

THE FRENCH-AMERICAN FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2005

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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, 2005 and June 30, 2004, 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, 2005 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.

Saul L. Klaw & Co., P.C.

Certified Public Accountants

Dated: October 25, 2005

THE FRENCH - AMERICAN FOUNDATION
BALANCE SHEET

	June 30,	
	<u>2005</u>	<u>2004</u>
<u>ASSETS</u>		
Cash (Note 2)	\$ 427,910	\$ 308,837
Investments-----at Fair Value (Note 3)	3,664,081	3,225,332
Contributions Receivable (Note 4)	313,000	373,500
Other Receivables and Other Assets	26,570	9,279
Furniture and Equipment-----at Cost, less Accumulated Depreciation of \$6,721 in 2005 and \$38,988 in 2004	24,790	11,094
 Works of Art (Note 5)	 694,000	 694,000
Total Assets	<u>\$ 5,150,351</u>	<u>\$ 4,622,042</u>
 <u>Liabilities and Net Assets</u>		
Accrued Expenses and Other Liabilities	\$ 82,279	\$ 37,624
 Total Liabilities	 <u>\$ 82,279</u>	 <u>\$ 37,624</u>
 Commitments (Note 9)		
Net assets:		
Unrestricted (Note 6)	\$ 3,677,874	\$ 3,199,969
Temporarily Restricted (Note 7)	1,390,198	1,384,449
 Total Net Assets	 <u>\$ 5,068,072</u>	 <u>\$ 4,584,418</u>
 Total Liabilities and Net Assets	 <u>\$ 5,150,351</u>	 <u>\$ 4,622,042</u>

(See Notes to Financial Statements)

**THE FRENCH - AMERICAN FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005**

WITH SUMMARIZED FINANCIAL INFORMATION FOR 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2005 Total</u>	<u>2004 Total</u>
<u>Revenue and Reclassifications</u>				
Contributions and Grants	\$ 399,319	\$ 625,598	\$ 1,024,917	\$ 758,463
Gifts to Endowment (Note 8)	-	-	0	964,444
Special Events	568,604			
Less: Costs of Direct Benefit to Donors	<u>86,315</u>	482,289	482,289	306,130
Transfer from Board Designated Fund	106,392	21,791	128,183	129,774
Investment Income	91,530	0	91,530	76,757
Other	27	2,692	2,718	4,442
Total Revenue	<u>1,079,556</u>	<u>650,081</u>	<u>1,729,637</u>	<u>2,240,010</u>
Net Assets Released from Restrictions (Note 7)	<u>644,332</u>	<u>-644,332</u>	<u>0</u>	<u>0</u>
Total Revenue and Reclassifications	<u>\$ 1,723,888</u>	<u>\$ 5,749</u>	<u>\$ 1,729,637</u>	<u>\$ 2,240,010</u>
<u>Expenses:</u>				
Program Services	878,174		878,174	659,504
Supporting Services:				
General and Administrative	381,767		381,767	234,839
Fundraising	205,239		205,239	335,002
Total Supporting Services	<u>587,006</u>	<u>0</u>	<u>587,006</u>	<u>569,841</u>
Total Expenses	<u>\$ 1,465,180</u>	<u>\$ -</u>	<u>\$ 1,465,180</u>	<u>\$ 1,229,345</u>
Change in Net Assets	258,708	5,749	264,457	1,010,665
Donation	0	0	0	-332,500
Realized Gain on Investments	17,017	0	17,017	0
Unrealized Gain on Investments	202,180	0	202,180	278,828
Change in Net Assets	<u>477,905</u>	<u>5,749</u>	<u>483,654</u>	<u>956,993</u>
Net Assets—Beginning of Year	<u>3,199,969</u>	<u>1,384,449</u>	<u>4,584,418</u>	<u>3,627,425</u>
Net Assets—End of Year	<u>\$ 3,677,874</u>	<u>\$ 1,390,198</u>	<u>\$ 5,068,072</u>	<u>\$ 4,584,418</u>

(See Notes to Financial Statements)

THE FRENCH - AMERICAN FOUNDATION
STATEMENT OF CASH FLOWS

	Year ended June 30	
	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 483,654	\$ 956,993
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities:		
Change in Unrealized Appreciation of Investments	-202,021	-320,295
Depreciation	7,868	11,039
Change in Operating Assets and Liabilities:		
Other Receivables and Other Assets	-17,291	15,879
Contributions Receivable	60,500	-280,280
Accrued Expenses and Other Liabilities	44,655	-41,785
Net Cash (Used in) Provided by Operating Activities	<u>\$ 377,365</u>	<u>\$ 341,551</u>
Cash Flows from Investing Activities		
Purchases of Furniture and Equipment	-21,564	-2,742
Donation of Art		332,500
Purchases of Investments, Net	<u>-236,728</u>	<u>-703,428</u>
Net cash (Used in) Provided by Investing Activities	<u>\$ (258,292)</u>	<u>\$ (373,670)</u>
Net Increase (Decrease) in Cash	119,073	-32,119
Cash, Beginning of Year	<u>308,837</u>	<u>340,956</u>
Cash, End of Year	<u><u>\$ 427,910</u></u>	<u><u>\$ 308,837</u></u>

(See Notes to Financial Statements)

THE FRENCH- AMERICAN FOUNDATION

Notes to Financial Statements
June 30, 2005

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.

Works of Art

The Foundation has a collection of works of art that have been contributed to the Foundation. The collection is maintained by the Foundation for public exhibition in furtherance of its mission. The works of art are recorded at cost, if purchased, or at fair value, if donated.

