

**Cinequest, Inc.**

Audited Financial Statements

December 31, 2012 and 2011

## Table of Contents

	<u>Page</u>
Independent Auditors' Report .....	1
Statements of Financial Position as of December 31, 2012 and 2011 .....	2
Statements of Activities for the Years Ended December 31, 2012 and 2011 .....	3
Statement of Functional Expenses for the Year Ended December 31, 2012 .....	4
Statement of Functional Expenses for the Year Ended December 31, 2011 .....	5
Statements of Cash Flows for the Years Ended December 31, 2012 and 2011 .....	6
Notes to Financial Statements as of December 31, 2012 and 2011 .....	7

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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, 2012 and 2011, 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, 2012 and 2011 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 & LILLY, LLP  
San Jose, California  
November 30, 2013

**Cinequest, Inc.**  
**Statements of Financial Position**  
**December 31, 2012 and 2011**

<b>Assets</b>	<u>2012</u>	<u>2011</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 501,783	\$ 552,686
Accounts receivable, net	3,567	3,183
Promises to give	15,740	14,699
Total current assets	<u>521,090</u>	<u>570,568</u>
<b>Property and equipment, net</b>	<u>11,481</u>	<u>21,159</u>
<b>Total assets</b>	<u><u>\$ 532,571</u></u>	<u><u>\$ 591,727</u></u>

**Liabilities and Net Assets**

<b>Current liabilities</b>		
Accounts payable	\$ 16,015	\$ 3,992
Total current liabilities	<u>16,015</u>	<u>3,992</u>
<b>Net assets</b>		
Unrestricted net assets	516,556	503,470
Temporarily restricted net assets	-	84,265
Total net assets	<u>516,556</u>	<u>587,735</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 532,571</u></u>	<u><u>\$ 591,727</u></u>

The accompanying notes are an integral part of these financial statements

**Cinequest, Inc.**  
**Statements of Activities**  
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Unrestricted net assets</b>		
Support		
Contributions	\$ 788,995	\$ 763,585
Ticket and entry fees	307,260	289,851
Film distribution	29,091	52,904
In-kind contributions	1,077,000	889,000
Interest income	447	579
Net assets released from restriction	128,455	36,535
Total support	<u>2,331,248</u>	<u>2,032,454</u>
Expenses		
Program services	2,132,268	1,812,823
Management and general	155,176	150,332
Fund raising	30,718	27,640
Total expenses	<u>2,318,162</u>	<u>1,990,795</u>
Increase in unrestricted net assets	<u>13,086</u>	<u>41,659</u>
<b>Temporarily restricted net assets</b>		
Contributions	44,190	120,800
Net assets released from restriction	<u>(128,455)</u>	<u>(36,535)</u>
Increase (decrease) in temporarily restricted net assets	<u>(84,265)</u>	<u>84,265</u>
<b>Change in net assets</b>	(71,179)	125,924
<b>Net assets, beginning of year</b>	<u>587,735</u>	<u>461,811</u>
<b>Net assets, end of year</b>	<u><u>\$ 516,556</u></u>	<u><u>\$ 587,735</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, 2012

	Program Services	Management and General	Fund Raising	Total
<b>Wages and related expenses</b>				
Salaries	\$ 316,222	\$ 63,244	\$ 15,811	\$ 395,277
Payroll taxes	27,342	5,468	1,368	34,178
Benefits	13,246	2,649	662	16,557
Total wages and related expenses	<u>356,810</u>	<u>71,361</u>	<u>17,841</u>	<u>446,012</u>
<b>Services and supplies</b>				
Depreciation	7,742	1,549	387	9,678
Event related expenses	152,715	-	-	152,715
Film distributions	20,836	-	-	20,836
Insurance	12,443	2,489	622	15,554
In-kind expenses	1,077,000	-	-	1,077,000
Marketing and publicity	97,762	-	-	97,762
Meals and entertainment	33,990	6,798	1,700	42,488
Occupancy	73,054	14,611	3,653	91,318
Office expenses	31,987	6,397	1,599	39,983
Phone and internet	14,786	2,957	739	18,482
Postage and shipping	20,077	4,015	1,004	25,096
Professional services	169,603	32,305	-	201,908
Supplies	9,467	1,893	473	11,833
Travel and lodging	53,997	10,801	2,699	67,497
Total services and supplies	<u>1,775,458</u>	<u>83,815</u>	<u>12,877</u>	<u>1,872,150</u>
<b>Total expenses</b>	<u>\$ 2,132,268</u>	<u>\$ 155,176</u>	<u>\$ 30,718</u>	<u>\$ 2,318,162</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

