
FRAMELINE, INC.

FINANCIAL STATEMENTS

December 31, 2015

(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2014)

CROSBY & KANEDA
Certified Public Accountants

Dedicated to Nonprofit Organizations

FRAMELINE, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Frameline, Inc.
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of Frameline, Inc., which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, cash flows and functional expenses 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 Frameline, Inc. as of December 31, 2015, and the results of its operations 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

We have previously audited the Frameline, Inc.'s December 31, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Crosby + Haneda". The signature is written in a cursive, flowing style.

Certified Public Accountants
Oakland, California
May 20, 2016

FRAMELINE, INC.

Statement of Financial Position

December 31, 2015

(With Comparative Totals as of December 31, 2014)

	2015	2014
Assets		
Current Assets		
Cash	\$ 68,132	\$ 65,995
Accounts receivable	1,651	2,217
Grants and pledges receivable, net of \$9,000 allowance for doubtful accounts	128,829	199,325
Inventory	935	5,065
Prepaid expenses	17,033	-
Total Current Assets	216,580	272,602
Property and equipment, net (Note 4)	2,076	2,087
Investment (Note 3)	275,978	287,093
Loan receivable (Note 3)	259,250	259,250
Total Assets	\$ 753,884	\$ 821,032
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 37,297	\$ 30,608
Vacation accrual	13,409	14,997
Line of credit (Note 5)	-	33,290
Grants payable	26,000	25,000
Deferred revenue	984	-
Program related investment loan payable - current (Note 6)	25,000	25,000
Total Liabilities	102,690	128,895
Commitments and Contingency (Notes 7 and 8)		
Net Assets		
Unrestricted	477,853	365,367
Temporarily restricted (Note 9)	173,341	326,770
Total Net Assets	651,194	692,137
Total Liabilities and Net Assets	\$ 753,884	\$ 821,032

See Notes to the Financial Statements

FRAMELINE, INC.

Statement of Activities
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

	Unrestricted	Temporarily Restricted	Total	
			2015	2014
Support				
Foundation and community grants	\$ 498,093	\$ 80,000	\$ 578,093	\$ 657,350
Government grants	79,174		79,174	64,755
Contributions and member donations	89,405	370,567	459,972	430,432
In-kind contributions (Note 10)	416,390		416,390	372,600
Total Support	1,083,062	450,567	1,533,629	1,525,137
Revenue				
Ticket sales	406,245		406,245	446,402
Merchandise sales	5,001		5,001	6,698
Distribution revenue	94,765		94,765	100,353
Miscellaneous	10,183		10,183	12,159
Total Revenue	516,194	-	516,194	565,612
Net assets released from donor restrictions: (Note 9)	603,996	(603,996)	-	-
Total Support and Revenue	2,203,252	(153,429)	2,049,823	2,090,749
Expenses				
Program	1,594,617		1,594,617	1,532,488
Management and general	273,336		273,336	274,200
Fundraising	211,698		211,698	222,398
Total Expenses	2,079,651	-	2,079,651	2,029,086
Change in Net Assets, before investment activities	123,601	(153,429)	(29,828)	61,663
Investment activities				
Loss on investment in LLC (Note 3)	(11,115)		(11,115)	(15,050)
Change in Net Assets, after investment activities	112,486	(153,429)	(40,943)	46,613
Net Assets, beginning of year	365,367	326,770	692,137	645,524
Net Assets, end of year	\$ 477,853	\$ 173,341	\$ 651,194	\$ 692,137

See Notes to the Financial Statements

FRAMELINE, INC.

Statement of Cash Flows
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (40,943)	\$ 46,613
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Loss on investment in LLC	11,115	15,050
Depreciation	2,606	1,580
Changes in assets and liabilities:		
Accounts receivable	566	(1,012)
Grants and pledges receivable	70,496	(119,342)
Inventory	4,130	-
Prepaid expenses	(17,033)	-
Accounts payable and accrued expenses	6,689	(4,123)
Vacation accrual	(1,588)	(1,520)
Grants payable	1,000	25,000
Deferred revenue	984	-
Net cash provided (used) by operating activities	38,022	(37,754)
Cash flows from investing activities:		
Purchase of fixed assets	(2,595)	-
Net cash used by investing activities	(2,595)	-
Cash flows from financing activities:		
Net borrowings and repayments on line of credit	(33,290)	33,290
Net cash provided (used) by financing activities	(33,290)	33,290
Net change in cash	2,137	(4,464)
Cash, beginning of year	65,995	70,459
Cash, end of year	\$ 68,132	\$ 65,995
Supplemental information:		
Interest paid	\$ 3,233	\$ 1,173

See Notes to the Financial Statements

FRAMELINE, INC.

