

FILM ACTION OREGON
dba HOLLYWOOD THEATRE

FINANCIAL STATEMENTS

Year Ended June 30, 2018



KERN ▲ THOMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FILM ACTION OREGON dba HOLLYWOOD THEATRE

FINANCIAL STATEMENTS

Year Ended June 30, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Film Action Oregon dba Hollywood Theatre
Portland, Oregon

We have audited the accompanying financial statements of Film Action Oregon dba Hollywood Theatre (a non-profit organization), which comprise the statement of financial position as of June 30, 2018, 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.

Auditors' 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 auditors' 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 entity'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 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 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 dba Hollywood Theatre as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Film Action Oregon dba Hollywood Theatre

Other Matters

Report on Summarized Comparative Information

We have previously audited Film Action Oregon dba Hollywood Theatre's 2017 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated February 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As discussed in Note B, the Organization adopted the provisions of Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958)*, for the year ended June 30, 2018. Our opinion is not modified with respect to this matter.

Kern & Thompson, LLC

Portland, Oregon
January 30, 2019

**FILM ACTION OREGON
dba HOLLYWOOD THEATRE**

STATEMENT OF FINANCIAL POSITION

June 30, 2018

(With Comparative Totals as of June 30, 2017)

ASSETS

	2018	2017
Cash and cash equivalents	\$ 1,345,050	\$ 837,917
Accounts receivable	18,303	3,696
Grants and pledges receivable	134,532	199,369
Property and equipment, net	1,736,386	1,847,845
Rental video assets, net	290,256	-
Other assets	14,899	4,983
Total assets	\$ 3,539,426	\$ 2,893,810

LIABILITIES AND NET ASSETS

Accounts payable	\$ 59,402	\$ 92,301
Accrued payroll	79,663	61,638
Deferred revenue	54,941	32,184
Unearned rent revenue	-	6,108
Notes payable	64,357	171,194
Total liabilities	258,363	363,425
Net assets		
Without donor restrictions		
Undesignated	1,174,421	708,734
Net investment in property and equipment	1,736,386	1,676,651
Net investment in rental video assets	290,256	-
Total without donor restrictions	3,201,063	2,385,385
With donor restrictions	80,000	145,000
Total net assets	3,281,063	2,530,385
Total liabilities and net assets	\$ 3,539,426	\$ 2,893,810

See notes to financial statements.

**FILM ACTION OREGON
dba HOLLYWOOD THEATRE**

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

(With Comparative Totals for the Year Ended June 30, 2017)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2018	2017
Revenue and support				
Tickets and concession revenue	\$ 2,557,575	\$ -	\$ 2,557,575	\$ 1,986,329
Contributions and grants	429,437	167,024	596,461	500,362
Donated assets and services	65,465	-	65,465	12,846
Dues and memberships	342,590	-	342,590	338,297
Program fees and tuition	3,483	-	3,483	9,399
Video revenue	220,460	-	220,460	-
Rent income	104,175	-	104,175	100,882
Other income	24,515	-	24,515	13,954
Loss on disposal of property and equipment	-	-	-	(54,022)
	<u>3,747,700</u>	<u>167,024</u>	<u>3,914,724</u>	<u>2,908,047</u>
Net assets released from restrictions	<u>232,024</u>	<u>(232,024)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>3,979,724</u>	<u>(65,000)</u>	<u>3,914,724</u>	<u>2,908,047</u>
Expenses				
Program services	2,926,416	-	2,926,416	2,479,971
Supporting services				
General and administrative	83,334	-	83,334	91,458
Fundraising	154,296	-	154,296	127,639
Total expenses	<u>3,164,046</u>	<u>-</u>	<u>3,164,046</u>	<u>2,699,068</u>
Change in net assets	815,678	(65,000)	750,678	208,979
Net assets, beginning of year	<u>2,385,385</u>	<u>145,000</u>	<u>2,530,385</u>	<u>2,321,406</u>
Net assets, end of year	<u>\$ 3,201,063</u>	<u>\$ 80,000</u>	<u>\$ 3,281,063</u>	<u>\$ 2,530,385</u>

See notes to financial statements.

