

Cinequest, Inc.

Audited Financial Statements

December 31, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014 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

BOITANO, SARGENT & LILLY, LLP
San Jose, California
November 30, 2016

Cinequest, Inc.
Statements of Financial Position
December 31, 2015 and 2014

Assets	<u>2015</u>	<u>2014</u>
Current assets		
Cash and cash equivalents	\$ 361,831	\$ 559,377
Accounts receivable, net	1,492	773
Promises to give	<u>271,526</u>	<u>17,382</u>
Total current assets	<u>634,849</u>	<u>577,532</u>
Total assets	<u><u>\$ 634,849</u></u>	<u><u>\$ 577,532</u></u>
 Liabilities and Net Assets		
Current liabilities		
Accounts payable	<u>\$ 39,169</u>	<u>\$ 15,452</u>
Total current liabilities	<u>39,169</u>	<u>15,452</u>
Unrestricted net assets	<u>595,680</u>	<u>562,080</u>
Total liabilities and net assets	<u><u>\$ 634,849</u></u>	<u><u>\$ 577,532</u></u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statements of Activities
For the Years Ended December 31, 2015 and 2014

	2015	2014
Unrestricted net assets		
Support		
Contributions	\$ 1,240,206	\$ 571,406
Ticket and entry fees	459,639	399,942
Film distribution	16,186	22,814
In-kind contributions	1,145,500	1,122,500
Interest income	80	103
Net assets released from restriction	78,749	66,441
Total support	<u>2,940,360</u>	<u>2,183,206</u>
Expenses		
Program services	2,666,503	1,959,284
Management and general	177,975	164,605
Fund raising	62,282	56,253
Total expenses	<u>2,906,760</u>	<u>2,180,142</u>
Increase in unrestricted net assets	<u>33,600</u>	<u>3,064</u>
Temporarily restricted net assets		
Contributions	78,749	66,441
Net assets released from restriction	<u>(78,749)</u>	<u>(66,441)</u>
Decrease in temporarily restricted net assets	<u>-</u>	<u>-</u>
Change in net assets	33,600	3,064
Net assets, beginning of year	<u>562,080</u>	<u>559,016</u>
Net assets, end of year	<u><u>\$ 595,680</u></u>	<u><u>\$ 562,080</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, 2015

	2015			
	Program Services	Management and General	Fund Raising	Total
Wages and related expenses				
Salaries	\$ 425,240	\$ 62,801	\$ 31,373	\$ 519,414
Payroll taxes	32,351	4,778	2,387	39,516
Benefits	42,127	6,222	3,108	51,457
Total wages and related expenses	<u>499,718</u>	<u>73,801</u>	<u>36,868</u>	<u>610,387</u>
Services and supplies				
Event related expenses	130,451	-	-	130,451
Film distributions	11,377	-	-	11,377
Film production	148,988	-	-	148,988
Insurance	10,356	1,529	764	12,649
In-kind expenses	1,145,500	-	-	1,145,500
Marketing and publicity	81,296	-	-	81,296
Meals and entertainment	39,792	5,877	2,936	48,605
Occupancy	76,494	11,297	5,643	93,434
Office expenses	24,546	3,624	1,811	29,981
Outside service - production	149,184	-	-	149,184
Phone and internet	6,672	985	492	8,149
Postage and shipping	21,201	3,131	1,564	25,896
Professional services	255,408	65,394	7,200	328,002
Supplies	10,402	1,536	767	12,705
Travel and lodging	55,118	10,801	4,237	70,156
Total services and supplies	<u>2,166,785</u>	<u>104,174</u>	<u>25,414</u>	<u>2,296,373</u>
Total expenses	<u>\$ 2,666,503</u>	<u>\$ 177,975</u>	<u>\$ 62,282</u>	<u>\$ 2,906,760</u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statement of Functional Expenses
For the year ended December 31, 2014

