

Cinequest, Inc.

Audited Financial Statements

December 31, 2011 and 2010

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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, 2011 and 2010, 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 audits 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 audits provide 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, 2011 and 2010, 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 January 28, 2013 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
January 28, 2013

Cinequest, Inc.
Statements of Financial Position
December 31, 2011 and 2010

Assets			
		<u>2011</u>	<u>2010</u>
Current assets			
Cash and cash equivalents	\$	552,686	\$ 419,234
Accounts receivable, net		3,183	5,182
Unconditional promises to give		-	15,000
Government grants receivable		14,699	17,874
Total current assets		<u>570,568</u>	<u>457,290</u>
Property and equipment, net		<u>21,159</u>	<u>14,294</u>
Total assets		<u><u>\$ 591,727</u></u>	<u><u>\$ 471,584</u></u>
 Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$	3,992	\$ 9,773
Total current liabilities		<u>3,992</u>	<u>9,773</u>
Net assets			
Unrestricted net assets		503,470	461,811
Temporarily restricted net assets		84,265	-
Total net assets		<u>587,735</u>	<u>461,811</u>
Total liabilities and net assets		<u><u>\$ 591,727</u></u>	<u><u>\$ 471,584</u></u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statements of Activities
For the Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted net assets		
Support		
Contributions	\$ 654,181	\$ 584,087
Government grants	109,404	128,398
Ticket and entry fees	289,851	278,194
Film distribution	52,904	49,417
In-kind contributions	889,000	694,000
Interest income	579	1,533
Net assets released from restriction	36,535	-
Total support	<u>2,032,454</u>	<u>1,735,629</u>
 Expenses		
Program services	1,812,823	1,713,042
Management and general	150,332	135,022
Fund raising	27,640	82,522
Total expenses	<u>1,990,795</u>	<u>1,930,586</u>
 Increase (decrease) in unrestricted net assets	<u>41,659</u>	<u>(194,957)</u>
 Temporarily restricted net assets		
Contributions	120,800	-
Net assets released from restriction	<u>(36,535)</u>	<u>-</u>
 Increase in temporarily restricted net assets	<u>84,265</u>	<u>-</u>
 Change in net assets	125,924	(194,957)
 Net assets, beginning of year	<u>461,811</u>	<u>656,768</u>
 Net assets, end of year	<u><u>\$ 587,735</u></u>	<u><u>\$ 461,811</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, 2011
with Comparative Totals for the Year Ended December 31, 2010

	Program Services	Management and General	Fund Raising	Total	
				2011	2010
Wages and related expenses					
Salaries	\$ 285,978	\$ 57,196	\$ 14,299	\$ 357,473	\$ 298,482
Payroll taxes	25,607	5,121	1,281	32,009	26,412
Benefits	9,708	1,942	485	12,135	8,792
Total wages and related expenses	<u>321,293</u>	<u>64,259</u>	<u>16,065</u>	<u>401,617</u>	<u>333,686</u>
Services and supplies					
Depreciation	10,508	2,102	525	13,135	15,222
Festival expenses	131,326	-	-	131,326	120,030
Film distributions	27,169	-	-	27,169	25,700
Insurance	5,893	1,179	295	7,367	7,394
In-kind expenses	869,000	-	-	869,000	694,000
Marketing and publicity	94,927	-	-	94,927	135,751
Meals and entertainment	41,164	8,233	2,058	51,455	30,920
Occupancy	66,737	13,348	3,337	83,422	78,917
Office expenses	28,712	5,743	1,436	35,891	28,106
Phone and internet	16,586	3,317	829	20,732	22,623
Postage and shipping	14,193	2,839	710	17,742	15,526
Professional services	137,607	39,770	-	177,377	365,663
Supplies	7,174	1,435	359	8,968	3,912
Travel and lodging	40,534	8,107	2,026	50,667	53,136
Total services and supplies	<u>1,491,530</u>	<u>86,073</u>	<u>11,575</u>	<u>1,589,178</u>	<u>1,596,900</u>
Total expenses	<u>\$ 1,812,823</u>	<u>\$ 150,332</u>	<u>\$ 27,640</u>	<u>\$1,990,795</u>	<u>\$1,930,586</u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ 125,924	\$ (194,957)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	13,135	15,222
Donated equipment	(20,000)	-
Decrease (increase) in:		
Accounts receivable, net	1,999	25,000
Unconditional promises to give	15,000	(13,500)
Government grants receivable	3,175	(558)
Increase (decrease) in:		
Accounts payable	(5,781)	(24,131)
Net cash provided (used) by operating activities	<u>133,452</u>	<u>(192,924)</u>
Net increase (decrease) in cash and cash equivalents	133,452	(192,924)
Cash and cash equivalents, beginning of year	<u>419,234</u>	<u>612,158</u>
Cash and cash equivalents, end of year	<u><u>\$ 552,686</u></u>	<u><u>\$ 419,234</u></u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

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. Cinequest, Inc., began a new program called Picture the Possibilities, a global youth empowerment movement to promote creativity and promote positive change by means of events, training, and mentoring.

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, 2011 and 2010, 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 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) 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, 2011 and 2010

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.

GAAP provides 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

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, 2010, 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, 2011 and 2010 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 \$0 and \$15,000 as of December 31, 2011 and 2010, 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.

Cinequest, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

Note 6 - 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 7 - Property and Equipment

Property and equipment consist of the following at December 31, 2011 and 2010:

	<u>Life</u>	<u>2011</u>	<u>2010</u>
Property and equipment	3 to 5 years	\$ 85,144	\$ 65,144
Accumulated depreciation		<u>(63,985)</u>	<u>(50,850)</u>
Property and equipment, net		<u>\$ 21,159</u>	<u>\$ 14,294</u>

Note 8 - Concentration of Credit Risk

Cinequest, Inc. 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, 2011 and 2010, respectively.

Note 9 - 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 \$889,000 and \$694,000 for the years ended December 31, 2011 and 2010, respectively. In-kind contributions are summarized as followed:

	<u>2011</u>	<u>2010</u>
Marketing and promotion	\$ 406,500	\$ 371,500
Donated equipment	20,000	-
Equipment and theatre rental	190,000	100,000
Hotel and transportation	65,000	75,000
Food and restaurants	182,500	122,500
Other	25,000	25,000
Total	<u>\$ 889,000</u>	<u>\$ 694,000</u>

Cinequest, Inc.
Notes to Financial Statements
December 31, 2011 and 2010

Note 10 - Lease commitments

The Organization is obligated for a 3-year lease on an office located in San Jose, California. The lease expired in April 2012 and required 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, 2011, for each year and in the aggregate are:

	<u>Lease Payment</u>
2012	\$ 24,000

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, 2011 and 2010, were 43% and 45%, respectively.

Note 12 – Temporarily Restricted Net Assets

As of December 31, 2011 and 2010, temporarily restricted net assets were \$84,265 and \$0, respectively, which were designated for Cinequest, Inc.'s Picture the Possibilities program.

Note 13 - 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. During the year ended December 31, 2011, no related party transactions occurred.

Note 14 - Evaluation of Subsequent Events

The Organization has evaluated events subsequent to December 31, 2011, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 28, 2013, the date financial statements were available to be issued.

The Organization's lease expired in April 2012. The Organization currently leases the facility on a month-to-month basis at a monthly payment of \$6,000.

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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.

We have audited the financial statements of Cinequest, Inc. (a nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated January 28, 2013. 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

Management of Cinequest, Inc. is responsible for establishing and maintaining effective 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 Cinequest, Inc.'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 Directors, management 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
January 28, 2013