

NATIONAL FILM PRESERVATION FOUNDATION

FINANCIAL STATEMENTS

For The Years Ended December 31, 2014 and 2013

with

INDEPENDENT AUDITOR'S REPORT

**NATIONAL FILM PRESERVATION FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2014 and 2013**

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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, 2014 and 2013 and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements. The financial statements of National Film Preservation Foundation as of December 31, 2013 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 6, 2014.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 auditing standards generally accepted in the United States of America. 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 National Film Preservation Foundation as of December 31, 2014 and 2013, and changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Allan Liu

Allan Liu, CPA

April 30, 2015

NATIONAL FILM PRESERVATION FOUNDATION
Statements of Financial Position
December 31, 2014 and 2013

	2014	2013
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 1,070,503	\$ 1,175,877
Investments	334,494	337,505
Pledges receivable, current portion, net	200,000	195,000
Accounts receivable	17,369	21,913
Inventory	45,365	47,256
Prepaid expenses	8,489	9,413
Total current assets	1,676,220	1,786,964
Other assets		
Pledges receivable, non-current, net	-	49,628
Equipment, furniture, and software, net of accumulated depreciation	3,085	3,652
Deposits, rent and copier	2,222	2,222
	5,307	55,502
Total assets	\$ 1,681,527	\$ 1,842,466
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable	\$ 14,013	\$ 14,576
Grants payable	493,295	514,837
Accrued compensation	9,992	19,330
Total liabilities	517,300	548,743
Net assets		
Unrestricted	547,527	588,286
Temporarily restricted	616,700	705,437
Total net assets	1,164,227	1,293,723
Total liabilities and net assets	\$ 1,681,527	\$ 1,842,466

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

NATIONAL FILM PRESERVATION FOUNDATION
Statements of Activities
For the Years Ended December 31, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue						
Grants and contributions	\$ 171,388	\$ 624,724	\$ 796,112	\$ 75,922	\$ 851,420	\$ 927,342
Federal contract income	63,248	-	63,248	89,540	-	89,540
DVD sales	9,619	-	9,619	32,561	-	32,561
Grant savings from under-budget projects	49,158	-	49,158	55,152	-	55,152
Investment income	7,438	-	7,438	5,698	-	5,698
Licensing and other fees	8,278	-	8,278	17,417	-	17,417
Unrealized gains (loss) on investments	3,466	-	3,466	(14,932)	-	(14,932)
Net assets released from restriction	713,461	(713,461)	-	927,823	(927,823)	-
Total support and revenue	<u>1,026,056</u>	<u>(88,737)</u>	<u>937,319</u>	<u>1,189,181</u>	<u>(76,403)</u>	<u>1,112,778</u>
Expenses						
Program expenses	991,802	-	991,802	1,170,979	-	1,170,979
Management and general	66,241	-	66,241	83,676	-	83,676
Fundraising	8,772	-	8,772	5,153	-	5,153
Total expenses	<u>1,066,815</u>	<u>-</u>	<u>1,066,815</u>	<u>1,259,808</u>	<u>-</u>	<u>1,259,808</u>
Change in net assets	<u>(40,759)</u>	<u>(88,737)</u>	<u>(129,496)</u>	<u>(70,627)</u>	<u>(76,403)</u>	<u>(147,030)</u>
Net assets-beginning	<u>588,286</u>	<u>705,437</u>	<u>1,293,723</u>	<u>658,913</u>	<u>781,840</u>	<u>1,440,753</u>
Net assets-ending	<u>\$547,527</u>	<u>\$616,700</u>	<u>\$1,164,227</u>	<u>\$588,286</u>	<u>\$705,437</u>	<u>\$1,293,723</u>

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

NATIONAL FILM PRESERVATION FOUNDATION
Statement of Functional Expenses
December 31, 2014

	Program Costs	Management & General	Fund Raising	Total
Program grants				
Library of Congress	\$ 426,476	\$ -	\$ -	\$ 426,476
Avant Garde	52,620	-	-	52,620
Repatriation projects	130,009	-	-	130,009
DVD production and inventory depletion	31,274	-	-	31,274
Salaries	249,689	25,249	5,611	280,549
Payroll taxes	19,350	1,957	435	21,742
Pension plan contributions	5,160	522	116	5,798
Other employee benefits	26,396	2,669	593	29,658
Accounting services	-	18,716	-	18,716
Audit and information returns	-	13,175	-	13,175
Rent	21,275	2,151	478	23,904
Travel and conferences	6,404	216	48	6,668
Insurance	3,068	311	69	3,448
Legal and other consulting	1,683	122	27	1,832
Office expenses	2,986	286	64	3,336
Telephone and communications	3,773	59	174	4,006
Website design, maintenance and hosting	1,427	115	967	2,509
Postage and delivery	1,860	83	54	1,997
Copying and printing	2,701	44	10	2,755
Equipment rental and maintenance	2,040	201	45	2,286
Depreciation	3,611	365	81	4,057
Total expenses	<u>\$ 991,802</u>	<u>\$ 66,241</u>	<u>\$ 8,772</u>	<u>\$ 1,066,815</u>