**FILM ACTION OREGON
dba HOLLYWOOD THEATRE**

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018

(With Comparative Totals for the Year Ended June 30, 2017)

	SUPPORTING SERVICES					
	PROGRAM SERVICES	General and Administrative		Fundraising	Total	
		2018	2017		2018	2017
Salaries and related expenses	\$ 802,045	\$ 33,681	\$ 125,175	\$ 960,901	\$ 708,629	
Professional fees	44,132	40,473	-	84,605	345,924	
Programming expenses	968,621	-	-	968,621	703,208	
Facilities expense	116,029	4,339	275	120,643	86,891	
Occupancy	138,865	1,555	5,185	145,605	88,410	
Telephone	13,549	283	943	14,775	9,166	
Depreciation and amortization	179,684	-	-	179,684	125,594	
Insurance	5,371	1,407	-	6,778	31,115	
Concessions	430,097	-	-	430,097	433,564	
Supplies	10,223	286	4,625	15,134	-	
Software licensing	20,018	-	9,129	29,147	-	
Postage	37,571	104	663	38,338	20,490	
Printing	22,417	-	2,313	24,730	12,941	
Conferences and travel	17,290	109	333	17,732	31,119	
Bank fees	101,435	-	5,655	107,090	76,427	
Interest	5,547	-	-	5,547	13,130	
Miscellaneous	13,522	1,097	-	14,619	12,460	
Total expenses	\$ 2,926,416	\$ 83,334	\$ 154,296	\$ 3,164,046	\$ 2,699,068	

See notes to financial statements.

**FILM ACTION OREGON
dba HOLLYWOOD THEATRE**

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

(With Comparative Totals for the Year Ended June 30, 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 750,678	\$ 208,979
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	179,684	125,594
Loss on disposal of property and equipment	-	54,022
Changes in assets and liabilities:		
Accounts receivable	(14,607)	14,248
Grants and pledges receivable	64,837	(25,619)
Other assets	(9,916)	8,612
Accounts payable	(32,899)	(5,415)
Accrued payroll	18,025	6,817
Deferred revenue	22,757	5,476
Unearned rent income	(6,108)	(21,722)
Net cash provided by (used in) operating activities	972,451	370,992
Cash flows from investing activities:		
Purchase of property and equipment	(358,481)	(261,946)
Net cash provided by (used in) investing activities	(358,481)	(261,946)
Cash flows from financing activities:		
Principal payments on notes payable	(106,837)	(45,286)
Net cash provided by (used in) financing activities	(106,837)	(45,286)
Net increase (decrease) in cash and cash equivalents	507,133	63,760
Cash and cash equivalents, beginning of year	837,917	774,157
Cash and cash equivalents, end of year	\$ 1,345,050	\$ 837,917
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 5,547	\$ 13,130

See notes to financial statements.

FILM ACTION OREGON dba HOLLYWOOD THEATRE

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE A – DESCRIPTION OF ORGANIZATION

Film Action Oregon (the Organization or the Theatre) is a nonprofit organization founded in 1992 to support independent Oregon film and video. In 1997 the Organization purchased the Hollywood Theatre (the Theatre). 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 Theatre 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 Theatre is also a venue for many community events hosted by other nonprofits. The Theatre 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.

In 2016, in partnership with the Port of Portland, the Hollywood Theatre opened a first-of-its-kind free microcinema at Portland International Airport. The microcinema serves the Portland International Airport's 16 million annual visitors. Ticketed passengers can drop in free of charge to watch films while waiting for their flights. The Hollywood Theatre at PDX features short films by Oregon filmmakers.

In 2017, Film Action Oregon conducted a successful fundraising campaign to acquire Movie Madness, the iconic video store, and Portland institution, with over 80,000 titles. Keeping the extensive film collection open and available to the public is a natural fit with the Organization's mission to preserve and promote the art of film. It is comprised of a diverse array of subjects and genres, including foreign films, social issue documentaries, and a robust section of LGBTQ films, which translates to endless opportunities for the Hollywood's diversity and educational initiatives.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of New Accounting Pronouncement

During the fiscal year ended June 30, 2018, the Organization implemented *Accounting Standards Update No. 2016-14, Not-for-Profit Entities Topic 958 ("ASU 2016-14")*. This standard revised the net asset classification requirements and information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. As a result of the implementation of ASU 2016-14, net assets and transactions are now presented in two categories (with donor restrictions and without donor restrictions) instead of three (unrestricted, temporary, and permanent). Additionally, disclosures regarding liquidity have been added and the expansion of disclosures regarding the nature of donor restrictions and endowment funds have been made. The implementation of ASU 2016-14 had no impact on total beginning net assets.

