

THE FRENCH-AMERICAN FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
The French-American Foundation

We have audited the accompanying balance sheet of the French-American Foundation (The "Foundation") as of June 30, 2004 and June 30, 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The French-American Foundation at June 30, 2004 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

*Paul L. Klaw & Co., P.C.*  
Certified Public Accountants

Dated: September 10, 2004

**THE FRENCH - AMERICAN FOUNDATION**  
**BALANCE SHEETS**

	June 30,	
	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
Cash ( Note 2 )	\$ 308,837	\$ 340,956
Investments-----at Fair Value ( Note 3 )	3,225,332	2,201,609
Contributions Receivable ( Note 4 )	373,500	93,220
Other Receivables and Other Assets	9,279	25,158
Furniture and Equipment-----at Cost, less Accumulated Depreciation of \$38,988 in 2003 (\$43,842 in 2003)	11,094	19,391
Works of Art ( Note 5 )	694,000	1,026,500
<b>Total Assets</b>	<b>\$ 4,622,042</b>	<b>\$ 3,706,834</b>
 <b>Liabilities and Net Assets</b>		
Accrued Expenses and Other Liabilities	\$ 37,624	\$ 79,409
Total Liabilities	\$ 37,624	\$ 79,409
Commitments ( Note 10 )		
<b>Net assets:</b>		
Unrestricted ( Note 6 )	\$ 3,199,969	\$ 3,144,601
Temporarily Restricted ( Note 7 )	\$ 1,384,449	\$ 482,824
Total Net Assets	\$ 4,584,418	\$ 3,627,425
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,622,042</b>	<b>\$ 3,706,834</b>

(See Notes to Financial Statements)

**THE FRENCH - AMERICAN FOUNDATION  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004**

**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2003**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>2004 Total</b>	<b>2003 Total</b>
<b>Revenue and Reclassifications</b>				
Contributions and Grants	\$ 167,691	\$ 590,772	\$ 758,463	\$ 930,041
Gifts to Endowment (Note 8)	100,000	864,444	964,444	-
Special Events	393,338			
Less: Costs of Direct Benefit to Donors	87,208	306,130	306,130	298,851
Transfer from Board Designated Fund	129,774		129,774	92,730
Investment Income	76,757	0	76,757	74,237
Other	1,559	2,883	4,442	2,100
<b>Total Revenue</b>	<b>781,911</b>	<b>1,458,099</b>	<b>2,240,010</b>	<b>1,397,959</b>
Net Assets Released from Restriction (Note 7)	556,473	-556,473	0	0
<b>Total Revenue and Reclassifications</b>	<b>\$ 1,338,384</b>	<b>\$ 901,626</b>	<b>\$ 2,240,010</b>	<b>\$ 1,397,959</b>
<b>Expenses:</b>				
Program Services	659,504		659,504	889,054
Supporting Services:				
General and Administrative	234,839		234,839	245,286
Fundraising	335,002		335,002	319,042
<b>Total Supporting Services</b>	<b>569,841</b>	<b>0</b>	<b>569,841</b>	<b>564,328</b>
<b>Total Expenses</b>	<b>\$ 1,229,345</b>	<b>\$ -</b>	<b>\$ 1,229,345</b>	<b>\$ 1,453,382</b>
<b>Change in Net Assets</b>	<b>109,039</b>	<b>901,626</b>	<b>1,010,665</b>	<b>-55,423</b>
Donation - Art (Note 9)	-332,500		-332,500	0
Realized (Loss) on Investments	0		0	-28,490
Unrealized Gain on Investments	278,828		278,828	32,399
<b>Change in Net Assets</b>	<b>55,367</b>	<b>901,626</b>	<b>956,993</b>	<b>-51,514</b>
Net Assets-----Beginning of Year	3,144,602	482,823	3,627,425	3,678,938
<b>Net Assets-----End of Year</b>	<b>\$ 3,199,969</b>	<b>\$ 1,384,449</b>	<b>\$ 4,584,418</b>	<b>\$ 3,627,424</b>

(See Notes to Financial Statements)

**THE FRENCH - AMERICAN FOUNDATION**  
**STATEMENT OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 956,993	\$ (51,513)
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities:		
Change in Unrealized Appreciation of Investments	-320,295	6,386
Depreciation	11,039	12,295
Change in Operating Assets and Liabilities:		
Other Receivables and Other Assets	15,879	-20,966
Contributions Receivable	-280,280	214,765
Due to/from The French-American Foundation		
Comite Francais		13,285
Accrued Expenses and Other Liabilities	-41,785	-423,419
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>\$ 341,551</b>	<b>\$ (249,167)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of Furniture and Equipment	-2,742	-4,203
Donation of Art	332,500	-
Sales of Investments, Net		473,983
Purchases of Investments	-703,428	-
<b>Net cash (Used in) Provided by Investing Activities</b>	<b>\$ (373,670)</b>	<b>\$ 469,780</b>
<b>Net Increase (Decrease) in Cash</b>	-32,119	220,613
Cash, Beginning of Year	340,956	120,343
<b>Cash, End of Year</b>	<b>\$ 308,837</b>	<b>\$ 340,956</b>

(See Notes to Financial Statements)

# THE FRENCH- AMERICAN FOUNDATION

Notes to Financial Statements  
June 30, 2004

## 1. Organization and Summary of Significant Accounting Policies

The French-American Foundation (the "Foundation") is a voluntary , not-for-profit agency that qualifies as an exempt organization under Section 501 ( c) (3) of the Internal Revenue Code and has been classified as a publicly supported charitable organization under Section 509 (a) (1) of the Internal Revenue Code. The Foundation qualifies for the maximum charitable contribution deduction by donors. Its primary purpose is to strengthen relations between the United States and France by fostering cooperative projects among United States and French leaders and professionals in government, education and business.