**Statement of Functional Expenses
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)**

	Program			Total Program	Management and General	Fundraising	Total	
	Festival/ Exhibition	Filmmaker Support	Distribution/ Education				2015	2014
Salaries	\$ 277,582	\$ 29,181	\$ 139,850	\$ 446,613	\$ 70,368	\$ 143,137	\$ 660,118	\$ 678,980
Employee benefits	13,176	1,856	11,007	26,039	6,208	13,424	45,671	35,614
Payroll taxes	30,111	2,491	11,649	44,251	6,752	12,816	63,819	64,035
Total Personnel	<u>320,869</u>	<u>33,528</u>	<u>162,506</u>	<u>516,903</u>	<u>83,328</u>	<u>169,377</u>	<u>769,608</u>	<u>778,629</u>
Grants		36,996		36,996	-	-	36,996	63,110
Legal fees				-	43,000	-	43,000	43,000
Accounting fees				-	34,394	-	34,394	12,040
Other professional services	185,537		15,126	200,663	-	8,126	208,789	216,530
Advertising and promotion				-	77,415	175	77,590	79,960
Supplies	4,732	157	6,547	11,436	393	393	12,222	61,385
Telephone	10,539	784	5,094	16,417	1,959	1,958	20,334	29,532
Postage and shipping	8,909	17	2,123	11,049	412	2,355	13,816	22,010
Equipment rental and maintenance	40,558	412	2,677	43,647	1,030	1,030	45,707	30,578
Bank and payroll fees	12,752		6,140	18,892	2,362	2,362	23,616	26,079
Copy and printing	77,193		315	77,508	274	7,314	85,096	68,095
Information technology	58,189	7,928	15,521	81,638	4,821	4,893	91,352	37,507
Royalties			41,872	41,872	-	-	41,872	43,145
Occupancy	202,339	3,144	20,437	225,920	8,160	7,860	241,940	235,374
Travel and meals	93,074	25	2,853	95,952	298	2,978	99,228	50,720
Conferences and meetings	157,217			157,217	-	-	157,217	164,564
Interest	1,617	129	841	2,587	323	323	3,233	1,173
Depreciation	1,193	95	840	2,128	239	239	2,606	1,580
Insurance	8,347	668	4,340	13,355	1,669	1,669	16,693	15,343
Dues, licenses, service fees	110	9	57	176	252	646	1,074	13,693
Film rental and lab cost	21,211		1,953	23,164	-	-	23,164	30,039
Catalog distribution	5,000			5,000	-	-	5,000	5,000
Bad debt expense				-	12,951	-	12,951	-
Miscellaneous	12,097			12,097	56	-	12,153	-
Total Expenses	<u>\$ 1,221,483</u>	<u>\$ 83,892</u>	<u>\$ 289,242</u>	<u>\$ 1,594,617</u>	<u>\$ 273,336</u>	<u>\$ 211,698</u>	<u>\$ 2,079,651</u>	<u>\$ 2,029,086</u>

See Notes to the Financial Statements

FRAMELINE, INC.

**Notes to the Financial Statements
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)**

NOTE 1: NATURE OF ACTIVITIES

The mission of Frameline, Inc. (the Organization) is to change the world through the power of queer cinema. As a media arts nonprofit, Frameline's programs connect filmmakers and audiences in San Francisco and all around the world. Frameline produces the San Francisco International Lesbian and Gay Film Festival annually, distributes lesbian and gay independent film and video, and maintains the Film and Video Completion Fund, which provides financial support to lesbian, gay, bisexual, and transgender film and video makers nearing completion of new works.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of Presentation

The Organization presents information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The three classes are differentiated by donor restrictions.

Unrestricted net assets— consist of resources which have not been specifically restricted by a donor. Unrestricted net assets may be designated for specific purposes by the Organization or may be limited by contractual agreements with outside parties.

Temporarily restricted net assets— represent contributions whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets — represent contributions whose use is limited by donor-imposed stipulations that require the gift to be invested in perpetuity. The income from such invested assets, including realized and unrealized gains, is generally available to support the activities of the Organization. Donors may also restrict all or part of the income and/or appreciation from these investments to permanently restricted net assets, resulting in increases/decreases to these net assets. There were no permanently restricted net assets as of December 31, 2015.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of

FRAMELINE, INC.

