

# *NATIONAL FILM PRESERVATION FOUNDATION*

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## *FINANCIAL STATEMENTS*

*For The Years Ended December 31, 2010 and 2009*

*with*

*INDEPENDENT AUDITOR'S REPORT*

***NATIONAL FILM PRESERVATION FOUNDATION  
FINANCIAL STATEMENTS  
DECEMBER 31, 2010 and 2009***

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### Independent Auditor's Report

To the Board of Directors  
NATIONAL FILM PRESERVATION FOUNDATION  
San Francisco, California

I have audited the accompanying statements of financial position of the National Film Preservation Foundation as of December 31, 2010 and 2009 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I have conducted my audit in accordance with U. S. generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Film Preservation Foundation as of December 31, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with U. S. generally accepted accounting principles.

*Carl M. Arntzen, CPA*

Carl M. Arntzen, CPA  
March 10, 2011

**NATIONAL FILM PRESERVATION FOUNDATION**  
**Statements of Financial Position**  
**December 31, 2010 and 2009**

	2010	2009
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,442,550	\$ 1,331,766
Investments	214,664	199,590
Pledges receivable, current portion, net	187,500	225,000
Accounts receivable	51,464	29,961
Inventory	114,565	131,275
Prepaid expenses	8,914	6,467
Total current assets	2,019,657	1,924,059
Other Assets		
Pledges receivable, non-current, net	208,586	29,850
Equipment and furniture, net of accumulated depreciation	6,217	8,305
Deposits, rent	1,873	1,713
	216,676	39,868
<b>TOTAL ASSETS</b>	<b>\$ 2,236,333</b>	<b>\$ 1,963,927</b>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 24,408	\$ 27,315
Grants payable	530,637	577,152
Accrued compensation	8,974	9,989
Deferred revenue	30,000	-
Funds held for others	-	61,535
<b>TOTAL LIABILITIES</b>	<b>594,019</b>	<b>675,991</b>
NET ASSETS		
Unrestricted	934,383	1,033,086
Temporarily restricted	707,931	254,850
<b>TOTAL NET ASSETS</b>	<b>1,642,314</b>	<b>1,287,936</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,236,333</b>	<b>\$ 1,963,927</b>

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

**NATIONAL FILM PRESERVATION FOUNDATION**  
**Statements of Activities**  
For the Years Ended December 31, 2010 and 2009

	<u>2010</u>			<u>2009</u>		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Grants and contributions	\$213,309	\$1,112,634	\$1,325,943	\$99,760	\$726,295	\$826,055
DVD sales	28,471		28,471	98,806	-	98,806
Federal contract income	132,305		132,305	12,500	-	12,500
Grant savings from under-budget projects	13,253		13,253	10,871	-	10,871
Investment income	11,090		11,090	23,959	-	23,959
Other revenues	1,522		1,522	3,616	-	3,616
Unrealized gains (loss) on investments	10,963		10,963	(554)	-	(554)
Net assets released from restriction	659,553	(659,553)	-	765,000	(765,000)	-
<b>TOTAL SUPPORT AND REVENUE</b>	<u>1,070,466</u>	<u>453,081</u>	<u>1,523,547</u>	<u>1,013,958</u>	<u>(38,705)</u>	<u>975,253</u>
<b>EXPENSES</b>						
Program expenses	1,094,111	-	1,094,111	1,056,049	-	1,056,049
Management and general	69,809	-	69,809	90,860	-	90,860
Fundraising	5,249	-	5,249	4,111	-	4,111
<b>TOTAL EXPENSES</b>	<u>1,169,169</u>	<u>-</u>	<u>1,169,169</u>	<u>1,151,020</u>	<u>-</u>	<u>1,151,020</u>
<b>CHANGE IN NET ASSETS</b>	<u>(98,703)</u>	<u>453,081</u>	<u>354,378</u>	<u>(137,062)</u>	<u>(38,705)</u>	<u>(175,767)</u>
<b>NET ASSETS-BEGINNING</b>	<u>1,033,086</u>	<u>254,850</u>	<u>1,287,936</u>	<u>1,170,148</u>	<u>293,555</u>	<u>1,463,703</u>
<b>NET ASSETS-ENDING</b>	<u>\$934,383</u>	<u>\$707,931</u>	<u>\$1,642,314</u>	<u>\$1,033,086</u>	<u>\$254,850</u>	<u>\$1,287,936</u>

