

Cinequest, Inc.

Audited Financial Statements

December 31, 2013 and 2012

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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, 2013 and 2012, 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, 2013 and 2012 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 15, 2014

Cinequest, Inc.
Statements of Financial Position
December 31, 2013 and 2012

	Assets	
	<u>2013</u>	<u>2012</u>
Current assets		
Cash and cash equivalents	\$ 547,854	\$ 501,783
Accounts receivable, net	1,589	3,567
Promises to give	18,222	15,740
Total current assets	<u>567,665</u>	<u>521,090</u>
Property and equipment, net	<u>4,017</u>	<u>11,481</u>
Total assets	<u><u>\$ 571,682</u></u>	<u><u>\$ 532,571</u></u>

Liabilities and Net Assets		
Current liabilities		
Accounts payable	<u>\$ 12,666</u>	<u>\$ 16,015</u>
Total current liabilities	<u>12,666</u>	<u>16,015</u>
Unrestricted net assets	<u>559,016</u>	<u>516,556</u>
Total liabilities and net assets	<u><u>\$ 571,682</u></u>	<u><u>\$ 532,571</u></u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statements of Activities
For the Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted net assets		
Support		
Contributions	\$ 764,834	\$ 788,995
Ticket and entry fees	389,111	307,260
Film distribution	17,754	29,091
In-kind contributions	1,040,000	1,077,000
Interest income	240	447
Net assets released from restriction	89,205	128,455
Total support	2,301,144	2,331,248
Expenses		
Program services	2,072,060	2,132,268
Management and general	157,572	155,176
Fund raising	29,052	30,718
Total expenses	2,258,684	2,318,162
Increase in unrestricted net assets	42,460	13,086
Temporarily restricted net assets		
Contributions	89,205	44,190
Net assets released from restriction	(89,205)	(128,455)
Decrease in temporarily restricted net assets	-	(84,265)
Change in net assets	42,460	(71,179)
Net assets, beginning of year	516,556	587,735
Net assets, end of year	\$ 559,016	\$ 516,556

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2013

	Program Services	Management and General	Fund Raising	Total
Wages and related expenses				
Salaries	\$ 307,468	\$ 61,493	\$ 15,373	\$ 384,334
Payroll taxes	27,342	5,468	1,368	34,178
Benefits	12,811	2,562	641	16,014
Total wages and related expenses	<u>347,621</u>	<u>69,523</u>	<u>17,382</u>	<u>434,526</u>
Services and supplies				
Depreciation	5,616	1,549	299	7,464
Event related expenses	141,899	-	-	141,899
Film distributions	7,617	-	-	7,617
Insurance	8,842	1,768	442	11,052
In-kind expenses	1,040,000	-	-	1,040,000
Marketing and publicity	133,567	-	-	133,567
Meals and entertainment	35,409	7,082	1,770	44,261
Occupancy	74,455	14,891	3,723	93,069
Office expenses	32,563	6,512	1,628	40,703
Phone and internet	11,717	2,343	586	14,646
Postage and shipping	12,150	2,430	608	15,188
Professional services	170,033	39,284	-	209,317
Supplies	6,947	1,389	347	8,683
Travel and lodging	43,624	10,801	2,267	56,692
Total services and supplies	<u>1,724,439</u>	<u>88,049</u>	<u>11,670</u>	<u>1,824,158</u>
Total expenses	<u><u>\$ 2,072,060</u></u>	<u><u>\$ 157,572</u></u>	<u><u>\$ 29,052</u></u>	<u><u>\$ 2,258,684</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
Wages and related expenses				
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>
Services and supplies				
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	30,770	6,397	1,599	38,766
Phone and internet	14,786	2,957	739	18,482
Postage and shipping	20,077	4,015	1,004	25,096
Professional services	170,820	32,305	-	203,125
Supplies	9,467	1,893	473	11,833
Travel and lodging	53,996	10,801	2,700	67,497
Total services and supplies	<u>1,775,458</u>	<u>83,815</u>	<u>12,877</u>	<u>1,872,150</u>
Total expenses	<u><u>\$ 2,132,268</u></u>	<u><u>\$ 155,176</u></u>	<u><u>\$ 30,718</u></u>	<u><u>\$ 2,318,162</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, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	\$ 42,460	\$ (71,179)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	7,464	9,678
Decrease (increase) in:		
Accounts receivable, net	1,978	(384)
Promises to give	(2,482)	(1,041)
Increase (decrease) in:		
Accounts payable	(3,349)	12,023
Net cash provided (used) by operating activities	46,071	(50,903)
Net increase (decrease) in cash and cash equivalents	46,071	(50,903)
Cash and cash equivalents, beginning of year	501,783	552,686
Cash and cash equivalents, end of year	\$ 547,854	\$ 501,783

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012

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. As of December 31, 2013 and 2012, 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 - Property and Equipment

Property and equipment consist of the following at December 31, 2013 and 2012:

	<u>Life</u>	<u>2013</u>	<u>2012</u>
Property and equipment	3 to 5 years	\$ 46,157	\$ 85,144
Accumulated depreciation		<u>(42,140)</u>	<u>(73,663)</u>
Property and equipment, net		<u>\$ 4,017</u>	<u>\$ 11,481</u>

Cinequest, Inc.
Notes to Financial Statements
December 31, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012 were 40% and 42%, 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 \$1,040,000 and \$1,077,000 for the years ended December 31, 2013 and 2012, respectively. In-kind contributions are summarized as follows:

	<u>2013</u>	<u>2012</u>
Marketing and promotion	\$ 391,000	\$ 393,500
Equipment and facility rental	295,000	295,000
Hotel and transportation	75,500	81,000
Event meals and entertainment	<u>278,500</u>	<u>307,500</u>
Total	<u>\$ 1,040,000</u>	<u>\$ 1,077,000</u>

Note 8 - Operating lease

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

Note 9 - Evaluation of Subsequent Events

The Organization has evaluated events subsequent to December 31, 2013, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 15, 2014, 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.