

FILML.A., INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

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YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
FilmL.A., Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of FilmL.A., Inc., which comprise the statement of financial position as of June 30, 2014, and the related statements of activities 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 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 FilmL.A., Inc. as of June 30, 2014, 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.

Report on Summarized Comparative Information

FilmL.A., Inc.'s 2013 financial statements were audited by other auditors who expressed an unmodified audit opinion on those audited financial statements in their report dated October 31, 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.

Green Hasson & Janks LLP

October 23, 2014
Los Angeles, California

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FILML.A., INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30	
	2014	2013
Cash and Cash Equivalents	\$ 7,134,055	\$ 5,393,683
Investments	4,363,193	4,259,229
Accounts Receivable	1,014,371	837,329
Other Receivables	-	276,857
Prepaid Expenses and Other Assets	102,121	146,387
Property and Equipment (Net)	2,781,907	824,884
TOTAL ASSETS	\$ 15,395,647	\$ 11,738,369
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts Payable and Accrued Expenses	\$ 717,842	\$ 974,583
Due to Permittees	723,792	742,978
Due to Contracted Permitting Authorities	1,857,127	1,159,214
Deferred Rent and Lease Incentives	1,691,786	294,892
TOTAL LIABILITIES	4,990,547	3,171,667
NET ASSETS:		
Unrestricted:		
Undesignated	4,863,672	3,487,712
Board Designated:		
Strategic Planning Reserves	-	261,557
Capital Expenditures Reserves	1,500,000	776,005
Operating Reserves	4,041,428	4,041,428
Total Board Designated	5,541,428	5,078,990
TOTAL NET ASSETS	10,405,100	8,566,702
TOTAL LIABILITIES AND NET ASSETS	\$ 15,395,647	\$ 11,738,369

The Accompanying Notes are an Integral Part of These Financial Statements

FILML.A., INC.**STATEMENTS OF ACTIVITIES**

	Years Ended June 30	
	2014	2013
REVENUES:		
Permit Operations	\$ 7,464,699	\$ 6,493,207
Field Services	3,160,054	2,895,642
Property Management Fees	364,126	333,732
Investment Income (Loss) (Net)	142,845	(685)
Other Income (Loss)	5,602	(1,631)
TOTAL REVENUES	11,137,326	9,720,265
EXPENSES:		
Program Services	6,137,223	5,160,873
Management and General	3,161,705	2,921,222
TOTAL EXPENSES	9,298,928	8,082,095
CHANGE IN NET ASSETS	1,838,398	1,638,170
Net Assets - Beginning of Year	8,566,702	6,928,532
NET ASSETS - END OF YEAR	\$ 10,405,100	\$ 8,566,702

The Accompanying Notes are an Integral Part of These Financial Statements

FILML.A., INC.

STATEMENTS OF CASH FLOWS

	Years Ended June 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,838,398	\$ 1,638,170
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	590,550	369,655
Bad Debt Expense	11,901	8,078
Net Realized and Unrealized Losses on Investments	4,966	101,176
(Increase) Decrease in:		
Accounts Receivable	(188,943)	68,549
Other Receivables	276,857	(276,857)
Prepaid Expenses and Other Assets	44,266	(28,903)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(256,741)	473,587
Due to Permittees	(19,186)	55,837
Due to Contracted Permitting Authorities	697,913	(48,980)
Deferred Rent and Lease Incentives	1,396,894	50,173
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,396,875	2,410,485
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of Property and Equipment	(2,547,573)	(431,092)
Purchases of Investments	(108,930)	(3,613,886)
Proceeds from Sale of Investments	-	1,519,893
NET CASH USED IN INVESTING ACTIVITIES	(2,656,503)	(2,525,085)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,740,372	(114,600)
Cash and Cash Equivalents - Beginning of Year	5,393,683	5,508,283
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,134,055	\$ 5,393,683

The Accompanying Notes are an Integral Part of These Financial Statements

FILML.A., INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1 - NATURE OF ORGANIZATION

FilmL.A., Inc. (the Organization) is a nonprofit 501(c)4 public benefit corporation, organized for public purposes under the California Nonprofit Public Benefit Corporation Law.

In recognition of the importance of film and media production to the Southern California regional economy, the Organization was formed in 1995 in an effort to enhance film and media production and to attract and retain jobs.

The Organization supports efforts to retain film and media production in the region by:

- Providing efficient film permit coordination services.
- Serving as a resource for, and a liaison and mediator between, diverse communities and the production industry on film and media issues to mitigate the impact filming may have on the local residents and merchants.
- Creating opportunities and programs for enhancing, improving and addressing needs relating to the film and media production industry.

