

NATIONAL FILM PRESERVATION FOUNDATION

FINANCIAL STATEMENTS

For The Years Ended December 31, 2006 and 2005

with

INDEPENDENT AUDITOR'S REPORT

NATIONAL FILM PRESERVATION FOUNDATION
FINANCIAL STATEMENTS
DECEMBER 31, 2006 and 2005

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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, 2006 and 2005 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2006 and 2005 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 8, 2006

NATIONAL FILM PRESERVATION FOUNDATION
 Statements of Financial Position
 December 31, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$885,472	\$433,306
Investments	726,665	950,403
Pledges receivable, current portion, net	235,569	226,665
Accounts receivable	52,537	16,319
Inventory	43,462	38,302
Prepaid expenses	5,949	6,765
Total current assets	1,949,654	1,671,760
Pledges receivable, non-current, net		
	165,995	238,970
Equipment and furniture, net of accumulated depreciation		
	3,389	3,651
Deposits		
	1,912	1,702
TOTAL ASSETS	\$2,120,950	\$1,916,083
LIABILITIES		
Current Liabilities		
Accounts payable	\$39,711	\$15,683
Grants payable	507,182	304,711
Accrued compensation	8,537	5,843
TOTAL LIABILITIES	555,430	326,237
NET ASSETS		
Unrestricted	1,070,011	1,067,911
Temporarily restricted	495,509	521,935
TOTAL NET ASSETS	1,565,520	1,589,846
TOTAL LIABILITIES AND NET ASSETS	\$2,120,950	\$1,916,083

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

NATIONAL FILM PRESERVATION FOUNDATION
Statements of Activities
For the Years Ended December 31, 2006 and 2005

	2006	2006	2006	2005	2005	2005
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Grants and contributions	\$93,004	\$820,769	\$913,773	\$35,439	\$701,567	\$737,006
DVD sales	52,911		52,911	146,539		146,539
Contract income	138,067		138,067	19,498		19,498
Investment income	74,293		74,293	36,730		36,730
Other income	2,617		2,617	8,385		8,385
Net assets released from restriction	847,195	(847,195)		580,700	(580,700)	
TOTAL SUPPORT AND REVENUE	1,208,087	(26,426)	1,181,661	827,291	120,867	948,158
EXPENSES						
Program expenses	1,112,669		1,112,669	757,088		757,088
Management and general	89,633		89,633	93,625		93,625
Fundraising	3,685		3,685	22,525		22,525
TOTAL EXPENSES	1,205,987		1,205,987	873,238		873,238
CHANGE IN NET ASSETS	2,100	(26,426)	(24,326)	(45,947)	120,867	74,920
NET ASSETS-BEGINNING	1,067,911	521,935	1,589,846	1,113,858	401,068	1,514,926
NET ASSETS-ENDING	\$1,070,011	\$495,509	\$1,565,520	\$1,067,911	\$521,935	\$1,589,846

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, 2006

	Program Costs	Management & General	Fund Raising	Total
Program grants				
Library of Congress	\$530,000			\$530,000
In-kind services	64,340			64,340
Avant Garde	50,000			50,000
Salaries	212,233	\$44,000	\$2,588	258,821
Payroll taxes	16,576	3,437	202	20,215
Pension plan contributions	6,172	1,280	75	7,527
Other employee benefits	16,329	3,398	200	19,927
DVD production	124,959			124,959
Other special projects	44,824			44,824
Accounting services		19,771		19,771
Audit and information returns		8,125		8,125
Rent	14,560	3,019	178	17,757
Travel and conferences	6,932	3,341	7	10,280
Legal and consulting	2,693	483	28	3,204
Office supplies	2,310	463	24	2,797
Telephone	2,700	294	223	3,217
Postage and delivery	2,679	394	63	3,136
Copying and printing	6,788	152	9	6,949
Equipment rental and maintenance	1,153	239	14	1,406
Depreciation	1,595	330	19	1,944
Insurance	2,583	535	32	3,150
Web hosting and internet	836	67	4	907
Subscriptions, publications and memberships	1,096	33	2	1,131
Miscellaneous	1,311	272	17	1,600
TOTAL EXPENSES	\$1,112,669	\$89,633	\$3,685	\$1,205,987

