

**NASHVILLE FILM FESTIVAL
FINANCIAL STATEMENTS, SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2006 AND 2005**

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BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Nashville Film Festival

We have audited the accompanying statements of financial position of Nashville Film Festival (the "Organization") as of December 31, 2006 and 2005, 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. 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 Nashville Film Festival as of December 31, 2006 and 2005, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 11 and 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Blankenship CPA Group, PLLC

February 27, 2007

NASHVILLE FILM FESTIVAL
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005

ASSETS		2006	2005
Current assets			
Cash		\$ 128,773	\$ 176,018
Prepaid expenses		<u>525</u>	<u>509</u>
Total current assets		129,298	176,527
Equipment (note 2)		<u>4,814</u>	<u>3,987</u>
Total assets		<u><u>\$ 134,112</u></u>	<u><u>\$ 180,514</u></u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable		\$ 654	\$ 53,018
Deferred revenue		<u>44,958</u>	<u>47,208</u>
Total current liabilities		45,612	100,226
Unrestricted net assets		<u>88,500</u>	<u>80,288</u>
Total liabilities and net assets		<u><u>\$ 134,112</u></u>	<u><u>\$ 180,514</u></u>

The accompanying notes are an integral part of these financial statements.

**NASHVILLE FILM FESTIVAL
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
Revenues and other support		
Grants	\$ 148,839	\$ 198,995
Festival fees and sales	146,355	123,625
Corporate sponsors	80,250	64,680
Membership dues	30,490	28,554
Contributions	2,765	2,478
Interest income	857	1,668
Contributions in-kind (note 4)	<u>463,600</u>	<u>383,315</u>
Total revenues and other support	<u>873,156</u>	<u>803,315</u>
Expenses		
Festival and programs	718,970	674,029
Management and general	97,258	89,008
Fundraising	<u>48,716</u>	<u>32,589</u>
Total expenses	<u>864,944</u>	<u>795,626</u>
Increase in net assets	8,212	7,689
Net assets, beginning of year	<u>80,288</u>	<u>72,599</u>
Net assets, end of year	<u><u>\$ 88,500</u></u>	<u><u>\$ 80,288</u></u>

The accompanying notes are an integral part of these financial statements.

NASHVILLE FILM FESTIVAL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2006

	<u>Festival and Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 62,315	\$ 36,823	\$ 22,402	\$ 121,540
Payroll taxes	4,742	2,789	1,767	9,298
Employee benefits	<u>4,532</u>	<u>2,666</u>	<u>1,688</u>	<u>8,886</u>
Total salaries and benefits	<u>71,589</u>	<u>42,278</u>	<u>25,857</u>	<u>139,724</u>
Rent	220,000	7,488	1,872	229,360
Advertising	151,200	9,000	-	160,200
Travel and entertainment	90,930	7,973	-	98,903
Contract services	76,034	768	-	76,802
Festival expense	27,356	-	11,142	38,498
Grant expense	23,075	-	-	23,075
Printing and promotions	15,654	5,367	-	21,021
Postage	10,037	1,074	2,778	13,889
Insurance	10,389	3,382	-	13,771
Miscellaneous	4,321	3,174	4,762	12,257
Awards	9,725	-	-	9,725
Equipment rental	8,090	-	-	8,090
Telephone	-	5,020	1,255	6,275
Office expense and supplies	-	4,202	1,050	5,252
Dues and subscriptions	-	4,675	-	4,675
Depreciation	-	2,857	-	2,857
Tax and licenses	<u>570</u>	<u>-</u>	<u>-</u>	<u>570</u>
	<u>\$ 718,970</u>	<u>\$ 97,258</u>	<u>\$ 48,716</u>	<u>\$ 864,944</u>

The accompanying notes are an integral part of these financial statements.

