

NATIONAL FILM PRESERVATION FOUNDATION

FINANCIAL STATEMENTS

For The Years Ended December 31, 2012 and 2011

with

INDEPENDENT AUDITOR'S REPORT

***NATIONAL FILM PRESERVATION FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2012 and 2011***

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Independent Auditor's Report

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

Report on the Financial Statements

I have audited the accompanying financial statements of financial position of the National Film Preservation Foundation, which comprise of the statements of financial position as of December 31, 2012 and 2011 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 U. S. generally accepted accounting principles; 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.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 organization's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of significant estimates by management, as well as evaluating the overall presentation of the financial statements.

I believe that my audit provides a reasonable basis for my audit opinion.

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, 2012 and 2011, and changes in its net assets and cash flows for the year then ended in accordance with U. S. generally accepted accounting principles.

Carl M. Arntzen, CPA

Carl M. Arntzen, CPA

March 13, 2013

NATIONAL FILM PRESERVATION FOUNDATION
Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 1,266,725	\$ 1,373,683
Investments	348,062	221,045
Pledges receivable, current portion, net	185,000	195,000
Accounts receivable	80,576	119,807
Inventory	96,262	110,974
Prepaid expenses	9,429	8,837
Total current assets	1,986,054	2,029,346
Other Assets		
Pledges receivable, non-current, net	98,886	147,778
Equipment, furniture, and software, net of accumulated depreciation	8,126	3,962
Deposits, rent and copier	2,222	1,873
	109,234	153,613
TOTAL ASSETS	\$ 2,095,288	\$ 2,182,959
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 44,450	\$ 79,574
Grants payable	592,825	567,391
Accrued compensation	17,260	12,957
Deferred revenue	-	27,333
TOTAL LIABILITIES	654,535	687,255
NET ASSETS		
Unrestricted	658,913	839,246
Temporarily restricted	781,840	656,458
TOTAL NET ASSETS	1,440,753	1,495,704
TOTAL LIABILITIES AND NET ASSETS	\$ 2,095,288	\$ 2,182,959

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

NATIONAL FILM PRESERVATION FOUNDATION
Statements of Activities
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>			<u>2011</u>		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Grants and contributions	\$63,747	\$854,195	\$917,942	\$79,190	\$741,292	\$820,482
Federal contract income	191,735	-	191,735	303,103	-	303,103
DVD sales	40,421	-	40,421	155,711	-	155,711
Grant savings from under-budget projects	34,725	-	34,725	-	-	-
Investment income	13,197	-	13,197	9,938	-	9,938
Licensing and other fees	28,595	-	28,595	36,253	-	36,253
Unrealized gains on investments	16,857	-	16,857	377	-	377
Net assets released from restriction	728,813	(728,813)	-	792,765	(792,765)	-
TOTAL SUPPORT AND REVENUE	<u>1,118,090</u>	<u>125,382</u>	<u>1,243,472</u>	<u>1,377,337</u>	<u>(51,473)</u>	<u>1,325,864</u>
EXPENSES						
Program	1,201,108	-	1,201,108	1,394,855	-	1,394,855
Management and general	91,632	-	91,632	71,986	-	71,986
Fundraising	5,683	-	5,683	5,633	-	5,633
TOTAL EXPENSES	<u>1,298,423</u>	<u>-</u>	<u>1,298,423</u>	<u>1,472,474</u>	<u>-</u>	<u>1,472,474</u>
CHANGE IN NET ASSETS	<u>(180,333)</u>	<u>125,382</u>	<u>(54,951)</u>	<u>(95,137)</u>	<u>(51,473)</u>	<u>(146,610)</u>
NET ASSETS-BEGINNING	<u>839,246</u>	<u>656,458</u>	<u>1,495,704</u>	<u>934,383</u>	<u>707,931</u>	<u>1,642,314</u>
NET ASSETS-ENDING	<u>\$658,913</u>	<u>\$781,840</u>	<u>\$1,440,753</u>	<u>\$839,246</u>	<u>\$656,458</u>	<u>\$1,495,704</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, 2012**

