

NATIONAL FILM PRESERVATION FOUNDATION

FINANCIAL STATEMENTS

For The Years Ended December 31, 2011 and 2010

with

INDEPENDENT AUDITOR'S REPORT

*NATIONAL FILM PRESERVATION FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2011 and 2010*

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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, 2011 and 2010 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, 2011 and 2010 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 7, 2012

NATIONAL FILM PRESERVATION FOUNDATION
 Statements of Financial Position
 December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,373,683	\$ 1,442,550
Investments	221,045	214,664
Pledges receivable, current portion, net	195,000	187,500
Accounts receivable	119,807	51,464
Inventory	110,974	114,565
Prepaid expenses	8,837	8,914
Total Current Assets	<u>2,029,346</u>	<u>2,019,657</u>
Other Assets		
Pledges receivable, non-current, net	147,778	208,586
Equipment and furniture, net of accumulated depreciation	3,962	6,217
Deposits, rent	1,873	1,873
Total Other Assets	<u>153,613</u>	<u>216,676</u>
TOTAL ASSETS	<u>\$ 2,182,959</u>	<u>\$ 2,236,333</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 79,574	\$ 24,408
Grants payable	567,391	530,637
Accrued compensation	12,957	8,974
Deferred revenue	27,333	30,000
Total Current Liabilities	<u>687,255</u>	<u>594,019</u>
Net Assets		
Unrestricted	839,246	934,383
Temporarily restricted	656,458	707,931
Total Net Assets	<u>1,495,704</u>	<u>1,642,314</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,182,959</u>	<u>\$ 2,236,333</u>

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

NATIONAL FILM PRESERVATION FOUNDATION
 Statements of Activities
 For the Years Ended December 31, 2011 and 2010

	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Grants and contributions	\$ 79,190	\$ 741,292	\$ 820,482	\$ 213,309	\$ 1,112,634	\$ 1,325,943
DVD sales	155,711		155,711	28,471		28,471
Federal contract income	303,103		303,103	132,305		132,305
Grant savings from under-budget projects	-		-	13,253		13,253
Investment income	9,938		9,938	11,090		11,090
Licensing and other fees	36,253		36,253	1,522		1,522
Unrealized gains on investments	377		377	10,963		10,963
Net assets released from restriction	792,765	(792,765)	-	659,553	(659,553)	-
TOTAL SUPPORT AND REVENUE	1,377,337	(51,473)	1,325,864	1,070,466	453,081	1,523,547
EXPENSES						
Program expenses	1,394,855	-	1,394,855	1,094,111	-	1,094,111
Management and general	71,986	-	71,986	69,809	-	69,809
Fundraising	5,633	-	5,633	5,249	-	5,249
TOTAL EXPENSES	1,472,474	-	1,472,474	1,169,169	-	1,169,169
CHANGE IN NET ASSETS	(95,137)	(51,473)	(146,610)	(98,703)	453,081	354,378
NET ASSETS-BEGINNING	934,383	707,931	1,642,314	1,033,086	254,850	1,287,936
NET ASSETS-ENDING	\$ 839,246	\$ 656,458	\$ 1,495,704	\$ 934,383	\$ 707,931	\$ 1,642,314

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

NATIONAL FILM PRESERVATION FOUNDATION
Statement of Functional Expenses
December 31, 2011

	Program Costs	Management & General	Fund Raising	Total
Program grants				
Library of Congress	\$ 476,400	-	-	\$ 476,400
Avant Garde Masters	50,000	-	-	50,000
In-kind services	57,600	-	-	57,600
New Zealand Repatriation Project	148,233	-	-	148,233
DVD production	255,903	-	-	255,903
Salaries	279,259	24,550	3,069	306,878
Payroll taxes	21,583	1,897	237	23,717
Pension plan contributions	8,269	727	91	9,087
Other employee benefits	30,370	2,669	334	33,373
Accounting services	-	26,242	-	26,242
Audit and information returns	-	11,900	-	11,900
Website design, maintenance and hosting	2,171	51	6	2,228
Rent	18,005	1,583	198	19,786
Travel and conferences	20,179	1,298	250	21,727
Legal and other consulting	1,262	28	4	1,294
Office supplies	3,207	261	32	3,500
Telephone	2,384	16	69	2,469
Postage and delivery	2,467	92	32	2,591
Printing and copying	8,596	-	386	8,982
Equipment rental and maintenance	2,099	71	9	2,179
Depreciation	3,299	290	36	3,625
Insurance	2,727	240	30	2,997
Subscriptions, publications and memberships	749	66	8	823
Miscellaneous	93	5	842	940
TOTAL EXPENSES	\$ 1,394,855	\$ 71,986	\$ 5,633	\$ 1,472,474

