NATIONAL FILM PRESERVATION FOUNDATION

FINANCIAL STATEMENTS

For The Years Ended December 31, 2013 and 2012

with

INDEPENDENT AUDITOR'S REPORT

NATIONAL FILM PRESERVATION FOUNDATION FINANCIAL STATEMENTS DECEMBER 31, 2013 and 2012

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Independent Auditor's Report

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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, 2013 and 2012 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, 2013 and 2012, 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. Arutzen, CPA

NATIONAL FILM PRESERVATION FOUNDATION Statements of Financial Position December 31, 2013 and 2012

	2013	 2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,175,877	\$ 1,266,725
Investments	337,505	348,062
Pledges receivable, current portion, net	195,000	185,000
Accounts receivable	21,913	80,576
Inventory	47,256	96,262
Prepaid expenses	9,413	9,429
Total current assets	 1,786,964	 1,986,054
Other assets		
Pledges receivable, non-current, net	49,628	98,886
Equipment, furniture, and software, net of accumulated depreciation	3,652	8,126
Deposits, rent and copier	2,222	2,222
2 op conto, rom and cop.c.	55,502	 109,234
	·	<u>, </u>
Total assets	\$ 1,842,466	\$ 2,095,288
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 14,576	\$ 44,450
Grants payable	514,837	592,825
Accrued compensation	19,330	17,260
Total liabilities	548,743	654,535
Net assets	E00.207	/F0 010
Unrestricted Tamparatily restricted	588,286	658,913
Temporarily restricted Total net assets	 705,437	 781,840
Tulai nei asseis	 1,293,723	 1,440,753
Total liabilities and net assets	\$ 1,842,466	\$ 2,095,288

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

NATIONAL FILM PRESERVATION FOUNDATION Statements of Activities For the Years Ended December 31, 2013 and 2012

		2013			2012	
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
	Unicatileted	Restricted	Total	Officsulcicu	Nestricted	Total
Support and revenue						
Grants and contributions	\$75,922	\$851,420	\$927,342	\$63,747	\$854,195	\$917,942
Federal contract income	89,540	-	89,540	191,735	-	191,735
DVD sales	32,561	-	32,561	40,421	-	40,421
Grant savings from under-budget projects	55,152	-	55,152	34,725	-	34,725
Investment income	5,698	-	5,698	13,197	-	13,197
Licensing and other fees	17,417	-	17,417	28,595	-	28,595
Unrealized gains (loss) on investments	(14,932)	-	(14,932)	16,857	-	16,857
Net assets released from restriction	927,823	(927,823)	-	728,813	(728,813)	
Total support and revenue	1,189,181	(76,403)	1,112,778	1,118,090	125,382	1,243,472
Expenses						
Program expenses	1,170,979	-	1,170,979	1,201,108	-	1,201,108
Management and general	83,676	-	83,676	91,632	-	91,632
Fundraising	5,153	-	5,153	5,683	-	5,683
Total expenses	1,259,808	-	1,259,808	1,298,423	-	1,298,423
Change in net assets	(70,627)	(76,403)	(147,030)	(180,333)	125,382	(54,951)
Net assets-beginning	658,913	781,840	1,440,753	839,246	656,458	1,495,704
Net assets-ending	\$588,286	\$705,437	\$1,293,723	\$658,913	\$781,840	\$1,440,753

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

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

	 Program Costs	nagement General	und aising	 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
Archival DVD payouts	-	-	-	-
DVD production and inventory adjustment	159,908	-	-	159,908
Salaries	275,173	27,517	3,057	305,748
Payroll taxes	21,025	2,102	234	23,361
Pension plan contributions	5,467	547	61	6,074
Other employee benefits	31,398	3,140	349	34,887
Accounting services	-	18,334	-	18,334
Audit and information returns	-	12,500	-	12,500
Website design, maintenance and hosting	557	472	926	1,955
Rent	20,821	2,082	231	23,134
Travel and conferences	1,997	15,024	-	17,021
Legal and other consulting	624	16	2	641
Office expenses	2,720	251	28	2,999
Telephone	2,757	549	109	3,415
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
Insurance	3,126	313	35	3,473
Subscriptions, publications and memberships	504	20	2	526
Total expenses	\$ 1,170,979	\$ 83,676	\$ 5,153	\$ 1,259,808

