.

6. NOTES PAYABLE AND LINE OF CREDIT

Notes payable at June 30, 2016 and 2015 consist of the following:

	2016	2015
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.	\$ 101,370	\$ 121,211
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.	115,110	138,169
Total notes payable	\$ 216,480	\$ 259,380

Future principal payments on notes payable are as follows:

For the year ending June 30, 2017	\$ 45,278
2018	48,319
2019	51,563
2020	55,019
2021	16,301
	\$ 216,480

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, 2016 and 2015.

FILM ACTION OREGON  
NOTES TO THE FINANCIAL STATEMENTS, Continued  
June 30, 2016

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2016 and 2015 are restricted as follows:

	2016	2015
Capital projects	\$ 66,250	\$ 121,410
Open Meadow Middle School Media Lab	-	16,413
Hollywood Theater @ PDX	133,075	12,500
Sponsorships	31,253	30,083
Other educational programming	32,627	-
Total temporarily restricted net assets	\$ 263,205	\$ 180,406

8. LEASE COMMITMENTS

During 2013, the Organization began leasing office space under a lease agreement expiring August 2015. Monthly base rent was \$1,671 with annual rent increases. The lease agreement included rent concessions of \$684 per month for the entire term of the lease. A new lease agreement was entered into beginning September 2015 and expiring August 2018. Monthly base rent is \$2,193 with annual rent increases. The Organization also leases a color copier for \$202 per month under an operating lease agreement through May 2018.

Total lease expense for the years ended June 30, 2016 and 2015 approximated \$16,600 and \$15,700, respectively.

Future annual minimum lease payments are as follows:

For the year ending June 30, 2017	\$ 27,270
2018	27,820
2018	4,650
	\$ 59,740

9. RETIREMENT PLAN

In 2015, the Organization began a SIMPLE IRA plan. Employees are immediately eligible to participate and may elect to contribute an amount not to exceed certain limits. The Organization determines annually a matching or discretionary contribution amount. All contributions are fully and immediately vested. Total plan contributions for 2016 and 2015 were approximately \$5,400 and \$600, respectively.

FILM ACTION OREGON  
NOTES TO THE FINANCIAL STATEMENTS, Continued  
June 30, 2016

10. 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 in excess of the FDIC limits approximated \$286,000 and \$59,300 at June 30, 2016 and 2015, respectively.

11. RELATED PARTY DISCLOSURE

A board members provided in-kind professional services approximating \$7,500 and \$4,100 during the years ended June 30, 2016 and 2015, respectively. An employee in charge of programming contracts for various independent programs throughout the year. The employee received approximately \$14,000 and \$17,000 for ticket sales related to independent programming for the years ended June 30, 2016 and 2015, respectively.