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 Masters	50,000	-	-	50,000
In-kind services	20,000	-	-	20,000
New Zealand Repatriation 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 and hosting	29,612	55	107	29,774
Rent	17,241	1,516	189	18,946
Travel and conferences	16,171	980	123	17,274
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
Printing and copying	7,997	130	16	8,143
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
TOTAL EXPENSES	\$ 1,094,111	\$ 69,809	\$ 5,249	\$ 1,169,169

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, 2011 and 2010

	2011	2010
Cash Flows from operating activities:		
Change in net assets	\$ (146,610)	\$ 354,378
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	3,625	3,469
Unrealized gains on investments	(377)	(10,963)
(Increase) decrease in pledges receivable	53,308	(141,236)
Increase in accounts receivable	(68,343)	(21,502)
Decrease in inventory	3,591	16,710
Decrease (increase) in prepaid expenses	79	(2,447)
Increase (decrease) in accounts payable	55,166	(2,908)
Increase (decrease) in grants payable	36,753	(46,515)
Increase (decrease) in accrued compensation	3,982	(1,015)
Increase (decrease) in deferred revenue	(2,667)	30,000
Decrease in funds held for others	-	(61,535)
Net cash used by operating activities	(61,493)	116,436
Cash flows from investing activities:		
Purchase of investments	(6,004)	(4,111)
Purchase of equipment	(1,370)	(1,381)
Decrease in rent deposit	-	(160)
Net cash provided by investing activities	(7,374)	(5,652)
Net increase (decrease) in cash and cash equivalents	(68,867)	110,784
Cash and cash equivalents - beginning of year	1,442,550	1,331,766
Cash and cash equivalents - end of year	\$ 1,373,683	\$ 1,442,550

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) 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 239 organizations across all 50 states, Puerto Rico, and D.C. and helped save more than 1,870 films.

The foundation produces DVD sets in the *Treasures from American Film Archives* series and books that advance national film preservation efforts. In 2011, we released *Treasures 5: The West, 1898-1938*, a 40-film, 10-hour DVD set made possible through grants from the National Endowment for the Arts and the National Endowment for the Humanities. The anthology received excellent notices, from *The New York Times* to *Cahiers du cinéma*, and was named the year's "Best Classic Western" DVD by *True West*. Also in 2011, the NFPF received a grant from the NEA to ramp up production of *Treasures 6: Next-Wave Avant-Garde 1960-1988*, a two-DVD set begun with funds from The Andy Warhol Foundation for the Visual Arts. *Treasures 6* will be completed in 2013.

Late in 2009, the NFPF broke ground on a multi-year partnership with the New Zealand Film Archive and five American archives to preserve and make available silent-era films found in New Zealand that no longer survive in the United States. More than 100 films were shipped back to the United States this year for preservation to 35mm film. Among the more remarkable finds in 2011 were the opening three reels of *The White Shadow* (1924), the first surviving feature linked to Alfred Hitchcock, the assistant director, art director, writer, and editor.

All told, 176 American silent-era works have been recovered and returned to the United States through this collaboration. Preservation work is well underway, bolstered by a \$203,000 Save America's Treasures grant and contributions from four studios, Turner Classic Movies, preservation facilities, and other private donors. This year, \$137,572 was expended on laboratory expenses and the first digital copies made available on the NFPF web site. In recognition of this international effort, the NFPF and the NZFA received the Jean Mitry Award, a prize given by Italy's Le Giornate del Cinema Muto honoring special achievements in the "reclamation and appreciation of silent cinema."

The foundation generates revenues largely through contributions from individuals, corporations, and foundations; donated services; government funding; licensing fees, and wholesale DVD sales. In 2010 and 2011, 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 \$584,000 in cash and laboratory services grants in 2011.

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 unconditional promises are 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:

1. Unrestricted net assets. Net assets that are not subject to donor-imposed stipulations.
2. 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 restriction is 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.
3. 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 \$50,100 in 2011 and \$3,333 in 2010, and awarded grants of contributed services valued at \$57,600 in 2011 and \$20,000 in 2010.

(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 broken without penalty. As of December 31, 2011, 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.