	2014			
	Program Services	Management and General	Fund Raising	Total
Wages and related expenses				
Salaries	\$ 285,453	\$ 60,095	\$ 30,048	\$ 375,596
Payroll taxes	25,975	5,468	2,735	34,178
Benefits	16,144	3,399	1,699	21,242
Total wages and related expenses	<u>327,572</u>	<u>68,962</u>	<u>34,482</u>	<u>431,016</u>
Services and supplies				
Depreciation	2,151	1,549	321	4,021
Event related expenses	118,799	-	-	118,799
Film distributions	10,140	-	-	10,140
Insurance	8,269	1,741	870	10,880
In-kind expenses	1,122,500	-	-	1,122,500
Marketing and publicity	50,609	-	-	50,609
Meals and entertainment	39,287	8,271	4,136	51,694
Occupancy	70,220	14,783	7,392	92,395
Office expenses	28,793	6,062	3,031	37,886
Phone and internet	7,395	1,557	778	9,730
Postage and shipping	10,394	2,188	1,094	13,676
Professional services	127,372	47,564	-	174,936
Supplies	5,357	1,127	564	7,048
Travel and lodging	30,426	10,801	3,585	44,812
Total services and supplies	<u>1,631,712</u>	<u>95,643</u>	<u>21,771</u>	<u>1,749,126</u>
Total expenses	<u>\$ 1,959,284</u>	<u>\$ 164,605</u>	<u>\$ 56,253</u>	<u>\$ 2,180,142</u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ 33,600	\$ 3,064
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	-	4,017
Decrease (increase) in:		
Accounts receivable, net	(719)	816
Promises to give	(254,144)	840
Increase (decrease) in:		
Accounts payable	23,717	2,786
Net cash provided (used) by operating activities	<u>(197,546)</u>	<u>11,523</u>
Net increase (decrease) in cash and cash equivalents	(197,546)	11,523
Cash and cash equivalents, beginning of year	<u>559,377</u>	<u>547,854</u>
Cash and cash equivalents, end of year	<u><u>\$ 361,831</u></u>	<u><u>\$ 559,377</u></u>

The accompanying notes are an integral part of these financial statements

Cinequest, Inc.
Notes to Financial Statements
December 31, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 and 2014

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, net

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, 2015 and 2014, 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, 2015 and 2014:

	<u>Life</u>	<u>2015</u>	<u>2014</u>
Property and equipment	3 to 5 years	\$ 46,157	\$ 46,157
Accumulated depreciation		(46,157)	(46,157)
Property and equipment, net		<u>\$ -</u>	<u>\$ -</u>

Cinequest, Inc.
Notes to Financial Statements
December 31, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014 were 56% and 49%, respectively. As of December 31, 2015, one donor accounts for 92% of the outstanding promises to give.

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 \$1,145,500 and \$1,122,500 for the years ended December 31, 2015 and 2014, respectively. In-kind contributions are summarized as follows:

	2015	2014
Marketing and promotion	\$ 345,500	\$ 498,000
Equipment and facility rental	351,500	235,000
Hotel and transportation	168,000	83,000
Event meals and entertainment	280,500	306,500
Total	<u>\$ 1,145,500</u>	<u>\$ 1,122,500</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, 2015, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 30, 2016, 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.

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November 30, 2016

To Board of Directors
Cinequest, Inc.

We have audited the financial statements of Cinequest, Inc. for the year ended December 31, 2015, and have issued our report thereon dated November 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 16, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Cinequest, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were allocation of functional expenses and fair value of in-kind contributions.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 30, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

During the audit, we noted that all disbursement checks were signed by the president of the Organization, including reimbursement checks to the president. We believe that segregation of duties and, thus, internal control could be improved if a second signature is required for disbursement over certain threshold, i.e. \$2,000.

This information is intended solely for the use of Board of Directors and Management of the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Boitano, Sargent & Lilly, LLP". The signature is written in a cursive, flowing style.

BOITANO, SARGENT & LILLY, LLP
San Jose, California