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

NATIONAL FILM PRESERVATION FOUNDATION
Statement of Functional Expenses
December 31, 2013

	Program Costs	Management & General	Fund Raising	Total
Program grants				
Library of Congress	\$ 442,240	\$ -	\$ -	\$ 442,240
Avant Garde	47,380	-	-	47,380
In-kind services	-	-	-	-
Repatriation projects	140,167	-	-	140,167
DVD production and inventory depletion	159,908	-	-	159,908
Salaries	275,173	27,517	3,057	305,747
Payroll taxes	21,025	2,102	234	23,361
Pension plan contributions	5,467	547	61	6,075
Other employee benefits	31,398	3,140	349	34,887
Accounting services	-	18,334	-	18,334
Audit and information returns	-	12,500	-	12,500
Rent	20,821	2,082	231	23,134
Travel and conferences	1,997	15,024	-	17,021
Insurance	3,126	313	35	3,474
Legal and other consulting	624	16	2	642
Office expenses	3,222	271	30	3,523
Telephone and communications	2,757	549	109	3,415
Website design, maintenance and hosting	557	472	926	1,955
Postage and delivery	1,859	101	41	2,001
Copying and printing	7,316	128	14	7,458
Equipment rental and maintenance	1,915	177	20	2,112
Depreciation	4,027	403	44	4,474
Total expenses	<u>\$ 1,170,979</u>	<u>\$ 83,676</u>	<u>\$ 5,153</u>	<u>\$ 1,259,808</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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ (129,496)	\$ (147,030)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	4,057	4,474
Unrealized gains (losses) on investments	(3,466)	14,932
Decrease in pledges receivable	44,628	39,258
Decrease in accounts receivable	4,544	58,663
Decrease in inventory	1,891	49,007
Decrease in prepaid expenses	924	16
Decrease in accounts payable	(562)	(29,875)
Decrease in grants payable	(21,542)	(77,988)
Increase (decrease) in accrued compensation	(9,338)	2,070
Net cash provided used by operating activities	(108,360)	(86,473)
Cash flows from investing activities:		
Purchase of investments	(504)	(4,375)
Purchase of equipment and software	3,490	-
Net cash provided (used) by investing activities	2,986	(4,375)
Net increase in cash and cash equivalents	(105,374)	(90,848)
Cash and cash equivalents - beginning of year	1,175,877	1,266,725
Cash and cash equivalents - end of year	\$ 1,070,503	\$ 1,175,877

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) develops, secures funding for, and manages collaborative projects that promote the preservation and public availability of American film. Since starting operations in 1997, the NFPF has provided preservation support to 273 organizations across all 50 states, Puerto Rico, and D.C. and helped save more than 2,166 films.

Grants. In 2014, the NFPF awarded \$479,096 in film preservation grants to 40 institutions. Among the 65 American titles slated for preservation through grants were *The Jungle* (1967), a vivid portrayal of Philadelphia street life made by teen gang members that was named to the National Film Registry in 2009; ornithological studies of New York's Jamaica Bay Wildlife Refuge; *I'll Say He Forgot* (1920), a long lost two-reel comedy about an absent-minded bridegroom; 6 films from the Youth Film Distribution Company, an organization that provided hands-on filmmaking experience for New York teens; anthropologist Leopold Pospisil's 1950s documentary about a Papuan tribe in West New Guinea; the Goodyear Tire & Rubber Company's documentation of the construction of the U.S.S. Akron, one of the largest airships of its time; early color footage of Yellowstone National Park; and home movies of Pittsburgh's African American community in the 1940s, Maryland's Ocean City Hurricane of 1933, the Hoopa Valley Indian Reservation in Humboldt County, and New Orleans Mardi Gras carnival balls.

Repatriation. The NFPF completed the New Zealand Film Archive Project, began in 2009, preserving 176 long-unseen American films with support from Save America's Treasures, private donors, 5 studios, TCM, laboratories, and the Film Board. Following up on research funded through a 2013 grant from the Mellon Foundation, the NFPF announced a partnership with the EYE Filmmuseum Netherlands to preserve and make available more than 50 American films that have been unseen for decades. The first 2 fiction shorts slated for preservation via this new endeavor, including the Fleischer Studios cartoon *Koko's Queen* (1926), premiered at the 2014 Orphans Symposium in Amsterdam. This year, \$96,692 was expended on this effort. The National Endowment Humanities awarded the NFPF a \$260,000 grant to preserve and make available online with new music and program notes 26 of the nonfiction titles in the EYE cache. The EYE collaboration will continue with a 2015 shipment of more nitrate from the Netherlands to the US.