	<u>Program Costs</u>	<u>Management & General</u>	<u>Fund Raising</u>	<u>Total</u>
Program grants				
Library of Congress	\$ 446,320	-	-	\$ 446,320
Avant-Garde Masters	50,000	-	-	50,000
In-kind services	15,000	-	-	15,000
Repatriation projects	190,329	-	-	190,329
Archival DVD payouts	24,500	-	-	24,500
DVD production and inventory depletion	71,155	-	-	71,155
Salaries	273,560	30,737	3,074	307,371
Payroll taxes	21,232	2,386	239	23,856
Pension plan contributions	5,394	606	61	6,061
Other employee benefits	30,794	3,458	346	34,598
Accounting services	-	27,412	-	27,412
Audit and information returns	-	12,175	-	12,175
Website design, maintenance and hosting	8,286	200	1,306	9,792
Rent	18,481	2,077	208	20,765
Travel and conferences	17,397	10,986	93	28,475
Legal and other consulting	2,943	61	6	3,010
Office supplies and fees	2,988	310	31	3,333
Telephone	3,000	42	67	3,109
Postage and delivery	2,753	129	84	2,965
Copying and printing	7,880	149	80	8,109
Equipment rental and maintenance	2,014	109	11	2,133
Depreciation	3,882	436	44	4,362
Insurance	2,763	310	31	3,104
Subscriptions, publications and memberships	439	49	5	493
TOTAL EXPENSES	<u><u>\$ 1,201,108</u></u>	<u><u>\$ 91,632</u></u>	<u><u>\$ 5,683</u></u>	<u><u>\$ 1,298,423</u></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, 2011

	<u>Program Costs</u>	<u>Management & General</u>	<u>Fund Raising</u>	<u>Total</u>
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
Copying and printing	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	<u>\$ 1,394,855</u>	<u>\$ 71,986</u>	<u>\$ 5,633</u>	<u>\$ 1,472,474</u>

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (54,951)	\$ (146,610)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	4,362	3,625
Unrealized gains on investments	(16,857)	(377)
Decrease in pledges receivable	58,892	53,308
Decrease (increase) in accounts receivable	39,230	(68,343)
Decrease in inventory	14,710	3,591
Decrease (increase) in prepaid expenses	(591)	79
Increase (decrease) in accounts payable	(35,124)	55,166
Increase in grants payable	25,434	36,753
Increase in accrued compensation	4,303	3,982
Decrease in deferred revenue	(27,333)	(2,667)
Net cash provided (used) by operating activities	12,075	(61,493)
Cash flows from investing activities:		
Purchase of investments	(110,158)	(6,004)
Purchase of equipment and software	(8,526)	(1,370)
Increase of rent deposit	(349)	-
Net cash provided (used) by investing activities	(119,033)	(7,374)
Net change in cash and cash equivalents	(106,958)	(68,867)
Cash and cash equivalents - beginning of year	1,373,683	1,442,550
Cash and cash equivalents - end of year	\$ 1,266,725	\$ 1,373,683

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 253 organizations across all 50 states, Puerto Rico, and D.C. and helped save 1,975 films.

Grants. In 2012, the NFPF awarded \$511,320 in film preservation grants to 53 institutions. Among the 106 American titles slated for preservation were Tod Browning's *Drifting* (1923) with Anna May Wong; *The Sun Project* (1956) by composer John Cage and Richard Lippold; footage of the Taos art colony in 1917; a 1924 tour of the Showley Brothers candy factory; the only known footage of novelist Ford Madox Ford; early campaign footage of Harvey Milk and George Wallace; and home movies by Slavko Vorkapich, the Everly Brothers, a Penobscot tribal elder, a Pullman porter, and an American diplomat in 1930s China.