**Notes to the Financial Statements
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)**

the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Unrestricted contributions and grants are recorded as unrestricted support and revenue when received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

All donor-restricted contributions are reported as increases 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.

Grants and Pledges Receivable

The Organization records receivables net of allowance for doubtful accounts. If amounts become uncollectible, they are charged to the allowance in the period in which that determination is made.

Loan Receivable

Loans receivable are recorded at the amortized amount due. Interest income on the notes receivable is recorded when payments on the notes are received. There are no related fees associated with the loan receivable. Based on management's assessment of the loan receivable there was no allowance for potentially uncollectible amounts as of December 31, 2015.

Income Taxes

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501 (c) (3) and the California Revenue and Taxation Code Section 23701(d). The Organization has evaluated its current tax positions as of December 31, 2015 and is not aware of any significant uncertain tax positions for which a reserve would be necessary. The Organization's tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively after they are filed.

Contributed Services

Contributed services are reflected in the financial statements at the fair value of the services received only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial

FRAMELINE, INC.

**Notes to the Financial Statements
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)**

statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 - Inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the assets or liability.

The Organization had no assets or liabilities recorded at fair value on December 31, 2015.

Concentration of Credit Risk

At times, the Organization may have deposits in excess of federally insured limits. The risk is managed by maintaining all deposits in high quality financial institutions.

Inventory

The Organization reports inventory at the lower of cost or fair market value, computed on the first-in, first-out basis.

Property and Equipment

Property and equipment purchased by the Organization is recorded at cost. The Organization capitalizes all expenditures for property and equipment over \$500; the fair value of donated fixed assets is similarly capitalized. Depreciation is computed using the straight-line method over the estimated useful lives on the property and equipment or the related lease terms as follows:

Furniture and equipment	5 years
Website	5 years

Expenditures for major renewals and betterments that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of the asset may not be recoverable. Impairment is recognized if the sum of the undiscounted estimated future cash flows expected to result from the use of the asset is less than the carrying value. When an impairment loss is recognized, the asset's carrying value is reduced to its estimated fair value.

FRAMELINE, INC.

**Notes to the Financial Statements
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)**

Functional Allocation of Expenses

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

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Reclassifications

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

Subsequent Events

The Organization has evaluated subsequent events and has concluded that as of May 20, 2016 the date that the financial statements were available to be issued, there were no significant subsequent events to disclose.

NOTE 3: INVESTMENT AND LOAN RECEIVABLE

In 2001, the Organization and three other organizations formed Ninth Street Media Consortium, Inc., (the Consortium), a tax-exempt corporation. The Board of Directors of the Consortium consists of representatives from each of these organizations and the Consortium's exempt purpose is the support of these organizations.

The Consortium and individuals were members of 145 Ninth Street LLC (the LLC), a California limited liability company. In March 2001, the LLC purchased land and a building located in San Francisco, California. In 2005, the Consortium obtained 100% ownership of the LLC and donated its interest to the member organizations. Frameline's interest in the LLC constitutes 25% of the total. In 2009, one of the member organizations closed and the Consortium assumed ownership of the 25% ownership portion it had donated to that organization.

The Consortium leases the building from the LLC and subleases it to its member organizations and other non-equity tenants. The Organization has raised a total of \$178,000 in contributions for the reduction of the LLC's mortgage. In the transfer of the interest in the LLC, these monies were structured as a loan to the LLC to be repaid on the sale of the building. The Organization receives reductions in its rent payments equivalent to the LLC's reduction in mortgage payments.

FRAMELINE, INC.

**Notes to the Financial Statements
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)**

A summary of the financial position of the LLC is as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Current Assets	\$ 203,753	\$ 178,446
Property (net)	<u>4,145,694</u>	<u>4,245,827</u>
Total Assets	<u>\$ 4,349,447</u>	<u>\$ 4,424,273</u>
Accounts Payable	\$ 10,458	\$ -
Mortgages Payable	2,632,518	2,673,341
Loan payable to Frameline	259,250	259,250
Loans payable to other Member Organizations	<u>750,085</u>	<u>750,085</u>
Total Liabilities	<u>3,652,311</u>	<u>3,682,676</u>
Total Equity	<u>697,136</u>	<u>741,597</u>
Total Liabilities and Equity	<u>\$ 4,349,447</u>	<u>\$ 4,424,273</u>

