

Cinequest, Inc.

Audited Financial Statements

December 31, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Cinequest, Inc.

We have audited the accompanying statements of financial position of Cinequest, Inc. (a nonprofit organization) as of December 31, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2011 on our consideration of Cinequest's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.


BOITANO, SARGENT & LILLY, LLP

San Jose, California
October 15, 2011

Cinequest, Inc.
Statements of Financial Position
December 31, 2010 and 2009

Assets	<u>2010</u>	<u>2009</u>
Current assets		
Cash and cash equivalents	\$ 419,234	\$ 612,158
Accounts receivable, net	5,182	30,182
Unconditional promises to give	15,000	1,500
Government grants receivable	17,874	17,316
Total current assets	<u>457,290</u>	<u>661,156</u>
Property and equipment, net	<u>14,294</u>	<u>29,516</u>
Total assets	<u><u>\$ 471,584</u></u>	<u><u>\$ 690,672</u></u>

Liabilities and Net Assets

Current liabilities		
Accounts payable	\$ 9,773	\$ 33,904
Total current liabilities	<u>9,773</u>	<u>33,904</u>
Net assets		
Unrestricted net assets	<u>461,811</u>	<u>656,768</u>
Total liabilities and net assets	<u><u>\$ 471,584</u></u>	<u><u>\$ 690,672</u></u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statements of Activities
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Unrestricted net assets		
Support		
Contributions	\$ 584,087	\$ 535,119
Government grants	128,398	225,580
Ticket and entry fees	278,194	286,201
Film distribution	49,417	136,524
In-kind contributions	694,000	625,000
Interest income	1,533	1,884
Total support	<u>1,735,629</u>	<u>1,810,308</u>
Expenses		
Program services	1,713,042	1,386,721
Management and general	135,022	149,323
Fund raising	82,522	111,899
Total expenses	<u>1,930,586</u>	<u>1,647,943</u>
Change in unrestricted net assets	<u>(194,957)</u>	<u>162,365</u>
Net assets, beginning of year	<u>656,768</u>	<u>494,403</u>
Net assets, end of year	<u><u>\$ 461,811</u></u>	<u><u>\$ 656,768</u></u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2010
with Comparative Totals for the Year Ended December 31, 2009

	Program Services	Management and General	Fund Raising	Total	
				2010	2009
Wages and related expenses					
Salaries	\$ 208,938	\$ 47,757	\$ 41,787	\$ 298,482	\$ 303,268
Payroll taxes	18,488	4,226	3,698	26,412	36,444
Benefits	6,154	1,407	1,231	8,792	11,513
Total wages and related expenses	<u>233,580</u>	<u>53,390</u>	<u>46,716</u>	<u>333,686</u>	<u>351,225</u>
Services and supplies					
Depreciation	10,655	2,436	2,131	15,222	12,516
Festival expenses	120,030	-	-	120,030	81,207
Film distributions	25,700	-	-	25,700	78,908
Insurance	5,176	1,183	1,035	7,394	4,377
In-kind expenses	694,000	-	-	694,000	625,000
Marketing and publicity	135,751	-	-	135,751	117,977
Meals and entertainment	21,644	4,947	4,329	30,920	26,751
Occupancy	55,242	12,627	11,048	78,917	58,412
Office expenses	19,674	4,497	3,935	28,106	24,983
Phone and internet	15,836	3,620	3,167	22,623	23,486
Postage and shipping	10,868	2,484	2,174	15,526	20,164
Professional services	324,952	40,711	-	365,663	192,983
Supplies	2,738	626	548	3,912	1,835
Travel and lodging	37,195	8,502	7,439	53,136	28,119
Total services and supplies	<u>1,479,462</u>	<u>81,632</u>	<u>35,806</u>	<u>1,596,900</u>	<u>1,296,718</u>
Total expenses	<u>\$ 1,713,042</u>	<u>\$ 135,022</u>	<u>\$ 82,522</u>	<u>\$ 1,930,586</u>	<u>\$ 1,647,943</u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ (194,957)	162,365
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	15,222	12,516
Donated equipment	0	(15,000)
Decrease (increase) in:		
Accounts receivable, net	25,000	42,056
Unconditional promises to give	(13,500)	84,500
Government grants receivable	(558)	(45)
Increase (decrease) in:		
Accounts payable	(24,131)	(570)
Deferred revenue	0	(5,534)
Net cash provided (used) by operating activities	<u>(192,924)</u>	<u>280,288</u>
Cash flows from investing activities		
Purchases of property and equipment	0	(3,986)
Net cash used by investing activities	<u>0</u>	<u>(3,986)</u>
Net increase (decrease) in cash and cash equivalents	(192,924)	276,302
Cash and cash equivalents, beginning of year	<u>612,158</u>	<u>335,856</u>
Cash and cash equivalents, end of year	<u><u>\$ 419,234</u></u>	<u><u>612,158</u></u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

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 creates distribution solutions to deliver festival favorite films to fans worldwide.