The Organization has contracts with several permitting authorities including the City of Los Angeles and the County of Los Angeles, the City of Santa Monica, and several other jurisdictions. The Organization contracts with each permitting authority with varying terms and expiration dates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Organization are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted Net Assets.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Unrestricted Board-Designated Net Assets.** These are comprised of resources which the Board of Directors has designated to be used for future capital expenditures, establishing operating reserves and for strategic planning. At June 30, 2014, there are Board-designated reserves of \$5,541,428, which include \$1,500,000 of capital expenditures reserves and \$4,041,428 of operating reserves.

FILML.A., INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) ACCOUNTING (continued)

- **Temporarily Restricted Net Assets.** The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the 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 purpose or time restrictions. The Organization has no temporarily restricted net assets at June 30, 2014.
- **Permanently Restricted Net Assets.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend part of the income (or other economic benefits) derived from the donated assets. The Organization has no permanently restricted net assets at June 30, 2014.

(c) CASH AND CASH EQUIVALENTS

The Organization considers all highly liquid investments with an original maturity of three months or less at purchase to be cash and cash equivalents. The carrying value of cash and cash equivalents at June 30, 2014, approximates its fair value.

The Organization maintains its cash and cash equivalents in bank deposit and money market accounts, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

(d) INVESTMENTS

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value. Interest and dividend income and gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulations or by law.

(e) ACCOUNTS RECEIVABLE

Accounts receivable are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated net realizable value. The allowance for doubtful accounts, if any, is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. As of June 30, 2014, accounts receivable are deemed fully collectible by the management of the Organization.

FILML.A., INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$2,500 and the useful life is greater than one year.

The estimated useful lives of property and equipment are as follows:

Computer Equipment	3 Years
Office Equipment	3 - 5 Years
Software and Development Costs	3 - 7 Years
Furniture and Fixtures	5 - 7 Years
Leasehold Improvements	Shorter of the Lease Term or Estimated Life of the Improvement

Software and development costs related to the permitting system have been capitalized or expensed in accordance with FASB Accounting Standards Codification Topic No. 350-40, *Internal-Use Software Recognition*.

(g) LONG-LIVED ASSETS

The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated value. No such impairment losses were recognized during the year ended June 30, 2014.

(h) DUE TO PERMITTEES

Due to permittees represents amounts that the Organization expects to refund to its customers, in accordance with film permit terms and conditions, when the actual amount that the Organization is billed by the permitting authorities for fees related to an individual permit is less than the amount estimated by the Organization and the contracted permitting authorities at the time the permit is issued. The Organization includes in the amount it charges to its customers for a film permit an estimate of the amount will be obligated to pay the permitting authorities for service fees related to the permit. Following the completion of the permit activity, the permitting authorities bill the Organization for the actual service fees related to each permit. The amount the Organization actually pays the permitting authorities in connection with an individual permit may be less or more than the estimated amount collected from the customer. When the Organization charges its customers more than what it finally pays the permitting authorities, the Organization will refund the difference to the permittee in accordance with the terms and conditions of the film permit. Excess estimated service fees are recognized as permit operations revenue in the period following lapse of the refund request requirement, which is 90 days after the end of filming.

During the year ended June 30, 2014, the Organization recognized \$1,484,971, for unrequested refunds, which is included in permit operations in the accompanying statements of activities. Unrequested refunds represented 15,787 permit line item charges with an average unclaimed refund amount of \$94 for the year ended June 30, 2014.

FILML.A., INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) DUE TO CONTRACTED PERMITTING AUTHORITIES

Amounts due to local governments and agencies (permitting authorities) represent amounts that the Organization estimates it will become obligated to pay permitting authorities for service and use charges (service fees) incurred in connection with filming activities conducted by the Organization's customers. Prior to releasing a permit, the Organization collects from its customers the total amount it charges for the permit. That amount includes what the Organization anticipates it will be required to pay the permitting authority in service fees relating to the permit. Following completion of the associated permit activity, the respective permitting authorities submit invoices to the Organization representing the actual service fees incurred.

Permitting authorities historically invoice the Organization within one to twenty-four months from the date of permit issuance. The Organization is required to remit payment for service fees to the permitting authorities within sixty days of invoice receipt from the permitting authorities. The Organization estimates the liability to contracted permitting authorities based on the level of invoiced permits.

(j) DEFERRED RENT

The Organization recognizes the benefits of rent abatement and other lease incentives, as well as escalating rent provisions, on a straight-line basis over the term of the lease. The resulting difference between rent expense and rent paid is recorded as a deferred rent liability. The deferred rent liability is then amortized on a straight-line basis over the lease term as a reduction in rent expense. The deferred rent liability at June 30, 2014 is \$1,691,786.

(k) REVENUE RECOGNITION

Permit application, processing and other service fees are recorded as revenues in the period in which permits are issued or services are rendered. Excess estimated service fees are recognized as revenue in the period following lapse of the refund request period.

(l) ADVERTISING COSTS

The Organization expenses the costs of advertising and promotion as incurred. Total advertising and promotion expense for the year ended June 30, 2014 was \$36,943.