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

**National Film Preservation Foundation**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2010**

	Program Costs	Management & General	Fund Raising	Total
Program grants				
Library of Congress	\$ 392,243	-	-	\$ 392,243
Avant Garde	50,000	-	-	50,000
In-kind services	20,000	-	-	20,000
New Zealand project	68,858	-	-	68,858
DVD production	149,463	-	-	149,463
Salaries	262,582	23,084	2,886	288,552
Payroll taxes	20,693	1,819	227	22,739
Pension plan contributions	7,905	695	87	8,687
Other employee benefits	28,300	2,488	311	31,099
Accounting services	-	26,244	-	26,244
Audit and information returns	-	11,500	-	11,500
Web design, maintenance & hosting	29,612	55	107	29,774
Rent	17,241	1,516	189	18,946
Travel and conferences	16,171	980	123	17,274
Printing and copying	7,997	130	16	8,143
Legal and other consulting	4,694	125	16	4,835
Office supplies	3,283	266	32	3,581
Telephone	2,560	39	86	2,685
Postage and delivery	2,845	103	153	3,101
Equipment rental and maintenance	2,463	216	27	2,706
Depreciation	3,157	278	34	3,469
Insurance	2,866	252	31	3,149
Subscriptions, publications and memberships	1,156	15	2	1,173
Miscellaneous	22	4	922	948
<b>TOTAL EXPENSES</b>	<b>\$ 1,094,111</b>	<b>\$ 69,809</b>	<b>\$ 5,249</b>	<b>\$ 1,169,169</b>

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

**National Film Preservation Foundation**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2009**

	Program Costs	Management & General	Fund Raising	Total
Program grants				
Library of Congress	\$ 530,000	-	-	\$ 530,000
Avant Garde	50,000	-	-	50,000
In-kind services	45,000	-	-	45,000
DVD production and manufacture	78,886	-	-	78,886
Salaries	247,627	30,953	2,814	281,394
Payroll taxes	19,561	2,445	222	22,228
Pension plan contributions	7,553	944	86	8,583
Other employee benefits	23,505	3,020	268	26,793
Accounting services	-	23,976	-	23,976
Audit and information returns	-	11,000	-	11,000
Web hosting and internet	636	49	4	689
Rent	20,667	2,583	235	23,485
Travel and conferences	5,900	13,861	-	19,761
Printing and copying	8,943	196	18	9,157
Legal and other consulting	1,911	106	10	2,027
Office supplies	2,261	301	22	2,584
Telephone	1,818	142	103	2,063
Postage and delivery	2,746	257	94	3,097
Equipment rental and maintenance	1,834	227	21	2,082
Depreciation	3,510	439	40	3,989
Insurance	2,630	328	30	2,988
Subscriptions, publications and memberships	996	25	144	1,165
Miscellaneous	65	8	-	73
<b>TOTAL EXPENSES</b>	<b>\$ 1,056,049</b>	<b>\$ 90,860</b>	<b>\$ 4,111</b>	<b>\$ 1,151,020</b>