FILM ACTION OREGON dba HOLLYWOOD THEATRE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** – Net assets that are not subject to donor-imposed stipulations. The Board of Directors may designate net assets without donor restrictions for specific purposes.
- **Net Assets With Donor Restrictions** – Net assets either subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time, or net assets with donor restrictions that are not subject to appropriation or expenditure.

Expenses are reported as a decrease in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expiration of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions with donor restrictions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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 and Pledges 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.

FILM ACTION OREGON dba HOLLYWOOD THEATRE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment and Rental Video Assets

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, 3 to 7 years for furniture and equipment, and 30 years for rental video assets.

Income Tax Status

The Organization has been approved as a tax-exempt organization under the Internal Revenue Code Section 501(c)(3) and applicable state laws. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization does not believe it has unrelated trade or business income in excess of \$1,000.

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 Theatre 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.

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 also 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.

Advertising

The Organization expenses advertising costs in the year in which the advertising first takes place. Advertising expenses were \$23,237 during the year ended June 30, 2018.

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.

FILM ACTION OREGON dba HOLLYWOOD THEATRE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Prior Year Summarized Financial Information

The financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

NOTE C – GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable at June 30, 2018 include grants from private foundations which are expected to be collected within one year.

NOTE D – PROPERTY AND EQUIPMENT AND RENTAL VIDEO ASSETS

Property and equipment and rental video assets consist of the following as of June 30, 2018:

Land	\$ 84,650
Building and improvements	1,873,420
Furniture and equipment	641,662
Website	60,000
Work in process	<u>10,740</u>
	2,670,472
Less accumulated depreciation	<u>(934,086)</u>
	<u>\$ 1,736,386</u>
Rental video assets	\$ 295,176
Less accumulated depreciation	<u>(4,920)</u>
	<u>\$ 290,256</u>

FILM ACTION OREGON dba HOLLYWOOD THEATRE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE E – NOTES PAYABLE AND LINE OF CREDIT

Notes payable at June 30, 2018 consist of the following:

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>64,357</u>
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Future principal payments on notes payable are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 28,012
2020	29,879
2021	<u>6,466</u>
	<u>\$ 64,357</u>

The Organization has an active line of credit with maximum credit limit of \$35,000. No draws were outstanding as of June 30, 2018.

NOTE F – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30, 2018 consist of \$80,000 restricted for timing.

NOTE G – LEASE COMMITMENTS

A lease agreement was entered into beginning October 2018 and expiring September 2021. Monthly base rent is \$2,327 with annual rent increases. Total lease expense for the year ended June 30, 2018 was \$75,834.

The Organization entered into a new lease agreement for Movie Madness beginning January 2018 and expiring January 2023. Monthly base rent is \$7,733 per month with annual rent increases.

FILM ACTION OREGON dba HOLLYWOOD THEATRE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE G – LEASE COMMITMENTS (CONTINUED)

Future annual minimum lease payments are as follows:

Year Ending June 30,		
2019	\$	122,672
2020		126,354
2021		107,331
2022		102,924
2023		52,224
	\$	511,505

NOTE H – LIQUIDITY

The following chart represents the Organization's financial assets available to meet cash needs for general expenditures within one year of June 30, 2018:

Financial assets at year-end*		
Cash and cash equivalents	\$	1,345,050
Pledges receivable		134,532
Other receivables		18,303
Total financial assets		1,497,885
Less those unavailable for general expenditure within one year, due to:		
Contractual or donor-imposed restrictions:		
Subject to satisfaction of donor restrictions		(80,000)
Total unavailable financial assets		(80,000)
Financial assets available to meet cash needs for general expenditures within one year	\$	1,417,885

* Total assets, less nonfinancial assets (e.g. property and equipment, prepaid expenses)

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of current requirements in short-term investments.

FILM ACTION OREGON dba HOLLYWOOD THEATRE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2018

NOTE I – 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 2018 totaled \$11,794.

NOTE J – 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 FDIC limits approximated \$643,000 at June 30, 2018.

NOTE K – RELATED PARTY DISCLOSURE

A board member provided in-kind professional services valued at \$15,902 during the year ended June 30, 2018. Two employees in charge of programming contracts for various independent programs received \$15,770 and \$6,228, respectively, for ticket sales related to independent programming for the year ended June 30, 2018.

NOTE L – SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 30, 2019, which is the date the financial statements were available to be issued.