Repatriation. Late in 2009, the NFPF broke ground on a multi-year collaboration with the New Zealand Film Archive and five American archives to preserve and make available silent-era films found in New Zealand. Of the 176 American films returned, 70 percent are thought to be the only existing print. Preservation work is nearing completion, bolstered by a \$203,000 Save America's Treasures grant and contributions from five studios, Turner Classic Movies, preservation facilities, and other private donors. This year, \$190,329 was expended on these efforts. In addition, we secured research funding to examine the American nitrate prints at EYE Film Institute Netherlands in Amsterdam, as a first step toward a new international partnership.

Publications. The foundation produces DVD sets in the *Treasures from American Film Archives* series and books that advance national film preservation efforts. With an eye for a spring 2014 release, we pressed ahead with *Treasures 6: Next Wave Avant-Garde Film*, a DVD anthology surveying experimental filmmakers—from Bruce Conner to Leslie Thornton—who rose to prominence after 1965. Also, thanks to funding from the National Film Preservation Board and the Argyros Family Foundation, the NFPF began production of a 3-1/4-hour DVD showcasing treasures preserved through the New Zealand partnership. The publication is scheduled for fall 2013. It should be noted that *Treasures 5: The West* was named by Bologna's Il Cinema Ritrovato festival as the year's "best DVD series/best box set" and that \$24,500 from the set's wholesale sales revenues was shared with the contributing archives.

Screenings. In addition to organizing an international exhibition series celebrating the 10th anniversary of the Avant-Garde Masters grants, offered in collaboration with The Film Foundation, the NFPF launched web premieres of major works preserved through our programs. *Let There Be Light* (1946), John Huston's WWII study of the treatment of psychologically wounded combat veterans, debuted with the soundtrack restoration made possible through an NFPF services grant and attracted 30,000 viewers during the first weekend. The New Zealand discovery *The White Shadow* (1924), the first surviving feature credited to

NATIONAL FILM PRESERVATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Alfred Hitchcock, premiered in November, drawing an audience of 33,000 during the first two weeks. In addition, we made available for free streaming 18 other silent-film finds from the New Zealand project.

The foundation generates revenues largely through contributions from individuals, corporations, and foundations; donated services; government funding; licensing fees; and wholesale DVD sales. In 2011 and 2012, 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 is the charitable affiliate of the National Film Preservation Board of the Library of Congress.

Note 2: Summary of Significant Accounting Policies and Practices

(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. The NFPF received no conditional funds in 2012 or 2011.

(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 \$15,000 in 2012 and \$50,100 in 2011, and awarded grants of contributed services valued at \$15,000 in 2012 and \$57,600 in 2011.

(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.

NATIONAL FILM PRESERVATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS

- (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, 2012, 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.
- (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 in unrestricted net assets.

In 2009, NFPF invested in a low-risk intermediate-term bond fund, PIMCO Total Return Fund C. The quoted market value of the fund was \$348,062 at the end of 2012 and \$221,045 at the end of 2011.

- (g) *Inventory.* The NFPF's inventory consists of assembled DVD sets in the *Treasures from American Film Archives* series. The inventory of the DVD sets is stated at the lesser of manufacturing cost or net realizable value. In 2012, additional copies of *Treasures 5: The West 1898-1938* were manufactured and added to inventory. In 2011, new copies of both *Treasures IV: American Avant-Garde Film, 1947-1986* and *Treasures 5* were produced. *Treasures Encore* edition went out-of-print in 2011.
- (h) *Federal Contract Income.* Reported here are project funds from federal entities. Through a Save America's Treasures grant awarded through a partnership between the National Endowment for the Arts and the National Park Service, the NFPF requested \$138,092 for work completed over the course of the year to preserve 42 silent-era films repatriated from the New Zealand Film Archive. Also from the NEA, the foundation received \$40,000 through a grant supporting the creation of the *Treasures 6* DVD set. Finally, from the National Film Preservation Board of the Library of Congress the foundation requested \$13,643 in reimbursement for the production of the DVD showcasing films repatriated from New Zealand. In 2012, the foundation wrapped up a grant conferred by the National Endowment for the Humanities for the production of the DVD set, *Treasures 5: The West 1898-1938*; the final federal funds from this award were requested in 2011.
- (i) *Licensing and Other Fees.* Reported here are funds received through Internet transactions and licensing fees. In 2012 and 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.* Reported here are 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 2012, \$446,320 was awarded as preservation grants and \$83,680 was temporarily restricted for the preservation of films repatriated from abroad. In 2011, \$476,400 was awarded as grants and \$53,600 was temporarily restricted for repatriation efforts.