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

**NATIONAL FILM PRESERVATION FOUNDATION**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Cash Flows from operating activities:		
Change in net assets	\$ 354,378	\$ (175,767)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	3,469	3,989
Unrealized (gains) losses on investments	(10,963)	554
(Increase) decrease in pledges receivable	(141,236)	38,705
Increase in accounts receivable	(21,502)	(19,807)
Decrease in inventory	16,710	59,602
Decrease (increase) in prepaid expenses	(2,447)	1,179
Decrease in accounts payable	(2,908)	(32,665)
Decrease in grants payable	(46,515)	(42,484)
Decrease in accrued compensation	(1,015)	(4,705)
Increase in deferred revenue	30,000	-
Decrease in funds held for others	(61,535)	-
Net cash used by operating activities	<u>116,436</u>	<u>(171,399)</u>
Cash flows from investing activities:		
Proceeds from matured investments	-	656,863
Purchase of investments	(4,111)	(199,590)
Purchase of equipment	(1,381)	(4,062)
Increase (decrease) of rent deposit	(160)	279
Net cash provided by investing activities	<u>(5,652)</u>	<u>453,490</u>
Net increase in cash and cash equivalents	<u>110,784</u>	<u>282,091</u>
Cash and cash equivalents - beginning of year	<u>1,331,766</u>	<u>1,049,675</u>
Cash and cash equivalents - end of year	<u>\$ 1,442,550</u>	<u>\$ 1,331,766</u>

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

NATIONAL FILM PRESERVATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

**Note 1 – Organization**

The National Film Preservation Foundation ([www.filmpreservation.org](http://www.filmpreservation.org)) is the nonprofit organization created by the U.S. Congress to preserve and to make publicly accessible our nation's film heritage. The foundation's programs preserve American films that would be unlikely to survive without public support, improve film access for education and exhibition, and encourage public commitment to preserving film as an art form, historical record, and cultural resource.

The NFPF (1) gives film preservation and access grants to archives, historical societies, libraries, museums, and universities, and (2) organizes, secures funding for, and manages collaborative projects that enable film institutions to work together to promote the preservation and public availability of American film. Since starting operations in 1997, the NFPF has provided preservation support to 217 organizations across 48 states, Puerto Rico, and D.C., and helped save 1,706 films.

The foundation produces DVD sets in the *Treasures from American Film Archives* series and books that advance national film preservation efforts. In 2010, we received a grant from the National Endowment for the Humanities to produce *Treasures 5: The West, 1898-1938*, a three-DVD set with book slated for release in fall 2011. This built on an earlier seed-money grant from the National Endowment for the Arts. Thanks to a 2009 grant from The Andy Warhol Foundation for the Visual Arts, work also pressed ahead on *Treasures 6: Next-Wave Avant-Garde 1960-1988*.

Late in 2009 the NFPF broke ground on a multi-year repatriation project with the New Zealand Film Archive and the five largest American nitrate archives to preserve and make available American silent-era films that no longer survive in the United States. The NFPF is managing and raising preservation funds for this international collaboration. The first 75 films returned to the United States in 2010. Among the highlights were John Ford's *Upstream* (1927), long thought lost. For the recovery of this feature the National Society of Film Critics honored the NFPF and our collaborators with a 2010 film heritage award.

The foundation receives revenues largely through contributions from individuals, corporations, and foundations; donated services; government funding; licensing fees, and wholesale DVD sales. In 2009 and 2010, the NFPF received \$530,000 annually in federal funds authorized through *The Library of Congress Sound Recording and Film Preservation Programs Reauthorization Act of 2008* (Public Law 110-336) and secured through the Library of Congress for use in national preservation programs. The foundation awarded \$462,243 in cash and laboratory services grants in 2010 and \$625,000 in 2009.

The foundation is the charitable affiliate of the National Film Preservation Board of the Library of Congress.