Publications. The foundation produces DVD sets in the *Treasures from American Film Archives* series and books that advance national film preservation efforts. After a lag in DVD sales, 2014 saw demand for the sets surpass expectations. With support from the Andy Warhol Foundation for the Visual Arts and the National Endowment for the Arts, the NFPF continues production on *Treasures 6: Next Wave Avant-Garde Film*, a 5-hour DVD box set surveying 28 experimental filmmakers—from Bruce Conner to Leslie Thornton—who rose to prominence after 1965. The set's release is planned for late 2015.

Screenings. In a 2013 collaboration with Cinemazero, Cineteca del Friuli, and George Eastman House, the NFPF repatriated and funded preservation of *Too Much Johnson* (1938), the unfinished silent comedy

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created by Orson Welles for the Mercury Theatre Company. The film screened this spring at the Pacific Film Archive, the Academy Film Archive, and the Museum of Modern Art. On August 21 *Too Much Johnson* was made available for free download and streaming on the NFPF website and in HD via the streaming subscription video service Fandor. Audio Mechanics provided a \$5,000 in-kind donation of sound services to mix the new score for the film. The foundation continued to add other films to its site and by the end of 2014, 51 of the NFPF-funded films from the New Zealand partnership were made available online.

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

The foundation generates revenues largely through contributions from individuals, corporations, and foundations; donated services; government funding; licensing fees; and wholesale DVD sales. In 2014 and 2013, 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.

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 2014 or 2013.

(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, consisting of preservation services donated by laboratory and post-production facilities, are recognized as expenses when awarded to an archive or used by the foundation.

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Under Grants and Contributions, the NFPF recognized contributed service revenue of \$5,000 in 2014 and \$10,000 in 2013 and expensed contributed services under Program Services valued at \$5,000 in 2014.

- (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, 2014, cash and cash equivalents were primarily in checking and money market accounts at the Bank of America and Wells Fargo Bank. Additionally, funds are held at Morgan Stanley Bank, N.A. 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 marketable securities 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 \$337,505 at the end of 2013. The account was closed in September 2014. In November 2014, the NFPF opened an Investment Advisory Account with Morgan Stanley. The quoted market value of all funds was \$334,494 at the end of 2014.

- (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 new sets were manufactured in 2014.
- (h) *Federal Contract Income.* Reported here are project funds from federal entities. In 2014, funds were received through the National Endowment for the Humanities. The NFPF requested and received \$63,248 through a \$260,000 NEH grant supporting the preservation and presentation of 26 nonfiction American silent films from the EYE Filmmuseum Netherlands.
- (i) *Licensing and Other Fees.* Reported here are funds received through Internet transactions and licensing fees. In 2014, licensing fees were primarily revenues paid by Fandor to stream *Too Much Johnson* in HD to its subscribers. In 2013, these fees consisted largely of revenues paid by Turner Entertainment Network for the broadcast of the *Lost and Found: American Treasures from the New Zealand Film Archive* programs over two weekends in November.
- (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 for use in 2014, \$426,476 was awarded as preservation grants and \$103,524 was temporarily restricted for the preservation of films repatriated from abroad. In addition \$104,490 was

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received for distribution as 2015 grants and temporarily restricted for this purpose. In 2013, \$442,240 was awarded as grants and \$87,760 was temporarily restricted for repatriation efforts.

- (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, 2014, equipment, furniture, and software had a net book value of \$3,085 (basis of \$24,198, less accumulated depreciation of \$21,113). As of December 31, 2013, equipment, furniture, and software had a net book value of \$3,652 (basis of \$28,776, less accumulated depreciation of \$25,124).
- (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

Current Pledges receivable as of December 31, 2014, are \$200,000. There are no contributed services receivable or long-term pledges receivable as of December 31, 2014.

Note 4: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Support for 2015, net of allowances	
Academy Foundation, general support 2015	\$50,000
Andy Warhol Foundation for the Visual Arts, <i>Treasures 6</i>	30,480
Film Foundation, 2015 grant management	100,000
Film Foundation, 2015 Avant-Garde Masters grants	50,000
Federal funds, repatriation projects	281,730
Library of Congress, 2015 preservation grants	104,490
	<u>\$616,700</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 at the NFPF for at least 12 months. Employer contributions are based on a percentage of employee salary, a percentage approved annually by the

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NOTES TO FINANCIAL STATEMENTS

Board. In both 2014 and 2013, the percentage was 2%. 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 \$175,000 in 2014 and \$167,500 in 2013. No payments were made for services provided by related parties in 2014. The NFPF paid \$2,500 in 2013.

Note 7: Commitments, Contingencies and Concentrations

The office lease was renewed in December 2012 and runs three years. Under this lease, the monthly payments from December 2013 through November 2014 were \$1,992 and from December 2014 through November 2015 will be \$2,062. The total annual payments for 2013 are \$23,134; \$23,904 for 2014; and \$22,752 for 2015. The rent deposit is \$2,062.

The foundation has a \$160 security deposit on a multifunction copy machine.

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 2014 and 2013 the NFPF received 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 April 30, 2015, have been determined to have no material impact on the presentation of these financial statements.