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, 2005

	Program Costs	Management & General	Fund Raising	Total
Program grants				
Library of Congress	\$250,000			\$250,000
In-kind services	80,000			80,000
Avant Garde	50,000			50,000
Salaries	174,523	\$44,810	\$16,509	235,842
Payroll taxes	14,054	3,608	1,329	18,991
Pension plan contributions	4,437	1,139	420	5,996
Other employee benefits	15,135	3,885	1,431	20,451
DVD production	92,993			92,993
Other special projects	13,410			13,410
Archival project payments	20,873			20,873
Accounting services		22,431		22,431
Audit and information returns		7,775		7,775
Rent	13,036	3,347	1,233	17,616
Travel and conferences	7,162	4,154	420	11,736
Legal and consulting	516			516
Office supplies	1,472	310	120	1,902
Telephone	2,775	331	260	3,366
Postage and delivery	2,256	270	227	2,753
Copying and printing	7,209	159	58	7,426
Equipment rental and maintenance	1,090	267	98	1,455
Depreciation	1,376	353	130	1,859
Insurance	2,345	602	222	3,169
Web hosting and internet	1,062	110	41	1,213
Subscriptions, publications and memberships	1,018	38	14	1,070
Miscellaneous	346	36	13	395
TOTAL EXPENSES	\$757,088	\$93,625	\$22,525	\$873,238

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, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Change in net assets (decrease)	(\$24,326)	\$74,920
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,944	1,859
(Increase) decrease in assets:		
Pledges receivable	64,071	(189,567)
Accounts receivable	(36,218)	17,140
Inventory	(5,160)	16,569
Prepaid expenses and deposits	606	(1,217)
Increase (decrease) in liabilities:		
Accounts payable	24,028	(7,150)
Grants payable	202,471	14,250
Accrued compensation	2,694	(3,988)
Net cash (used) by operating activities	230,110	(77,184)
Cash flows from investing activities:		
Redemption (purchase) of investments	223,738	(13,475)
Purchase of equipment	(1,682)	(3,235)
Net cash (used) by investing activities	222,056	(16,710)
Net change (decrease) in cash and cash equivalents	452,166	(93,894)
Cash and cash equivalents - beginning of year	433,306	527,200
Cash and cash equivalents - end of year	\$885,472	\$433,306

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 a nonprofit organization created by the U.S. Congress to preserve and to make publicly accessible our nation's film heritage. Its 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 Foundation (1) gives film preservation grants to archives, historical societies, libraries, museums, and universities, and (2) organizes, secures funding for, and manages collaborative preservation and access projects that enable film institutions to work together on national initiatives. Since starting operations in 1997, it has provided preservation support to over 150 public and nonprofit organizations across 38 states, the District of Columbia, and Puerto Rico and helped to save 1,035 films. The NFPF also produces DVDs and books that foster film preservation and appreciation, presenting free copies to state libraries.

The Foundation receives the majority of its revenues from contributions of cash and donated services from individuals, corporations, and foundations; government funding; and wholesale DVD sales.

Note 2 - Summary of Significant Accounting Policies

- (a) Accrual Basis - The financial statements have been prepared on the accrual basis.
- (b) Basis of Presentation - Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Grants and contributions are recognized at their fair value when an unconditional promise is made to the Foundation. Receivables are recognized net of an allowance for uncollectibles based on management's analysis of specific promises and a discount on long-term pledges for the time value of money based on a risk-free rate of return. Net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by the actions of the Foundation and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Conditional funds – Conditional funds are recognized as revenue when the conditions stipulated by the funder are fulfilled.

- (c) Contributed Services - Contributed services are recognized as contribution support and revenues when pledged if the services require specialized skills, are provided by individuals or firms possessing those skills and would typically need to be purchased if not provided by donation. Professional services grants are recognized when awarded by the Foundation. The Foundation recognized contributed service revenue of \$45,000 in 2006 and \$25,000 in 2005, and made contributed service grants of \$64,340 in 2006 and \$80,000 in 2005.
- (d) Allocation of Expenses – Salaries and non-salary administrative costs are allocated to program and supporting services based on management's estimate of the time worked in various program and supporting services.