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, 2010 and 2009, Cinequest Inc. had no temporarily or 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 a donor-imposed restriction that limits its use to long-term purposes.

(d) Promises to give

Contributions are recognized when the donor makes an unconditional promise to give to the Organization. Unconditional promises to give due in 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 is provided based on management's evaluation of potential uncollectible promises receivable at year end.

(e) Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$1,000. 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 donor has restricted the donated assets to a specific purpose. Depreciation is provided over the estimated useful life of the asset and is computed on the straight-line method.

(f) 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.

(g) 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.

Note 2 - Summary of Significant Accounting Policies (continued)

(h) Functional Allocation of Expenses

Expenses are allocated based on time spent for program services, management and general, and fundraising. Indirect costs are allocated based on the relative degree of benefit.

(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.

(j) Comparative 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statement for the year ended December 31, 2009, from which the summarized information was obtained.

Note 3 - Accounts Receivable

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. The allowance for doubtful accounts as of December 31, 2010 and 2009 was \$5,880 and \$5,880, respectively.

Note 4 - Unconditional Promises to Give

Unconditional promises to give consist of pledges from businesses and foundations totaling \$15,000 and \$1,500 as of December 31, 2010 and 2009, respectively. The Organization deemed all pledges fully collectible within the next twelve months.

Note 5 - Government Grants Receivable

Government grants receivable represents a receivable from City of San Jose, which was considered fully collectible within the next twelve months.

Note 6 - Compensated Absences

Cinequest 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.

Cinequest, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

Note 7 - Property and Equipment

Property and equipment consist of the following at December 31, 2010 and 2009:

	<u>Life</u>	<u>2010</u>	<u>2009</u>
Property and equipment	3 to 5 years	\$ 65,144	\$ 65,144
Accumulated depreciation		(50,850)	(35,628)
Property and equipment, net		<u>\$ 14,294</u>	<u>\$ 29,516</u>

Note 8 - Concentration of Credit Risk

Cinequest is aware that 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, 2010 and 2009, respectively.

Note 9 - Donated Services

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 \$694,000 and \$625,000 for the years ended December 31, 2010 and 2009, respectively. Donated services are summarized as followed:

	<u>2010</u>	<u>2009</u>
Marketing and promotion	\$ 371,500	\$ 321,500
Equipment and theatre rental	100,000	75,000
Hotel and transportation	75,000	80,000
Food and restaurants	122,500	122,500
Other	25,000	26,000
Total	<u>\$ 694,000</u>	<u>\$ 625,000</u>

Note 10 - Lease commitments

The Organization is obligated for a 3-year lease on an office located in San Jose, California. The lease expires in April 2012 and requires an initial monthly payment of \$5,000 with an annual cost of living adjustment. The minimum future rent payments under the non-cancelable lease having remaining terms in excess of one year as of December 31, 2010, for each year and in the aggregate are:

	<u>Lease Payment</u>
2011	\$ 66,000
2012	24,000
Total	<u>\$ 90,000</u>

Cinequest, Inc.
Notes to Financial Statements
December 31, 2010 and 2009

Note 11 - Concentration - Major Donors

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, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Donor 1	26%	19%
Donor 2	11%	19%
Donor 3	8%	9%

Note 12 - Related Party Transaction

During the year ended December 31 2010, the Organization entered into a contract with the Chairman of the Board to provide consulting services. The amount of the contract was \$25,000 and was included in the statements of functional expenses as professional services.

Note 13 - Evaluation of Subsequent Events

Subsequent events have been evaluated through October 15, 2011, which is the date the financial statements were available to be issued.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Cinequest Inc.
San Jose, California

We have audited the financial statements of Cinequest Inc. as of the year ended December 31, 2010, and have issued our report thereon dated October 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cinequest Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.


A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


BOITANO, SARGENT & LILLY, LLP
San Jose, California
October 15, 2011