NATIONAL FILM PRESERVATION FOUNDATION Statement of Functional Expenses December 31, 2012

	F	Program Costs	Management & General		und aising	Total	
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 adjustment		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	\$	1,201,108	\$ 91,632	\$	5,683	\$	1,298,423

NATIONAL FILM PRESERVATION FOUNDATION Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

		2013	2012		
Cash flows from operating activities:		_		_	
Change in net assets	\$	(147,030)	\$	(54,951)	
Adjustments to reconcile change in net assets to net cash from	·	(, , , , , , , , , , , , , , , , , , ,	·	(/ /	
operating activities:					
Depreciation		4,474		4,362	
Unrealized gains (losses) on investments		14,932		(16,857)	
Decrease in pledges receivable		39,258		58,892	
Decrease in accounts receivable		58,663		39,230	
Decrease in inventory		49,007		14,710	
Decrease (increase) in prepaid expenses		16		(591)	
Decrease in accounts payable		(29,875)		(35,124)	
Increase (decrease) in grants payable		(77,988)		25,434	
Increase in accrued compensation		2,070		4,303	
Decrease in deferred revenue		-		(27,333)	
Net cash provided used by operating activities		(86,473)		12,075	
Cash flows from investing activities:					
Purchase of investments		(4,375)		(110,158)	
Purchase of equipment and software		-		(8,526)	
Increase of rent deposit		-		(349)	
Net cash provided (used) by investing activities		(4,375)		(119,033)	
Net increase in cash and cash equivalents		(90,848)		(106,958)	
Cash and cash equivalents - beginning of year		1,266,725		1,373,683	
Cash and cash equivalents - end of year	\$	1,175,877	\$	1,266,725	

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 266 organizations across all 50 states, Puerto Rico, and D.C. and helped save more than 2,073 films.

Grants. In 2013, the NFPF awarded \$489,620 in film preservation grants to 43 institutions. Among the 94 American titles slated for preservation through grants were *Corn's-A-Poppin'* (1955), co-written by the young Robert Altman; *The Masters of Disaster* (1985), profiling an inner-city chess club; *Faces and Fortunes* (1960), a *Mad Men*-era advertising film on corporate branding; Terry Ramsaye's *Thirty Years of Motion Pictures* (1927), chronicling the early motion picture industry; a collage film by Joseph Cornell; *Climbing Jacob's Ladder* (1987), about African American church museums as keepers of history; the final episode of Boris Karloff's *The King of the Kongo* (1929), united with its sound disc for the first time in decades; the Eames Studio's *Day of the Dead* (1957); and home movies of Abstract Expressionist Clyfford Still; the Rockford Peaches (1943), the female baseball team that inspired *A League of Their Own*; CCC projects in Oklahoma and Kentucky; American WW2 operations in North Africa; an early TV quiz show; and the Faith Cabin Libraries (1950s), which promoted African American literacy across the rural South.

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. NFPF-supported preservation work wrapped up in 2013, bolstered by a Save America's Treasures grant, contributions from the entertainment industry, and private donations. This year, \$75,701 was expended on this effort, not counting the matching resources provided by studios and preservation facilities. In addition, with funding from The Andrew W. Mellon Foundation, we examined 208 American nitrate reels at EYE Filmmuseum in Amsterdam as a first step toward a new international partnership. The first films were shipped to the United States for preservation this year. Finally, in collaboration with Cinemazero, the Cineteca del Friuli, and George Eastman House, we repatriated and funded preservation of *Too Much Johnson* (1938), the unfinished silent comedy created by Orson Welles for Mercury Theatre two years before going to Hollywood to make *Citizen Kane*. The film had its first public screenings in October.

