

**NASHVILLE FILM FESTIVAL  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

**RECEIVED JUL 0 5 2005**

**NASHVILLE FILM FESTIVAL  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

**TABLE OF CONTENTS**

	<b>PAGE</b>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4 – 5
Statements of Cash Flows	6
Notes to Financial Statements	7 – 11
SUPPLEMENTAL INFORMATION:	
Schedule of Activities – Before In-Kind Activities	12
Schedule of Functional Expenses – Before In-Kind Expenses	13

# BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Nashville Film Festival

We have audited the accompanying statements of financial position of Nashville Film Festival as of December 31, 2004 and 2003, 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, 2004 and 2003, 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 12-13 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 15, 2005

**NASHVILLE FILM FESTIVAL  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2004 AND 2003**

<b>ASSETS</b>		<b>2004</b>	<b>2003</b>
Current assets			
Cash		\$ 167,987	\$ 160,112
Investments (note 3)		-	3,051
Prepaid expenses		<u>1,756</u>	<u>2,054</u>
Total current assets		<u>169,743</u>	<u>165,217</u>
Equipment (note 2)		<u>6,122</u>	<u>608</u>
Total assets		<u><u>\$ 175,865</u></u> ✓	<u><u>\$ 165,825</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities			
Accounts payable		\$ 298	\$ -
Deferred revenue		<u>102,968</u>	<u>125,000</u>
Total current liabilities		103,266	125,000
Unrestricted net assets		<u>72,599</u> ✓	<u>40,825</u>
Total liabilities and net assets		<u><u>\$ 175,865</u></u> ✓	<u><u>\$ 165,825</u></u>

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

**NASHVILLE FILM FESTIVAL  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
Revenues and other support		
Grants	\$ 175,579	\$ 92,882
Corporate sponsors	86,150	87,250
Contributions	826	2,860
Festival fees and sales	102,546	117,599
Membership dues	19,297	34,118
Program services	85	-
Interest income	928	1,027
Investment income	117	258
Miscellaneous income	-	14
Gain on sale of investments	38	-
Contributions in-kind (note 5)	<u>442,140</u>	<u>346,688</u>
Total revenues and other support	<u>827,706</u> ✓	<u>682,696</u>
Expenses		
Festival and programs	726,725	608,201
Management and general	63,904	83,967
Fundraising	<u>5,303</u>	<u>7,021</u>
Total expenses	<u>795,932</u> ✓	<u>699,189</u>
Increase (decrease) in net assets	31,774	(16,493)
Net assets, beginning of year	<u>40,825</u>	<u>57,318</u>
Net assets, end of year	<u><u>\$ 72,599</u></u>	<u><u>\$ 40,825</u></u>

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

**NASHVILLE FILM FESTIVAL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2004**

	<u>Festival and Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 86,095	\$ 15,944	\$ 4,251	\$ 106,290
Payroll taxes	6,586	1,220	325	8,131
Employee benefits	6,749	1,251	333	8,333
Total salaries and benefits	<u>99,430</u>	<u>18,415</u>	<u>4,909</u>	<u>122,754</u>
Contract services	161,629	1,617	-	163,246
Awards	15,481	-	-	15,481
Dues and subscriptions	-	2,533	-	2,533
Postage	8,374	2,089	296	10,759
Printing and promotions	15,075	1,202	98	16,375
Office expense and supplies	-	5,641	-	5,641
Equipment rental	19,615	-	-	19,615
Tax and licenses	-	510	-	510
Telephone	480	4,801	-	5,281
Travel and entertainment	65,180	1,127	-	66,307
Advertising	81,166	-	-	81,166
Rent	226,000	8,680	-	234,680
Depreciation	-	1,435	-	1,435
Insurance	3,175	2,833	-	6,008
Miscellaneous	9,087	13,021	-	22,108
Sloan grant expense	22,033	-	-	22,033
	<u>\$ 726,725</u>	<u>\$ 63,904</u>	<u>\$ 5,303</u>	<u>\$ 795,932</u>