NATIONAL FILM PRESERVATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS

- (k) *Equipment, Furniture, and Software.* Equipment, furniture, and software are stated at cost if purchased and at 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, 2012, equipment, furniture, and software had a net book value of \$8,126 (basis of \$28,776, less accumulated depreciation of \$20,650). As of December 31, 2011, equipment, furniture, and software had a net book value of \$3,962 (basis of \$20,250, less accumulated depreciation of \$16,288).
- (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, 2012, are as follows:

	Cash	Contributed Services	Total
Due in 2013	\$175,000	\$10,000	\$185,000
Less: Allowance for uncollectible pledges	<u>—</u>	<u>—</u>	<u>—</u>
Net current pledges receivable	<u>175,000</u>	<u>10,000</u>	<u>185,000</u>
Due in 2014 and 2015	100,000	—	100,000
Less: Allowance for uncollectible pledges	—	—	—
Less: Discount at 0.5%	<u>(1,114)</u>	<u>—</u>	<u>(1,114)</u>
Net noncurrent pledges receivable	<u>\$98,886</u>	<u>—</u>	<u>\$98,886</u>

Note 4: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Support for 2013, net of allowances	
Academy Foundation, general support 2011–15	\$150,000
Andrew W. Mellon Foundation, EYE research project	54,000
Andy Warhol Foundation for the Visual Arts, <i>Treasures 6</i>	86,487
Argyros Family Foundation, <i>Treasures New Zealand</i>	97,488
Film Foundation, 2013 grant management	75,000
Film Foundation, 2013 Avant-Garde Masters grants	50,000
Federal funds, repatriation projects	259,979

NATIONAL FILM PRESERVATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS

In-kind service grants for 2013	10,000
Discounts and allowances	<u>(1,114)</u>
	<u>\$781,840</u>

Note 5: Retirement Plan

In 2002 the NFPF initiated a SEP IRA plan for employees (1) that are paid \$450 or more during the year, (2) are at least 21 years old, and (3) have worked with the NFPF at least 12 months. Employer contributions are based on a percentage of employee salary and the percentage may change annually as approved by the Board. The percentages for 2012 and 2011 were 2% and 3% 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 \$402,600 in 2012 and \$165,000 in 2011. For services provided by related parties, the NFPF made no payments in 2012 and \$14,000 in 2011.

Note 7: Commitments, Contingencies and Concentrations

The office lease was renewed in December 2012 and runs three years. Under this lease, the monthly payment from December 2012 through November 2013 is \$1,922. The monthly payments from December 2013 through November 2014 will be \$1,992 and from December 2014 through November 2015 will be \$2,062 (total payments of \$23,134 for 2013; \$23,974 for 2014; and \$22,682 for 2015). Under the prior lease the monthly payment from December 2011 through the first 11 months of 2012 was \$1,713. The rent deposit is \$2,062.

In December 2012, the foundation's two-year rental agreement for a multifunction copy machine expired; the machine is now rented on a monthly basis (with a base monthly fee of \$160 and a security deposit of \$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 2012 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 evaluated through March 13, 2013, have been determined to have no material impact on the presentation of these financial statements.