

Cinequest, Inc.

Audited Financial Statements

December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Cinequest, Inc.

We have audited the accompanying financial statements of Cinequest, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 auditors consider 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 Cinequest, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.


BOITANO & SARGENT
San Jose, California
December 15, 2018

Cinequest, Inc.
 Statements of Financial Position
 December 31, 2017 and 2016

Assets	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 433,986	\$ 544,031
Accounts receivable, net	109	2,373
Promises to give	40,648	67,580
Total current assets	<u>474,743</u>	<u>613,984</u>
Total assets	<u>\$ 474,743</u>	<u>\$ 613,984</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 24,498	\$ 15,857
Total current liabilities	<u>24,498</u>	<u>15,857</u>
Unrestricted net assets	<u>450,245</u>	<u>598,127</u>
Total liabilities and net assets	<u>\$ 474,743</u>	<u>\$ 613,984</u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statements of Activities
For the Years Ended December 31, 2017 and 2016

	2017	2016
Unrestricted net assets		
Support		
Contributions	\$ 658,741	\$ 815,589
Ticket and entry fees	416,762	482,766
Film distribution	57,906	21,172
In-kind contributions	1,235,189	1,263,884
Interest income	59	103
Net assets released from restriction	16,500	28,775
Total support	2,385,157	2,612,289
Expenses		
Program services	2,312,368	2,359,637
Management and general	156,841	180,768
Fund raising	63,830	69,437
Total expenses	2,533,039	2,609,842
Increase (decrease) in unrestricted net assets	(147,882)	2,447
Temporarily restricted net assets		
Contributions	16,500	28,775
Net assets released from restriction	(16,500)	(28,775)
Increase in temporarily restricted net assets	-	-
Increase (decrease) in net assets	(147,882)	2,447
Net assets, beginning of year	598,127	595,680
Net assets, end of year	\$ 450,245	\$ 598,127

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services	Management and General	Fund Raising	Total
Wages and related expenses				
Salaries	\$ 346,137	\$ 66,868	\$ 37,696	\$ 450,701
Payroll taxes	25,683	4,961	2,797	33,441
Benefits	14,023	2,709	1,527	18,259
Total wages and related expenses	<u>385,843</u>	<u>74,538</u>	<u>42,020</u>	<u>502,401</u>
Services and supplies				
Event related expenses	275,351	-	-	275,351
Film distributions	6,593	-	-	6,593
Insurance	8,894	1,718	969	11,580
In-kind expenses	1,235,189	-	-	1,235,189
Meals and entertainment	15,918	3,075	1,734	20,727
Occupancy	72,045	13,918	7,846	93,809
Office expenses	26,243	5,069	2,858	34,170
Phone and internet	14,522	2,805	1,582	18,909
Postage and shipping	5,907	1,141	643	7,692
Professional services	210,304	42,432	-	252,736
Supplies	6,955	1,343	757	9,055
Travel and lodging	48,604	10,801	5,422	64,827
Total services and supplies	<u>1,926,525</u>	<u>82,303</u>	<u>21,810</u>	<u>2,030,638</u>
Total expenses	<u>\$ 2,312,368</u>	<u>\$ 156,841</u>	<u>\$ 63,830</u>	<u>\$ 2,533,039</u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statement of Functional Expenses
For the year ended December 31, 2016

	Program Services	Management and General	Fund Raising	Total
Wages and related expenses				
Salaries	\$ 346,180	\$ 79,808	\$ 40,245	\$ 466,233
Payroll taxes	26,254	6,053	3,053	35,360
Benefits	14,371	3,313	1,671	19,355
Total wages and related expenses	<u>386,805</u>	<u>89,174</u>	<u>44,969</u>	<u>520,948</u>
Services and supplies				
Event related expenses	240,768	-	-	240,768
Film distributions	9,668	-	-	9,668
Film productions	89,958	-	-	89,958
Insurance	7,971	1,837	927	10,735
In-kind expenses	1,263,884	-	-	1,263,884
Meals and entertainment	13,377	4,540	4,089	22,006
Occupancy	71,089	16,389	8,264	95,742
Office expenses	26,432	6,093	3,073	35,598
Phone and internet	9,760	2,250	1,135	13,145
Postage and shipping	4,938	3,489	1,759	10,186
Professional services	192,079	44,630	-	236,709
Supplies	6,789	1,565	789	9,143
Travel and lodging	36,119	10,801	4,432	51,352
Total services and supplies	<u>1,972,832</u>	<u>91,594</u>	<u>24,468</u>	<u>2,088,894</u>
Total expenses	<u><u>\$ 2,359,637</u></u>	<u><u>\$ 180,768</u></u>	<u><u>\$ 69,437</u></u>	<u><u>\$ 2,609,842</u></u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ (147,882)	\$ 2,447
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Decrease (increase) in:		
Accounts receivable, net	2,264	(881)
Promises to give	26,932	203,946
Increase (decrease) in:		
Accounts payable	8,641	(23,312)
Net cash provided (used) by operating activities	(110,045)	182,200
Net increase (decrease) in cash and cash equivalents	(110,045)	182,200
Cash and cash equivalents, beginning of year	544,031	361,831
Cash and cash equivalents, end of year	\$ 433,986	\$ 544,031