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

**NASHVILLE FILM FESTIVAL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2003**

	<u>Festival and Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 68,725	\$ 12,886	\$ 4,295	\$ 85,906
Payroll taxes	5,257	986	329	6,572
Employee benefits	6,357	1,192	397	7,946
 Total salaries and benefits	 <u>80,339</u>	 <u>15,064</u>	 <u>5,021</u>	 <u>100,424</u>
 Contract services	 18,060	 27,252	 -	 45,312
Awards	3,500	-	-	3,500
Dues and subscriptions	-	1,602	-	1,602
Postage	11,497	2,154	-	13,651
Printing and promotions	17,200	3,230	-	20,430
Office expense and supplies	4,691	3,809	-	8,500
Equipment rental	14,974	-	-	14,974
Tax and licenses	40	230	-	270
Telephone	385	5,085	-	5,470
Travel and entertainment	44,817	2,612	-	47,429
Advertising	123,036	-	-	123,036
Rent	223,652	8,300	-	231,952
Depreciation	-	1,911	-	1,911
Insurance	1,738	9,380	-	11,118
Miscellaneous	38,272	3,265	2,000	43,537
Board operating	-	73	-	73
Sloan grant expense	26,000	-	-	26,000
	<u>\$ 608,201</u>	<u>\$ 83,967</u>	<u>\$ 7,021</u>	<u>\$ 699,189</u>

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

**NASHVILLE FILM FESTIVAL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

	2004	2003
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 31,774	\$ (16,493)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	1,435	1,911
Unrealized gain on investments	-	7
(Increase) decrease in prepaid expenses	298	(316)
Increase in accounts payable	298	-
Increase (decrease) in deferred revenue	<u>(22,032)</u>	<u>54,000</u>
Net cash provided by operating activities	<u>11,773</u>	<u>39,109</u>
Cash flows from investing activities		
Net sales of investments	3,051	2,735
Equipment purchases	<u>(6,949)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(3,898)</u>	<u>2,735</u>
Net increase in cash	7,875	41,844
Cash, beginning of year	<u>160,112</u>	<u>118,268</u>
Cash, end of year	<u><u>\$ 167,987</u></u>	<u><u>\$ 160,112</u></u>

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



**NASHVILLE FILM FESTIVAL  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

**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, 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, 2004 and 2003.

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, 2004 and 2003.

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. 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.

**NASHVILLE FILM FESTIVAL  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Cash

For purposes of the statements of cash flows, cash includes time deposits, certificate of deposit, and all highly liquid debt instruments with original maturities of three months or less and is stated at cost.

Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

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, 2004, represents amounts received under cost reimbursable contracts that will be expended in the next calendar year in accordance with the grant/contract period.

**NASHVILLE FILM FESTIVAL**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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.

Income Taxes

The NaFF is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes 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 \$71,365 and \$0 at December 31, 2004 and 2003, respectively.

Advertising Costs

The Organization expenses all advertising costs as incurred. Total advertising expense amounted to \$81,166 and \$123,036 in 2004 and 2003, 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, 2004 and 2003, is as follows:

	2004	2003
Office equipment	\$ 19,537	\$ 12,588
Less: accumulated depreciation	<u>(13,415)</u>	<u>(11,980)</u>
	<u>\$ 6,122</u>	<u>\$ 608</u>

**NASHVILLE FILM FESTIVAL**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 3 - INVESTMENTS**

Investments at December 31, 2004 and 2003 are as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed income securities fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,909</u>	<u>\$ 3,051</u>
Investment income consists of:				
		<u>2004</u>		<u>2003</u>
Dividends		\$ 117		\$ 265
Unrealized gain (loss)		<u>-</u>		<u>(7)</u>
		<u>\$ 117</u>		<u>\$ 258</u>

**NOTE 4 - LINES OF CREDIT**

The Organization entered into an agreement for a bank line of credit in August 2004. Borrowings are limited to \$20,000. The line bears interest at a rate of the bank's index rate (5.25% at December 31, 2004) plus 1.5%. There were no outstanding borrowings on the line of credit as of December 31, 2004. The line of credit agreement contains financial covenants that require the Organization to maintain minimum working capital ratios, debt to equity ratios and net worth.