Recorded value of the Organization's investment in the LLC is calculated as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Fair market value on date of donation (2005)	\$ 1,510,868	\$ 1,510,868
Less accumulated (losses) of LLC	(460,955)	(416,494)
Additional consortium contribution	<u>54,000</u>	<u>54,000</u>
Total Investment	1,103,913	1,148,374
Frameline ownership share	<u>25%</u>	<u>25%</u>
Investment in LLC	<u>\$ 275,978</u>	<u>\$ 287,093</u>

A summary of the results of the LLC's operations is as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Rental income	\$ 264,604	\$ 264,604
Expenses:		
Interest	198,818	200,931
Depreciation	100,133	100,133
Other operation expenses	<u>10,114</u>	<u>23,741</u>
Total Expenses	<u>309,065</u>	<u>324,805</u>
Total Net Loss	<u>(44,461)</u>	<u>(60,201)</u>
Frameline ownership share	<u>25%</u>	<u>25%</u>
Loss on Investment in 145 Ninth Street LLC	<u>\$ (11,115)</u>	<u>\$ (15,050)</u>

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Property and equipment	\$ 79,365	\$ 251,277
Less accumulated depreciation	<u>(77,289)</u>	<u>(249,190)</u>
Total	<u>\$ 2,076</u>	<u>\$ 2,087</u>

FRAMELINE, INC.

**Notes to the Financial Statements
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)**

NOTE 5: LINE OF CREDIT

The Organization has an unsecured line of credit with a bank for a total of \$125,000 to be drawn down upon as needed, with an interest rate at 5.75%. As of December 31, 2015 there was no outstanding balance.

NOTE 6: PROGRAM RELATED INVESTMENT LOAN PAYABLE

The Organization has an unsecured program related investment loan from the Theophilus Foundation that is due December 31, 2015, and has interest at a rate equal to the last 26-week Treasury Bill non-competitive auction rate promulgated prior to January 1st of each year. Interest adjusts annually and is payable each January 1st. The Theophilus Foundation has been suspended by the California Franchise Tax Board, and the Organization's Management plans to resolve the investment loan in 2016.

NOTE 7: COMMITMENTS

Loan Guarantee

As a member holding an interest in the 145 9th Street LLC (see Note 3), the Organization is a guarantor of 35% of the mortgage obligations held by the LLC. The total remaining balances of the two notes were \$2,632,518 and \$2,673,341 and the Organization's share of the guarantee was \$921,381 and \$935,669 as of December 31, 2015 and 2014, respectively.

Operating Leases

The Organization leases a copier under a non-cancelable lease that expires on May 31, 2020. Future minimum lease payments were as follows for the years ended December 31:

2016	\$ 3,000
2017	3,000
2018	3,000
2019	3,000
2020	<u>1,250</u>
Total	<u>\$ 13,250</u>

NOTE 8: CONTINGENCY

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of the Organization to the provisions of the grants. The Organization's management is of the opinion that the Organization has complied with the terms of all grants.

FRAMELINE, INC.

Notes to the Financial Statements
For the Year Ended December 31, 2015
(With Comparative Totals for the Year Ended December 31, 2014)

NOTE 9: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Time restricted	\$ 153,341	\$ 290,770
Frameline Voices	-	35,000
Hormel Digitization Project	10,000	-
GayUSA Archive	10,000	-
Festival	<u>-</u>	<u>1,000</u>
Total	<u>\$ 173,341</u>	<u>\$ 326,770</u>

Temporarily restricted net assets were released from donor restriction by incurring expenses satisfying the purposes specified by donors as follows during the year ended December 31:

	<u>2015</u>	<u>2014</u>
Time restricted	\$ 507,996	\$ 30,000
Frameline Voices	35,000	35,000
Youth In Motion	45,000	45,000
Outreach	5,000	-
Generations Project	-	20,000
Completion fund	10,000	10,000
Festival	<u>1,000</u>	<u>26,000</u>
Total	<u>\$ 603,996</u>	<u>\$ 166,000</u>

NOTE 10: IN-KIND CONTRIBUTIONS

The Organization received the benefit of the following in-kind support during the year ended December 31:

	<u>2015</u>	<u>2014</u>
Professional services	\$ 86,200	\$ 82,500
Facility and space rentals	72,000	117,500
Advertisements	63,500	60,500
Hotel nights and travel	23,350	37,100
Catering and beverages	133,740	75,000
Supplies and other	<u>37,600</u>	<u>-</u>
Total	<u>\$ 416,390</u>	<u>\$ 372,600</u>