The Foundation executes certain programs in conjunction with the French-American Foundation Comite Francais, which is an independent organization in France with a mission similar to that of the Foundation.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

The Foundation considers highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

## The French-American Foundation

### Notes to Financial Statements (Continued)

#### 1. Organization and Summary of Significant Accounting Policies (Cont.)

##### Fund Accounting and Net Asset Classifications

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the Foundation's accounts are maintained in accordance with the principles of fund accounting. Separate accounts are maintained for each fund; however, in the accompanying financial statements net assets that have similar characteristics have been combined into two net asset classes: unrestricted and temporarily restricted.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. The Foundation's Board of Directors has designated a portion of the unrestricted net assets of the Foundation for long term investment purposes (see Note 6).

Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of the Foundation.

##### Support and Revenue

Grants and contributions are recorded as revenue when received or pledged unconditionally at fair value. Contributions received with donor stipulations that limit the use of the donated assets are reported as temporarily restricted support. When a donor restriction expires, that is when a time restriction ends or purpose restriction is fulfilled. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

##### Investments

Investments consist of United States Treasuries and mutual funds, and are reported at fair value.

##### Furniture and Equipment

Furniture and Equipment are recorded at cost and are depreciated on the straight-line, half-year convention basis over their estimated useful lives (five to seven years).



The French-American Foundation

Notes to Financial Statements (Continued)

1. Organization and Summary of Significant Accounting Policies (Continued)

Functional Expense Allocations

The costs of providing program services and supporting services have been allocated in the financial statements among functional categories based upon the ultimate purpose of the expense. Functional expenses which are not specifically attributable to program services or supporting services have been allocated by Management in accordance with various criteria.

2. Cash

At June 30, 2004, all of the Foundation's cash is maintained in one major financial institution.

3. Investments

Investments consist of the following at June 30:

	2004		2003	
	Cost	Market	Cost	Market
GNMA Bonds	0	0	16,580	7,395
Mutual Funds	2,379,645	3,186,494	1,620,668	2,116,407
U.S. Treasury Money Market	38,838	38,838	77,807	77,807
<b>Totals</b>	<b>\$ 2,418,483</b>	<b>\$ 3,225,332</b>	<b>\$ 1,715,055</b>	<b>\$ 2,201,609</b>

Fair Values of investments are based on quoted market prices.

The French- American Foundation

Notes to Financial Statements (Continued)

4. Contributions Receivable

At June 30, 2004, contributions receivable are due as follows:

One Year	\$373,500
Two-Five Years	<u>- 0 -</u>

Gross Contributions Receivable	<u>\$373,500</u>
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5. Works of Art

This consists of the following works :

Bronze Statute of General Charles De Gaulle	\$ 8,000.
Louis XV & XVI collection of decorative elements and furnishings	<u>686,000</u>

Total Appraised Value	\$694,000.
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During 1997, the French-American Foundation received a collection of Louis XV, and Louis XVI furniture and decorative objects. At that time, the collection was independently appraised by Christies, in New York City, and valued at \$686,000. Since 1998, as stipulated by the donor, these items are on display in the Cultural Services of the French Embassy in New York City. The collection is maintained by the Foundation for public exhibition in furtherance of its mission.

6. Board Designated Fund

A resolution of the Board of Directors dated July 1, 1991, established a designated fund to be utilized for long term investment purposes. At June 30, 2004, the balance of the Board Designated Fund was \$2,937,970 and is included within the unrestricted net assets in the accompanying balance sheet.

## The French- American Foundation

### Notes to Financial Statements (Continued)

#### 7. Temporarily Restricted Net Assets

In 1990 and 1993 the Foundation received grants of \$245,000 and \$181,850 from the American Committee on the French Revolution and the French Government, respectively. These contributions constitute the corpus of the Bicentennial Fellowship Fund, which is expendable to fund postgraduate fellowship programs.