NASHVILLE FILM FESTIVAL
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2005

	<u>Festival and Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 60,500	\$ 35,750	\$ 21,750	\$ 118,000
Payroll taxes	4,628	2,735	1,664	9,027
Employee benefits	3,897	2,303	1,401	7,601
	<u>69,025</u>	<u>40,788</u>	<u>24,815</u>	<u>134,628</u>
 Total salaries and benefits				
Rent	222,000	7,392	1,848	231,240
Advertising	69,517	9,000	-	78,517
Travel and entertainment	88,138	6,030	-	94,168
Contract services	56,432	570	-	57,002
Festival expense	26,708	-	-	26,708
Grant expense	83,403	-	-	83,403
Printing and promotions	11,805	8,839	-	20,644
Postage	8,141	309	2,113	10,563
Insurance	7,192	2,056	-	9,248
Miscellaneous	5,213	1,039	1,563	7,815
Awards	19,330	-	-	19,330
Equipment rental	6,745	-	-	6,745
Telephone	-	4,975	1,243	6,218
Office expense and supplies	-	4,029	1,007	5,036
Dues and subscriptions	-	1,781	-	1,781
Depreciation	-	2,200	-	2,200
Tax and licenses	380	-	-	380
	<u>\$ 674,029</u>	<u>\$ 89,008</u>	<u>\$ 32,589</u>	<u>\$ 795,626</u>

The accompanying notes are an integral part of these financial statements.

NASHVILLE FILM FESTIVAL
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
Cash flows from operating activities		
Increase in net assets	\$ 8,212	\$ 7,689
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities		
Depreciation	2,857	2,200
(Increase) decrease in prepaid expenses	(16)	1,247
Increase (decrease) in accounts payable	(52,364)	52,720
Decrease in deferred revenue	<u>(2,250)</u>	<u>(55,760)</u>
Net cash provided by (used in) operating activities	<u>(43,561)</u>	<u>8,096</u>
Cash flows from investing activities		
Equipment purchases	<u>(3,684)</u>	<u>(65)</u>
Net cash used in investing activities	<u>(3,684)</u>	<u>(65)</u>
Net increase (decrease) in cash	(47,245)	8,031
Cash, beginning of year	<u>176,018</u>	<u>167,987</u>
Cash, end of year	<u><u>\$ 128,773</u></u>	<u><u>\$ 176,018</u></u>

The accompanying notes are an integral part of these financial statements.

**NASHVILLE FILM FESTIVAL
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Nashville Film Festival's (NaFF) purpose is to promote or showcase independent and student films and film makers through the annual film festival. The Organization conducts an annual workshop, premiere screenings, and seminars for students ranging in age from adolescents to adults. The outreach program brings screenings and various workshops into schools and community centers in the inner city.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, net assets of NaFF and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets which are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets which are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The NaFF had no temporarily restricted net assets as of December 31, 2006 and 2005.

Permanently restricted net assets – Net assets which are subject to donor-imposed stipulations that they be maintained permanently. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The NaFF had no permanently restricted net assets as of December 31, 2006 and 2005.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

**NASHVILLE FILM FESTIVAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services

Contributions of donated material that are usable for program services, fundraising, and support of management and general functions are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and which would typically need to be purchased if not donated, are recorded at their fair values in the period received.

The fair value of donated volunteer services is not reflected in the accompanying financial statements since it is not practical to objectively determine the fair value of services received. However, management estimates that a substantial number of volunteers have donated significant amounts of their time.

Inventory Valuation

The library of films maintained by NaFF is not reflected in the financial statements as an objective basis for valuation is not available.

Deferred Revenue

Nashville Film Festival records grant/contract revenue as deferred revenue until it is expended for the purpose of the grant/contract, at which time it is recognized as revenue. The balance in deferred revenue at December 31, 2006, represents amounts received under cost reimbursable contracts that will be expended in the next calendar year in accordance with the grant/contract period.

Compensated Absences

The Organization has not accrued compensated absences since the amount cannot be reasonably estimated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NASHVILLE FILM FESTIVAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2006 AND 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax

The NaFF is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income tax has been made.

Concentrations of Credit Risk

Cash balances at financial institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000 per insured entity. Balances of cash at financial institutions exceeded the limit of \$100,000 by \$34,126 and \$76,018 at December 31, 2006 and 2005, respectively.

Advertising Costs

The Organization expenses all advertising costs as incurred. Total advertising expense amounted to \$160,200 and \$78,517 in 2006 and 2005, respectively.