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note 1 - Nature of Activities

Cinequest, Inc. (the Organization) was founded in 1990 and, through donations, grants, and ticket proceeds, presents the annual Cinequest Film Festival in San Jose, California. Through unique internet marketing, online delivery and comprehensive DVDs, Cinequest, Inc. creates distribution solutions to deliver festival favorite films to fans worldwide. Through its Picture the Possibilities program, Cinequest, Inc. empowers youth to create films expressing visions of a better tomorrow.

Note 2 - Summary of Significant Accounting Policies

(a) Basis of Presentation

The Organization is required to report 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. As of December 31, 2017 and 2016, Cinequest, Inc. had no permanently restricted net assets.

(b) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

(c) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of 90 days or less, excluding cash received with donor-imposed restrictions that limit its use for long-term purposes.

(d) Promises to Give

Contributions are recognized when donors make an unconditional promise to give to the Organization. Unconditional promises to give due within the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which they are received. An allowance for uncollectible promises to give is provided based on management's evaluation of potential uncollectible promises to give at year end.

As of December 31, 2017 and 2016, management believes all outstanding promises to give are fully collectible.

(e) Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$2,000. Lesser amounts are expensed. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless donors have restricted the donated assets for a specific purpose. Depreciation is provided over the estimated useful life of the asset and is computed on the straight-line method.

(f) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates include valuation of donated services, and the determination of functional expense allocations.

Cinequest, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

(g) Income Taxes

The Organization is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

(h) Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits, which are allocated on the basis of estimates of time and effort, as well as depreciation and amortization and occupancy, which are allocated on a square footage basis.

(i) Long-lived Assets

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset and long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell.

Note 3 - Accounts Receivable

Accounts receivable consists of outstanding balances related to film distributions. Management utilizes the reserve method of accounting for doubtful accounts based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year. As of December 31, 2017 and 2016, management believes all outstanding receivables are fully collectible.

Note 4 - Compensated Absences

Cinequest, Inc. has a combined vacation and sick pay compensation policy. Vacation and sick time are accumulated on the basis of length of service. Benefits may be accrued up to a total of 30 days, at which time no further time is accrued. Management has not established an accrual for compensated absences, since the amount of such accrual has been deemed immaterial.

Note 5 - Operating Lease

The Organization has a month-to-month lease for the premises located at 410 S. First Street, San Jose, CA 95113 at a base rent of \$6,000 per month.

Cinequest, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note 6 - Concentration of Credit Risk

Cinequest, Inc. is aware that cash and cash equivalents are limited to the amount of credit exposure in any one financial institution and has restricted placement of these monies to financial institutions evaluated as credit worthy. Cash equivalents are insured in each financial institution to a current maximum of \$250,000 for the years ended December 31, 2017 and 2016, respectively.

The Organization has concentrations of risk as a result of contributions from major donors. Contributions from the top three donors, as a percentage of total contributions for the years ended December 31, 2017 and 2016, were 53% and 45%, respectively.

Note 7 - In-Kind Contributions

The Organization receives donated services from a variety of organizations in carrying out the film festival activities. The donations have satisfied the criteria for revenue recognition and were recorded at their estimated fair value of \$1,235,189 and \$1,263,884 for the years ended December 31, 2017 and 2016, respectively. In-kind contributions are summarized as follows:

	<u>2017</u>	<u>2016</u>
Marketing and promotion	\$ 347,500	\$ 342,500
Equipment and facility rental	353,000	351,500
Hotel and transportation	142,000	130,000
Event meals and entertainment	332,000	387,500
Shipping and others	60,689	53,884
Total	<u>\$ 1,235,189</u>	<u>\$ 1,263,884</u>

Note 8 - Evaluation of Subsequent Events

The Organization has evaluated events subsequent to December 31, 2017, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through December 15, 2018, the date the financial statements were available to be issued. Based on this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the financial statements.