At June 30, 2004, the Foundation's temporarily restricted net assets are available for the following purposes:

EHT Fund	\$ 881,719
Bicentennial Fellowship Fund	368,344
Social Policy Initiative	31,552
Courants	15,873
Young Leaders	70,174
Journalism Conference	10,950
Translation Prize	<u>5,837</u>
	<u>\$1,384,449</u>

Temporarily restricted net assets were released from restrictions in fiscal 2004 in fulfillment of the following purposes:

Chair in American Civilization	18,478
Early Education	32,725
Speaker Series	4,611
Philanthropy Conference	14,015
Military Conference	<u>33,202</u>
	<u>\$103,031</u>

The French- American Foundation

Notes to Financial Statements (Continued)

8. Gifts to Endowment

Gifts to Endowment consists of a \$100,000 contribution to the Board Designated Fund ( Unrestricted), and contributions totaling \$864,444 to the Edward H. Tuck Speaker Series. These gifts are temporarily restricted and have been invested. All revenues derived from these investments are to be used exclusively to fund Speaker Series activities.

9. Donation of Art

On October 11, 2003, the Foundation gifted a work of art ( Louis XV Tapestry) to the Musee du Louvre, located in Paris, France. The donation was recorded at its appraised value of \$332,500.

10. Commitments

The Foundation leases office space in New York City under an operating lease which expires July 2010. Rent expense for fiscal year 2004 was \$86,589. For a security deposit on the lease, the Foundation has a letter of credit with a commercial bank for \$22,741. This letter of credit is secured by certain of the Foundation's investments. The letter of credit expires on December 12, 2004. The future minimum annual rental commitments of the lease are approximately as follows:

2005	\$93,011
2006	95,104
2007	97,244
2008	99,432
Thereafter	311,922

**The French- American Foundation**

**Notes to Financial Statements (Continued)**

**11. Retirement Plan**

The Foundation sponsors a noncontributory defined contribution plan which qualifies under Section 403 (b) of the Internal Revenue Code. All full time employees are eligible after they have completed one month of service. During fiscal year 2004, the Foundation made contributions in the amount of \$ 17,138.

*Saul L. Klau & Co., P.C.*

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REPORT OF INDEPENDENT AUDITORS  
ON OTHER FINANCIAL INFORMATION

The Board of Directors  
The French-American Foundation:

Our audit was conducted for the purpose of forming an opinion on The French-American Foundation, taken as a whole. The accompanying schedules of expenses and program activities are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Saul L. Klau & Co., P.C.*

Certified Public Accountants

Dated: September 10, 2004

OTHER FINANCIAL INFORMATION

**THE FRENCH - AMERICAN FOUNDATION**  
**SCHEDULE OF EXPENSES**  
**YEAR ENDED JUNE 30, 2004**

**Supporting Services**

	<b>Program Services</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 37,980	\$ 494,818	\$ -	\$ 532,798
Transportation and Lodging	131,243	2,111	6,295	139,650
Project Consulting and Professional Fees	630	9,610	60,928	71,168
Occupancy	0	86,589	0	86,589
Awards	70,000	1,000	0	71,000
Office Expense	0	4,531	2,350	6,881
Catering, Meals and Conference Facilities	110,657	8,485	6,022	125,164
Duplicating, Printing and Publications	5,254	6,939	17,764	29,957
Employee Benefits	0	69,600	0	69,600
Payroll Taxes	0	31,685	0	31,685
Postage and Shipping	5,651	5,412	3,401	14,464
Equipment Rental/Maintenance	0	23,601	0	23,601
Telephone	531	7,390	151	8,072
Depreciation	0	11,039	0	11,039
Other	114	7,564	0	7,678
Sub - Total	<u>362,060</u>	<u>770,374</u>	<u>96,911</u>	<u>1,229,346</u>
Allocations	297,444	(535,535)	238,091	0
	<u><b>\$ 659,504</b></u>	<u><b>\$ 234,839</b></u>	<u><b>\$ 335,002</b></u>	<u><b>\$ 1,229,345</b></u>



The French-American Foundation  
 Schedule of Program Activities  
 Year ended June 30, 2004

	Net Assets at Beginning of Year	Revenues	Total	Expenses	Net Assets Decrease	Unrestricted Net Assets Used for Programs	Net Assets at End of Year
EHT Fund	\$ 17,275	864,444	881,719	-	-	-	881,719
Bicentennial Fellowships	368,344	-	368,344	-	-	-	368,344
Chair in American Civilization	-	40,000	40,000	58,478	40,000	18,478	-
Philanthropy Conference	-	-	-	14,015	-	14,015	-
Early Education	23,014	2,870	25,884	58,609	25,884	32,725	-
Defense Symposium	-	3,000	3,000	36,202	3,000	33,202	-
EHT Speaker Series	-	49,841	49,841	54,452	49,841	4,611	-
Courants	10,501	80,904	91,405	75,532	75,532	-	15,873
Social Policy Initiative	-	50,000	50,000	18,448	18,448	-	31,552
Journalism Conference	-	40,000	40,000	29,050	29,050	-	10,950
Translation Prize	-	41,300	41,300	35,463	35,463	-	5,837
Young Leaders Reunion	-	173,561	173,561	160,828	160,828	-	12,733
Young Leaders Meetings	63,689	112,179	175,868	118,427	118,427	-	57,441
	<b>\$ 482,823</b>	<b>\$ 1,458,099</b>	<b>\$ 1,940,922</b>	<b>\$ 659,504</b>	<b>\$ 556,473</b>	<b>\$ 103,031</b>	<b>\$ 1,384,449</b>