NATIONAL FILM PRESERVATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 2: Summary of Significant Accounting Policies (Continued)

- (f) *Investments.* The purpose of the NFPF investment policy is to provide a reliable source of funds for current and future use. Investments are recorded at fair market value. The value of mutual funds is determined using quoted prices 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 2011, return from investment and interest from bank accounts was \$9,938. In 2010, this came to \$11,090.

In 2009, NFPF invested in a low-risk intermediate-term bond fund, PIMCO Total Return Fund C. As of December 31, 2011, the value of this fund, based on the quoted market value, was \$221,045; in 2010 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. In 2011, new copies of *Treasures IV* and *Treasures 5* were manufactured and added to inventory and all remaining inventory copies of *Treasures Encore* edition were sold.

- (h) *Contract Income.* In 2010 and 2011, the foundation received contract income through a grant awarded by the National Endowment for the Humanities for the production of the DVD set, *Treasures 5: The West 1898-1938*. Reimbursements were also secured for the project in 2010 via a National Endowment for the Arts award. In addition, in 2011, through a Save America's Treasures grant supported through a partnership between the National Endowment for the Arts and the National Park Service, the NFPF received contract funds to preserve 42 silent-era films repatriated from the New Zealand Film Archive.

- (i) *Licensing and Other Fees.* Reported in this category are Internet transaction and licensing fees. In 2011, these fees consisted largely of revenues from Turner Entertainment Network for the anticipated use of films repatriated from New Zealand and preserved through TCM funds.

- (j) *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 by contract from the Library of Congress in 2011 to support preservation work, \$476,400 was awarded as program grants and \$53,600 was temporarily restricted for the preservation of films repatriated from abroad.

In 2010, \$392,243 was distributed as program grants and \$137,757 was temporarily restricted for the preservation of the American silent films returned from the New Zealand Film Archive.

- (k) *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, 2011, equipment and furniture had a net book value of \$3,962 (basis of \$20,250, less accumulated depreciation of \$16,288). 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).

NATIONAL FILM PRESERVATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 2: Summary of Significant Accounting Policies (Continued)

- (l) *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.
- (m) *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. Generally, the annual information returns are subject to examination for three years after they are filed.

Note 3: Pledges Receivable

Pledges receivable as of December 31, 2011, are as follows:

	Cash	Contributed Services	Total
Due in 2011	\$182,500	\$15,000	\$197,500
Less: Allowance for uncollectible pledges	<u>—</u>	<u>(2,500)</u>	<u>(2,500)</u>
Net current pledges receivable	<u>182,500</u>	<u>12,500</u>	<u>195,000</u>
Due in 2012 and 2015	150,000	—	150,000
Less: Allowance for uncollectible pledges	—	—	—
Less: Discount at 0.5%	<u>(2,222)</u>	<u>—</u>	<u>(2,222)</u>
Net noncurrent pledges receivable	<u>\$147,778</u>	<u>—</u>	<u>\$147,778</u>

Note 4: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Support for 2011, net of allowances	
Academy Foundation, general support 2011–15	\$200,000
Andy Warhol Foundation for the Visual Arts, <i>Treasures 6</i>	94,343
Film Foundation, 2012 grant management	75,000
Film Foundation, 2012 Avant-Garde Masters grants	50,000
Private donations, New Zealand Project	11,075
Program contract funds, New Zealand Project	215,762
In-kind service grants for 2012, net of allowances & present value discount	<u>10,278</u>
	<u>\$656,458</u>

NATIONAL FILM PRESERVATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 5: Retirement Plan

The NFPF initiated a SEP IRA plan for employees in 2002 and contributed to the plan in 2010 and 2011, for the years 2009 and 2010 respectively. The foundation also has a contributory 403 (b) plan that is funded solely by voluntary participant salary deferrals.

Note 6: Related Party Transactions

Contributions from organizations to which board members are related were \$165,000 in 2011 and \$510,000 in 2010. In 2011 and 2010, payments to related parties for services provided to the NFPF were \$14,000 and \$21,000, respectively.

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 2011 through the first 11 months of 2012 is \$1,713. From December 2010 to November 2011, the payment was \$1,643 per month. 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 2010 and 2011, the NFPF received \$530,000 in federal funds authorized through *The Library of Congress Sound Recording and Film Preservation Programs Reauthorization Act of 2008* (Public Law 110-336) 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 *Act* renewed the NFPF's authorization through federal fiscal year 2016.

Subsequent events have been evaluated through March 7, 2012.