Publications. The foundation produces DVD sets in the *Treasures from American Film Archives* series and books that advance national film preservation efforts. With support from the National Film Preservation Board, the Argyros Family Foundation, and the National Endowment for the Arts, the NFPF produced and released *Lost and Found: American Treasures from the New Zealand Film Archive*, a 3-1/4 hour DVD with book showcasing *Upstream* (1927), *The White Shadow* (1924), and 11 other remarkable New Zealand finds. To promote access, the NFPF presented gift copies to state libraries and International Federation of Film Archives members, and made the films available for broadcast on Turner Classic Movies in November. *Treasures New*

Zealand was honored with a 2013 Film Heritage Award from the National Society of Film Critics. With an eye for a 2014 release, we also pressed ahead with *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.

Screenings. In collaboration with The Film Foundation, we wrapped up an international exhibition series celebrating the 10th anniversary of the Avant-Garde Masters grants, initiated in collaboration with TFF to save masterworks of American experimental cinema. In October, Le Giornate del Cinema Muto screened three films preserved through our New Zealand partnership. By the end of 2013, more than a third of the NFPF-funded films repatriated through the initiative were available for free viewing on the NFPF website.

The foundation generates revenues largely through contributions from individuals, corporations, and foundations; donated services; government funding; licensing fees; and wholesale DVD sales. In 2013 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 2013 or 2012.
- (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 \$10,000 in 2013 and \$15,000 in 2012 and awarded grants of contributed services valued at \$15,000 in 2012.
- (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, 2013, 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 \$337,505 at the end of 2013 and \$348,062 at the end of 2012.
- (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 2013, the DVD Lost and Found: American Treasures from the New Zealand Film Archive was released and new copies were added to inventory. In addition, more copies of Treasures IV: American Avant-Garde Film, 1947-1986 were manufactured and added to inventory. In 2012, additional copies of Treasures 5: The West 1898-1938 were manufactured and added to inventory.
- (h) Federal Contract Income. Reported here are project funds from federal entities. In 2013, funds were received through the National Endowment for the Arts and the Library of Congress. From the NEA, the NFPF received the final \$2,000 and filed the concluding report for a \$203,000 Save America's Treasures grant awarded in 2011 through a partnership between the NEA and the National Park Service; the grant funded the preservation of 42 silent-era films repatriated from the New Zealand Film Archive. Also from the NEA, the foundation received \$60,000 through a grant supporting the creation of Lost and Found: American Treasures from the New Zealand Film Archive. Finally, from the National Film Preservation Board of the Library of Congress the foundation requested \$27,540 in reimbursement for the production of the DVD showcasing films repatriated from New Zealand; in 2012, \$13,643 was requested for this effort. It should be noted that 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; however, 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 2013, licensing 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. In 2012, these fees were primarily revenues from TEN to preserve films repatriated from New Zealand for anticipated broadcast use.
- (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 2013, \$442,240 was awarded as preservation grants and \$87,760 was temporarily restricted for the preservation of films repatriated from abroad. In addition \$155,370 was received for distribution as 2014 grants and temporarily restricted for this purpose. In 2012, \$446,320 was awarded as grants and \$83,680 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, 2013, equipment, furniture, and software had a net book value of \$3,652 (basis of \$28,776, less accumulated depreciation of \$25,124). 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).
- (I) *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, 2013, are as follows:

Due in 2014 Less: Allowance for uncollectible pledges	Cash \$175,000	Contributed Services \$20,000	Total \$195,000
Net current pledges receivable	<u>175,000</u>	<u>20,000</u>	<u>195,000</u>
Due in 2015 Less: Allowance for uncollectible pledges	50,000	_ _	50,000
Less: Discount at 0.75% Net noncurrent pledges receivable	<u>(372)</u> <u>\$49,628</u>	_ _	<u>(372)</u> \$49,628

Note 4: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Support for 2014, net of allowances

\$100,000
5,552
50,157
2,620
75,000
50,000
243,560
20,000
155,370
3,550
<u>(372)</u>
<u>\$705,437</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 Board. In both 2013 and 2012, 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 \$167,500 in 2013 and \$247,500 in 2012. For services provided by related parties, the NFPF paid \$2,500 in 2013. No such payments were made in 2012.

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 was \$1,922. The monthly payments from December 2013 through November 2014 are \$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). The rent deposit is \$2,062.

In December 2012, the foundation's two-year leasing 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 2013 and 2012 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 March 6, 2014, have been determined to have no material impact on the presentation of these financial statements.