NATIONAL FILM PRESERVATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

**Note 2 – Summary of Significant Accounting Policies**

- (a) **Accrual Basis.** The financial statements have been prepared on the accrual basis.
- (b) **Basis of Presentation.** Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Grants and contributions are recognized at their fair value when an unconditional promise is made to the NFPF. Receivables are recognized net of an allowance for uncollectibles based on management's analysis of specific promises and a discount on long-term pledges for the time value of money based on a risk-free rate of return. Net assets and changes therein are classified and reported as follows:
- Unrestricted net assets** – Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets** – These net assets are subject to donor-imposed restrictions that permit the foundation to use or expend the assets as specified. The restrictions are satisfied by the passage of time or the actions of the NFPF. When such conditions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Conditional funds** – Conditional funds are recognized as revenue when the conditions stipulated by the funder are fulfilled.
- (c) **Contributed Services.** Contributed services are recognized as support and revenue when pledged, if such services require specialized skills and are provided by individuals or firms possessing those skills. These services would typically need to be purchased if not provided by donation. In-kind services grants, consisting of preservation services donated by laboratory and post-production facilities, are recognized as expenses when awarded by the foundation. The NFPF recognized contributed service revenue of \$3,333 in 2010 and \$10,000 in 2009, and awarded grants of contributed services valued at \$20,000 in 2010 and \$45,000 in 2009.
- (d) **Allocation of Expenses.** Salaries and non-salary administrative costs are allocated to program and supporting services through percentages derived from a staff time sampling taken over the course of the year.
- (e) **Cash and Cash Equivalents.** The foundation considers as cash equivalents all highly liquid investments with maturities of three months or less that may be cashed without penalty. As of December 31, 2010, cash and cash equivalents were primarily in checking and money market accounts at the Bank of America and Wells Fargo Bank. These are insured up to the limit guaranteed by the FDIC. The NFPF also held \$161,128 in liquid assets in Payden Cash Reserves Money Market Fund. This fund is registered with the SEC.
- (f) **Investments.** The purpose of the NFPF investment policy is to provide a reliable source of funds for current and future use. In these financial statements, investments consist of (1) certificates of deposit having an initial maturity date exceeding three months and carrying a penalty for early withdrawal or (2) mutual funds. Investments are recorded at fair market value. The value of mutual funds is determined using prices quoted in active markets for identical assets (defined as "Level 1" under current accounting standards). Unrealized gains and losses are reported among the unrestricted net assets. In 2010, return from investments and interest from bank deposits was \$11,090. In 2009, this sum came to \$23,959.

NATIONAL FILM PRESERVATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

**Note 2 – Summary of Significant Accounting Policies (Continued)**

In 2009, prior year certificates of deposit matured and NFPF invested the proceeds in cash and cash equivalents and in a low-risk intermediate-term bond fund, PIMCO Total Return Fund C, managed by Allianz Global Investors. As of December 31, 2010, the value of this fund, based on the quoted market value, was \$214,664.

- (g) Inventory. The NFPF's inventory consists of assembled DVD sets in the *Treasures from American Film Archives* series. The inventory value of the DVD sets is based on the lesser of manufacturing cost or net realizable value. No additional *Treasures* sets were manufactured in 2010. However, in 2009, copies of *Treasures IV* were made and added to inventory.
- (h) Federal contract income. In 2009 and 2010, the foundation received federal contract income from the National Endowment for the Arts through a grant made possible through *The Arts and American Recovery & Reinvestment Act*. In 2010, the foundation also received contract income through grants awarded by the National Endowment for the Arts and the National Endowment for the Humanities for the production of the DVD set, *Treasures 5: The West 1898-1938*.
- (i) Deferred revenue. Reported in this category are revenues from Turner Entertainment Network for the future broadcast of five films repatriated from the New Zealand Film Archive.
- (j) Funds held for others. In 2008, the NFPF agreed to handle the financial management of a National Film Registry project on behalf of the National Film Preservation Board. Funds received for this effort were reported in 2008 and 2009 in the liability account "Funds held for others." In 2010, the Library of Congress released these funds for use in the NFPF's New Zealand Project.
- (k) Program grants. This category reports the resources awarded through the foundation's grants to other nonprofit and public institutions. Of the \$530,000 in federal monies received from the Library of Congress in 2010 to support preservation work, \$392,243 was distributed as program grants. The remaining \$137,757 was temporarily restricted for the preservation of the American silent films returned from the New Zealand Film Archive; \$18,083 was expended by December 31, 2010.
- (l) Equipment and Furniture. Equipment and furniture are stated at cost if purchased and fair value if acquired through donation. Depreciation is calculated using the straight-line depreciation method and is applied over the estimated useful lives of the assets. As of December 31, 2010, equipment and furniture had a net book value of \$6,217 (basis of \$18,880, less accumulated depreciation of \$12,663).
- (m) Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.
- (n) Income Tax Status. The NFPF is a nonprofit organization under section 501(c)(3) of the Internal Revenue Code. As a public charity, the NFPF is exempt from federal and state income tax under laws and regulations whereby only any unrelated business income is subject to tax. Management believes that all revenues received by the NFPF are in keeping with the organization's exempt purposes and that the NFPF continues to qualify and to operate as a tax-exempt organization. Accordingly, no provision of income taxes is included in these financial statements.