The Organization also maintains one line of credit with the bank on a credit card. The credit limit available is \$11,500, and the line bears interest at a 14.9% annual rate on purchases and 19.9% annual rate on cash advances. There were no outstanding borrowings on the credit card as of December 31, 2004.

**SUPPLEMENTAL INFORMATION**

**NASHVILLE FILM FESTIVAL  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
YEARS ENDED DECEMBER 31, 2004 AND 2003**

**NOTE 5 - DONATED SERVICES**

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

	2004	2003
Contributions in-kind		
Advertising	\$ 78,547	\$ 123,036
Equipment rental	11,250	-
Film rental	1,500	-
Awards	10,000	-
Guest travel	8,500	-
Guest hotel	3,000	-
Event catering	19,750	-
Gifts	1,093	-
Contract services	82,500	-
Rent	<u>226,000</u>	<u>223,652</u>
Total contributions in-kind	<u>\$ 442,140</u>	<u>\$ 346,688</u>
Expenses		
Functional expenses:		
Festival and programs	<u>\$ 442,140</u>	<u>\$ 346,688</u>
Increase in net assets	<u>\$ -</u>	<u>\$ -</u>

**NASHVILLE FILM FESTIVAL**  
**SCHEDULE OF ACTIVITIES - BEFORE IN-KIND ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2004**

Revenues and other support	
Grants	\$ 175,579
Corporate sponsors	86,150
Contributions	826
Festival fees and sales	102,546
Membership dues	19,297
Program services	85
Interest income	928
Investment income	117
Miscellaneous income	-
Gain on sale of investments	<u>38</u>
Total revenues and other support before in-kind contributions	<u>385,566</u>
Expenses	
Festival and programs	284,585
Management and general	63,904
Fundraising	<u>5,303</u>
Total expenses before in-kind expenses	<u>353,792</u>
Increase in net assets before in-kind activities	<u><u>\$ 31,774</u></u>

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

**NASHVILLE FILM FESTIVAL**  
**SCHEDULE OF FUNCTIONAL EXPENSES - BEFORE IN-KIND EXPENSES**  
**YEAR ENDED DECEMBER 31, 2004**

	<u>Festival and Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 86,095	\$ 15,944	\$ 4,251	\$ 106,290
Payroll taxes	6,586	1,220	325	8,131
Employee benefits	<u>6,749</u>	<u>1,251</u>	<u>333</u>	<u>8,333</u>
Total salaries and benefits	<u>99,430</u>	<u>18,415</u>	<u>4,909</u>	<u>122,754</u>
Contract services	79,128	1,617	-	80,745
Awards	4,389	-	-	4,389
Dues and subscriptions	-	2,533	-	2,533
Postage	8,374	2,089	296	10,759
Printing and promotions	15,075	1,202	98	16,375
Office expense and supplies	-	5,641	-	5,641
Equipment rental	8,364	-	-	8,364
Tax and licenses	-	510	-	510
Telephone	480	4,801	-	5,281
Travel and entertainment	33,930	1,127	-	35,057
Advertising	2,619	-	-	2,619
Rent	-	8,680	-	8,680
Depreciation	-	1,435	-	1,435
Insurance	3,175	2,833	-	6,008
Miscellaneous	7,587	13,021	-	20,608
Sloan grant expense	<u>22,033</u>	<u>-</u>	<u>-</u>	<u>22,033</u>
	<u>\$ 284,584</u>	<u>\$ 63,904</u>	<u>\$ 5,303</u>	<u>\$ 353,791</u>

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