	Program Services	Management and General	Fund Raising	Total
<b>Wages and related expenses</b>				
Salaries	\$ 285,978	\$ 57,196	\$ 14,299	\$ 357,473
Payroll taxes	25,607	5,121	1,281	32,009
Benefits	9,708	1,942	485	12,135
Total wages and related expenses	<u>321,293</u>	<u>64,259</u>	<u>16,065</u>	<u>401,617</u>
<b>Services and supplies</b>				
Depreciation	10,508	2,102	525	13,135
Event related expenses	133,182	-	-	133,182
Film distributions	27,169	-	-	27,169
Insurance	8,518	1,179	295	9,992
In-kind expenses	869,000	-	-	869,000
Marketing and publicity	94,927	-	-	94,927
Meals and entertainment	41,164	8,233	2,058	51,455
Occupancy	66,738	13,348	3,337	83,422
Office expenses	22,231	5,743	1,436	29,410
Phone and internet	16,586	3,317	829	20,732
Postage and shipping	14,193	2,839	710	17,742
Professional services	139,607	39,770	-	179,377
Supplies	7,174	1,435	359	8,968
Travel and lodging	40,534	8,107	2,027	50,667
Total services and supplies	<u>1,491,530</u>	<u>86,073</u>	<u>11,575</u>	<u>1,589,178</u>
<b>Total expenses</b>	<u>\$ 1,812,823</u>	<u>\$ 150,332</u>	<u>\$ 27,640</u>	<u>\$ 1,990,795</u>

The accompanying notes are an integral part of these financial statements

**Cinequest, Inc.**  
**Statements of Cash Flows**  
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (71,179)	\$ 125,924
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	9,678	13,135
Donated equipment	-	(20,000)
Decrease (increase) in:		
Accounts receivable, net	(384)	1,999
Promises to give	(1,041)	18,175
Increase (decrease) in:		
Accounts payable	12,023	(5,781)
Net cash provided (used) by operating activities	<u>(50,903)</u>	<u>133,452</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(50,903)	133,452
<b>Cash and cash equivalents, beginning of year</b>	<u>552,686</u>	<u>419,234</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 501,783</u></u>	<u><u>\$ 552,686</u></u>

The accompanying notes are an integral part of these financial statements



**Cinequest, Inc.**  
Notes to Financial Statements  
December 31, 2012 and 2011

**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, 2012 and 2011, 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, 2012 and 2011, 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 \$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 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, 2012 and 2011

**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

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.

**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. The allowance for doubtful accounts as of December 31, 2012 and 2011 was \$0 and \$5,880, respectively.

**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 - Property and Equipment**

Property and equipment consist of the following at December 31, 2012 and 2011:

	<u>Life</u>	<u>2012</u>	<u>2011</u>
Property and equipment	3 to 5 years	\$ 85,144	\$ 85,144
Accumulated depreciation		(73,663)	(63,985)
Property and equipment, net		<u>\$ 11,481</u>	<u>\$ 21,159</u>

**Cinequest, Inc.**  
Notes to Financial Statements  
December 31, 2012 and 2011

**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, 2012 and 2011, 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, 2012 and 2011 were 42% and 43%, 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 \$1,077,000 and \$889,000 for the years ended December 31, 2012 and 2011, respectively. In-kind contributions are summarized as follows:

	<u>2012</u>	<u>2011</u>
Marketing and promotion	\$ 393,500	\$ 406,500
Equipment and facility rental	295,000	210,000
Hotel and transportation	81,000	65,000
Event meals and entertainment	<u>307,500</u>	<u>207,500</u>
Total	<u>\$ 1,077,000</u>	<u>\$ 889,000</u>

**Note 8 - Temporarily Restricted Net Assets**

As of December 31, 2012 and 2011, temporarily restricted net assets were \$0 and \$84,265, respectively, which were designated for Cinequest, Inc.'s Picture the Possibilities program.

**Note 9 - Evaluation of Subsequent Events**

The Organization has evaluated events subsequent to December 31, 2012, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 30, 2013, the date 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.