NOTE 2 - EQUIPMENT

Equipment is recorded at cost. Depreciation of equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Equipment at December 31, 2006 and 2005, is as follows:

	2006	2005
Office equipment	\$ 23,286	\$ 19,602
Less: accumulated depreciation	<u>(18,472)</u>	<u>(15,615)</u>
	<u>\$ 4,814</u>	<u>\$ 3,987</u>

NOTE 3 - LINES OF CREDIT

The Organization maintains two lines of credit on credit cards. The line with Bank of America has a credit limit available of \$11,500 and bears interest at a 18.24% annual rate on purchases and 24.24% annual rate on cash advances. The second line, with Chase Bank, has a credit limit of \$12,000 and bears interest at a 16.90% annual rate on purchases and 22.99% annual rate on cash advances. There were \$654 and \$18 of borrowings outstanding on the Chase Bank line as of December 31, 2006 and 2005, respectively, which are included in accounts payable. There were no outstanding borrowings on the Bank of America line as of December 31, 2006, and 2005.

**NASHVILLE FILM FESTIVAL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2006 AND 2005**

NOTE 4 - DONATED SERVICES

Donated services ("in-kind" contributions) included in the statements of activities are as follows:

	2006	2005
Contributions in-kind		
Advertising	\$ 148,800	\$ 65,600
Equipment rental	5,400	3,210
Film rental	-	1,350
Awards	3,175	13,175
Guest travel	14,500	26,950
Guest hotel	600	3,000
Event catering	24,150	11,550
Gifts	2,625	19,000
Contract services	32,000	16,000
Printing	4,850	1,480
Showcase	7,500	-
Rent	<u>220,000</u>	<u>222,000</u>
Total contributions in-kind	<u>\$ 463,600</u>	<u>\$ 383,315</u>
Expenses		
Functional expenses:		
Festival and programs	<u>\$ 463,600</u>	<u>\$ 383,315</u>
Increase in net assets	<u>\$ -</u>	<u>\$ -</u>

SUPPLEMENTAL INFORMATION

NASHVILLE FILM FESTIVAL
SCHEDULE OF ACTIVITIES - BEFORE IN-KIND ACTIVITIES
YEAR ENDED DECEMBER 31, 2006

Revenues and other support	
Grants	\$ 148,839
Festival fees and sales	146,355
Corporate sponsors	80,250
Membership dues	30,490
Contributions	2,765
Interest income	<u>857</u>
Total revenues and other support before in-kind contributions	<u>409,556</u>
Expenses	
Festival and programs	255,370
Management and general	97,258
Fundraising	<u>48,716</u>
Total expenses before in-kind expenses	<u>401,344</u>
Increase in net assets before in-kind activities	<u><u>\$ 8,212</u></u>

NASHVILLE FILM FESTIVAL
SCHEDULE OF FUNCTIONAL EXPENSES - BEFORE IN-KIND ACTIVITIES
YEAR ENDED DECEMBER 31, 2006

	<u>Festival and Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 62,315	\$ 36,823	\$ 22,402	\$ 121,540
Payroll taxes	4,742	2,789	1,767	9,298
Employee benefits	4,532	2,666	1,688	8,886
 Total salaries and benefits	 71,589	 42,278	 25,857	 139,724
 Rent	 -	 7,488	 1,872	 9,360
Advertising	2,400	9,000	-	11,400
Travel and entertainment	51,680	7,973	-	59,653
Contract services	44,034	768	-	44,802
Festival expense	17,231	-	11,142	28,373
Grant expense	23,075	-	-	23,075
Printing and promotions	10,804	5,367	-	16,171
Postage	10,037	1,074	2,778	13,889
Insurance	10,389	3,382	-	13,771
Miscellaneous	4,321	3,174	4,762	12,257
Awards	6,550	-	-	6,550
Equipment rental	2,690	-	-	2,690
Telephone	-	5,020	1,255	6,275
Office expense and supplies	-	4,202	1,050	5,252
Dues and subscriptions	-	4,675	-	4,675
Depreciation	-	2,857	-	2,857
Tax and licenses	570	-	-	570
	<u>\$ 255,370</u>	<u>\$ 97,258</u>	<u>\$ 48,716</u>	<u>\$ 401,344</u>