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, 2005, all of the Foundation's cash is maintained in one major financial institution.

3. Investments

Investments consist of the following at June 30:

	2005		2004	
	Cost	Market	Cost	Market
Mutual Funds	2,615,520	3,624,690	2,379,645	3,186,494
U.S. Treasury Money Market	39,391	39,391	38,838	38,838
Totals	\$ 2,654,911	\$ 3,664,081	\$ 2,418,483	\$ 3,225,332

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, 2005, contributions receivable are due as follows:

One Year	\$313,000
Two-Five Years	<u>- 0 -</u>

Gross Contributions Receivable	<u>\$313,000</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	<u>686,000</u>

Total Appraised Value	<u>\$ 694,000</u>
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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 Christie's, in New York City, and valued at \$686,000. In 1998, as stipulated by the donor, these items were displayed 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, 2005, the balance of the Board Designated Fund was \$3,248,236 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 French Bicentennial Scholarship Fund, which is expendable to fund postgraduate fellowship programs.

At June 30, 2005, the Foundation's temporarily restricted net assets are available for the following purposes:

EHT Fund	\$ 886,219
French Bicentennial Scholarship Fund	368,344
Social Policy Initiative	31,552
Courants	24,158
Young Leaders	66,101
Lounsbery Project – Historical Ties	6,698
Translation Prize	<u>7,126</u>
	<u>\$1,390,199</u>

Temporarily restricted net assets were released from restrictions in fiscal 2005 in fulfillment of the following purposes:

Signature Conference	\$ 54,372
Early Education	33,822
Speaker Series	16,806
Defense Symposium	65,096
Congressional Roundtable	20,526
Journalism Conference	18,857
Others	<u>24,365</u>
Total	<u>\$233,844</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, during fiscal 2004. These gifts are temporarily restricted and have been invested. All revenues derived from the Edward H. Tuck contributions are to be used exclusively to fund Speaker Series activities.

9. Commitments

The foundation leases office space in New York City under an operating lease which expires July 2010. Rent expense for fiscal year 2005 was \$104,615. 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, 2005. The future minimum annual rental commitments of the lease are approximately as follows:

2006	95,104
2007	97,244
2008	99,432
2009	101,699
Thereafter	105,608

10. 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 2005, the Foundation made contributions in the amount of \$ 15,155.

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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. Klaw & Co., P.C.

Certified Public Accountants

Dated: October 25, 2005

THE FRENCH - AMERICAN FOUNDATION
SCHEDULE OF EXPENSES
YEAR ENDED JUNE 30, 2005

Supporting Services

	<u>Program</u> <u>Services</u>	<u>General and</u> <u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 61,955	\$ 492,174	\$ -	\$ 554,129
Transportation and Lodging	264,219	1,886	1,802	267,907
Project Consulting and Professional Fees	0	15,269	45,590	60,859
Meeting Space / Equipment	86,839	0	0	86,839
Occupancy	0	104,615	0	104,615
Awards	20,000	-	0	20,000
Office Expense	0	4,678	161	4,839
Catering, Meals and Conference Facilities	64,026	5,173	6,266	75,465
Duplicating, Printing and Publications	22,045	28,330	6,692	57,067
Insurance	0	9,289	0	9,289
Employee Benefits	0	64,714	0	64,714
Payroll Taxes	0	29,796	0	29,796
Postage and Shipping	2,553	5,666	3,365	11,584
Equipment Rental/Maintenance	1,217	16,155	3,940	21,313
Telephone	795	12,195	81	13,071
Executive Search Cost	0	68,505	0	68,505
Depreciation	0	7,868	0	7,868
Other	2,327	4,642	350	7,319
Sub - Total	<u>525,977</u>	<u>870,955</u>	<u>68,248</u>	<u>1,465,180</u>
Locations	352,197	(489,188)	136,991	0
	<u>\$ 878,174</u>	<u>\$ 381,767</u>	<u>\$ 205,239</u>	<u>\$ 1,465,180</u>

The French-American Foundation
Schedule of Program Activities
Year ended June 30, 2005

	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	\$ 881,719	4,500	886,219	-	-	-	886,219
Bicentennial Fellowships	368,344	-	368,344	-	-	-	368,344
Lounsbury Project -Historical Ties	-	62,658	62,658	55,960	55,960	-	-
Signature Conference	-	128,949	128,949	183,321	128,949	54,372	-
Early Education	-	1,568	1,568	35,390	1,568	33,822	-
Defense Symposium	-	30,000	30,000	95,096	30,000	65,096	-
Congressional Roundtable	-	84,148	84,148	104,674	84,148	20,526	-
EHT Speaker Series	-	21,791	21,791	38,597	21,791	16,806	-
Courants	15,873	84,970	100,843	76,685	76,685	-	24,158
Social Policy Initiative	31,552	-	31,552	-	-	-	31,552
Journalism Conferences	10,950	33,417	44,367	63,224	44,367	18,857	(0)
Translation Prize	5,837	42,840	48,677	41,551	41,551	0	7,126
Young Leaders Reunion	12,733	-	12,733	-	-	-	12,733
Young Leaders Meeting	57,441	143,490	200,931	147,563	147,563	-	53,368
Miscellaneous Others	-	11,750	11,750	36,114	11,750	24,364	-
	\$ 1,384,449	\$ 650,081	\$2,034,530	\$ 878,175	\$ 644,332	\$ 233,844	\$ 1,390,199