NATIONAL FILM PRESERVATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (Continued)

- (e) Cash and Cash Equivalents - For the purpose of the statement of cash flows, cash and cash equivalents include funds in demand deposit accounts, short term and liquid investments with an initial maturity of six months or less. As of Dec. 31, 2006, cash and cash equivalents were primarily in money market accounts and certificates of deposit. Such accounts are not FDIC insured.
- (f) 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 method of depreciation over the estimated useful lives of the assets. As of December 31, 2006 equipment and furniture had a basis of \$24,928 less accumulated depreciation of \$21,539.
- (g) Inventory - The inventory value is based on the lesser of cost or net realizable value as required by Generally Accepted Accounting Principles.
- (h) Contract Income - In 2006 and 2005 contract income represents revenue to produce the *Treasures III* DVD set.
- (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. Accordingly, actual results could differ from those estimates.
- (j) Income Tax Status- The Foundation is exempt from Federal and State income tax as a Public Charity, whereby only any unrelated business income is subject to income taxes. Management believes the Foundation continues to qualify and to operate as a tax-exempt organization.
- (k) Investments - Investments are recorded at fair market value and are SIPC, but not FDIC insured. Unrealized gains and losses are included in the changes in unrestricted net assets. Investment return for 2006 included \$74,310 dividends and interest less \$16 realized loss. Investment return for 2005 included \$37,615 dividends and interest less \$885 unrealized loss. At December 31, 2006, investments included:

Payden Bunker Hill Money Market Fund	\$461,841
Bank of America Certificate of Deposit (due August 27, 2007)	<u>264,824</u>
Total	<u>\$726,665</u>

Note 3 - Pledges Receivable

Pledges receivable as of December 31, 2006 consisted of the following:

	<u>Cash</u>	Contributed <u>Services</u>	<u>Total</u>
Due in 2007	\$190,500	\$60,660	\$251,160
Less: Allowance for uncollectible pledges	<u>(9,525)</u>	<u>(6,066)</u>	<u>(15,591)</u>
Net current pledges receivable	<u>\$180,975</u>	<u>\$54,594</u>	<u>\$235,569</u>
Due in 2008 through 2011	\$180,000		\$180,000
Due in 2008		\$ 5,000	5,000
Less: Allowance for uncollectible pledges	(9,000)	(500)	(9,500)
Less: Discount at 3%	<u>(9,374)</u>	<u>(131)</u>	<u>(9,505)</u>
Net non-current pledges receivable	<u>\$161,626</u>	<u>\$4,369</u>	<u>\$165,995</u>

NATIONAL FILM PRESERVATION FOUNDATION
NOTES TO FINANCIAL STATEMENTS

Note 4 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:	
Support for 2007, net of allowances	\$180,975
Andy Warhol Foundation for the Visual Arts	93,945
In-kind service grants for 2007, net of allowances	54,594
In-kind service grants for 2008, net of allowances and present value discount	4,369
Support for 2008 through 2011, net of allowances and present value discount	<u>161,626</u>
	<u>\$495,509</u>

Note 5 – Retirement Plan

The Foundation initiated a SEP IRA plan for employees in 2002 and contributed to the plan in 2006 and 2005. The Foundation also has a contributory 403 (b) plan which is funded solely by voluntary participant salary deferrals.

Note 6 – Related Party Transactions

Contribution revenues from organizations to which board members are related were \$175,450 in 2006 and \$375,000 in 2005 and payments to related parties for services provided to the Foundation were \$15,700 in 2006 and \$4,000 in 2005.

Note 7 – Commitments, Contingencies and Concentrations

The office lease runs through November 2008, with monthly payments of \$1,608. The National Film Preservation Foundation is seeking to continually broaden its financial backing in order to further support programs. Receivables are subject to credit risk. In the ordinary course of programs, the National Film Preservation Foundation has various contractual obligations. Revenues represent amounts collected under grants with various requirements. Management believes that the National Film Preservation Foundation has complied with all requirements.

In 2006 the Foundation received \$530,000 in federal funds authorized through *The National Film Preservation Reauthorization Act of 2006* (Public Law 109-9, Title IIIB) and appropriated through the Library of Congress. 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 authorization of up to \$530,000 annually extends through federal fiscal year 2009.