NATIONAL FILM PRESERVATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

**Note 3 – Pledges Receivable**

Pledges receivable as of December 31, 2010, were as follows:

	Cash	Contributed Services	Total
Due in 2011	\$175,000	\$20,000	\$195,000
Less: Allowance for uncollectible pledges	<u>–</u>	<u>(7,500)</u>	<u>(7,500)</u>
Net current pledges receivable	<u>175,000</u>	<u>12,500</u>	<u>187,500</u>
Due in 2012 and 2015	200,000	20,000	220,000
Less: Allowance for uncollectible pledges	–	(7,500)	(7,500)
Less: Discount at 0.5%	<u>(1,489)</u>	<u>(2,425)</u>	<u>(3,914)</u>
Net noncurrent pledges receivable	<u>198,511</u>	<u>10,075</u>	<u>208,586</u>

**Note 4 – Temporarily Restricted Net Assets**

Temporarily restricted net assets as of December 31, 2010 were available for the following purposes:

**Support for 2010, net of allowances**

Academy Foundation, general support 2011–15	\$250,000
Andrew W. Mellon Foundation (#41000113), New Zealand Project	7,071
Andy Warhol Foundation for the Visual Arts, <i>Treasures 6</i>	97,365
David Stenn Fund, preservation of <i>Maytime</i>	21,000
Film Foundation, 2011 grant management	75,000
Film Foundation, 2011 Avant-Garde Masters grants	50,000
Frank Buxton and Cynthia Sears, preservation of <i>Why Husbands Flirt</i>	5,200
Funds held for others, released to New Zealand Project	61,535
In-kind service grants for 2011, net of allowances	11,011
In-kind service grants for 2012, net of allowances & present value discount	10,075
Library of Congress, New Zealand project	<u>119,674</u>
	<u>\$707,931</u>

**Note 5 – Retirement Plan**

The NFPF initiated a SEP IRA plan for employees in 2002 and contributed three percent of employee compensation to the plan in 2009 and 2010. The foundation also has a contributory 403 (b) plan that is funded solely by voluntary participant salary deferrals.

**Note 6 – Related Party Transactions**

Contribution revenues from organizations to which board members are related were \$510,000 in 2010 and \$110,000 in 2009. In 2010, payments to related parties for services provided to the NFPF were \$21,000. No such payments were made in 2009.

NATIONAL FILM PRESERVATION FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

**Note 7 – Commitments, Contingencies and Concentrations**

The office lease was renewed in late 2009 and runs through November 2012. Under this lease, the monthly payment from December 2009 through the first 11 months of 2010 was \$1,573. The payment increased in December 2010 to \$1,643. The rent deposit is \$1,713.

In December 2010, the foundation entered into a 24-month agreement for the rental of a multifunction copy machine. The base monthly fee is \$160. The security deposit is also \$160.

The National Film Preservation Foundation continues to seek to broaden its base of program support. Receivables are subject to credit risk. The NFPF incurs various contractual obligations in the course of delivering grant programs and executing special projects supported by outside funders. The foundation makes every effort to meet these obligations.

In 2009, the NFPF received \$530,000 in federal funds authorized through *The National Film Preservation Foundation Reauthorization Act of 2005* and appropriated through the Library of Congress. The monies are set aside "to promote and ensure the preservation and public accessibility of the nation's film heritage." Under the terms of this legislation, the funds are made available "to match any private contributions (whether in currency, services or property) made to the corporation by private persons and State and local governments."

*The Library of Congress Sound Recording and Film Preservation Programs Reauthorization Act of 2008* (Public Law 110-336) renewed the NFPF's authorization through federal fiscal year 2016.

Subsequent events have been evaluated through March 10, 2011.