(m) FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the Organization's programs and other activities have been presented in the statements of activities. During the year, such costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Organization uses facility square footage and employee full-time equivalents and salary dollars to allocate indirect costs.

FILML.A., INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) INCOME TAXES

The Organization is a tax-exempt organization under Section 501(c)4 of the Internal Revenue Code (the Code) and corresponding California provisions, as the Organization qualifies as a charitable organization whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal or state income tax. The Organization currently has no unrelated business income. Accordingly, no provision for federal or state income taxes has been recorded.

(o) 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, liabilities, revenues and expenses at the date of and for the period presented. Actual results could differ from those estimates.

(p) COMPARATIVE INFORMATION

The financial statements include certain prior-year summarized comparative information. 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, 2013, from which the summarized information was derived.

(q) SUBSEQUENT EVENTS

The Organization evaluated events and transactions occurring subsequent to the statement of financial position date of June 30, 2014 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 23, 2014, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

NOTE 3 - INVESTMENTS

The Organization has implemented the fair value accounting standard for those assets that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

FILML.A., INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 3 - INVESTMENTS (continued)

The following table presents information about the Organization's assets that are measured at fair value on a recurring basis at June 30, 2014 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements Using			
	Year Ended June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate Bonds	\$ 2,144,498	\$ -	\$ 2,144,498	\$ -
Government Bonds and Notes	1,990,813	-	1,990,813	-
Municipal Bonds	227,882	-	227,882	-
TOTAL INVESTMENTS	\$ 4,363,193	\$ -	\$ 4,363,193	\$ -

The fair value of bonds and notes is determined by discounting the related cash flows based on current yields of similar instruments with comparable durations and considering the credit-worthiness of the issuer.

The Organization recognizes transfers at the beginning of each reporting period. Transfers between Level 1 and 2 investments generally relate to whether a market becomes active or inactive. Transfers between Level 2 and 3 investments relate to whether significant relevant observable inputs are available for the fair value measurement in their entirety and when redemption rules become more or less restrictive. There were no transfers between levels during the year ended June 30, 2014.

Net investment income for the year ended June 30, 2014 consists of the following:

Interest and Dividends	\$ 147,811
Net Realized and Unrealized Losses	(4,966)
INVESTMENT INCOME (NET)	\$ 142,845

NOTE 4 - PROPERTY AND EQUIPMENT

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

Computer Equipment	\$ 214,851
Office Equipment	234,751
Software and Development Costs	1,515,655
Furniture and Fixtures	593,083
Leasehold Improvements	2,076,195
TOTAL	4,634,535
Less: Accumulated Depreciation	(1,852,628)
PROPERTY AND EQUIPMENT (NET)	\$ 2,781,907

Depreciation expense for the year ended June 30, 2014 was \$590,550.

FILML.A., INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2014 consist of the following:

Accrued Salaries and Payroll Taxes	\$	592,584
Other		<u>125,258</u>
<i>TOTAL ACCOUNTS PAYABLE AND ACCRUED EXPENSES</i>	\$	<u>717,842</u>

NOTE 6 - DUE TO CONTRACTED PERMITTING AUTHORITIES

Amounts due to contracted permitting authorities at June 30, 2014 consist of the following:

City of Los Angeles	\$	1,279,442
Los Angeles Unified School District		152,279
County of Los Angeles		136,700
Los Angeles World Airports		158,937
City of Santa Monica		110,559
Others		<u>19,210</u>
<i>TOTAL DUE TO CONTRACTED PERMITTING AUTHORITIES</i>	\$	<u>1,857,127</u>

NOTE 7 - LINE OF CREDIT

The Organization has a \$1,000,000 revolving line of credit facility which expires on November 1, 2014. Interest is payable monthly at the greater of 3.5% per year or the bank's prime rate plus 1%. The prime rate at June 30, 2014 was 3.25%. Amounts due under the line of credit are secured by all securities held within the Organization's managed investment account. There were no outstanding borrowings against this line of credit at June 30, 2014.

NOTE 8 - RETIREMENT PLAN

The Organization sponsors a 401(k) plan for the benefit of substantially all employees. The Organization's contributions are at the discretion of the Board of Directors and subject to statutory limitations. Discretionary contributions for the year ended June 30, 2014 were \$214,898.

FILML.A., INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 9 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The Organization leases office space and certain office equipment under operating leases with terms through February 2024.

Minimum future rental payments under these operating leases are as follows:

Years Ending June 30

2015	\$	690,110
2016		710,274
2017		731,043
2018		752,435
2019		762,486
Thereafter		<u>3,843,044</u>
TOTAL	\$	<u>7,489,392</u>

Rent expense for the year ended June 30, 2014 was \$717,758.

(b) LITIGATION

In the ordinary course of conducting its business, the Organization becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the Organization, which, from time to time, may have an impact on changes in net assets or its financial position. The Organization does not believe that these proceedings individually, or in the aggregate, would have a material effect on the accompanying financial statements..