

THE FRENCH - AMERICAN FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

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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, 2006 and June 30, 2005, 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 and opinion of 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 to 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, 2006 and then 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: October 31, 2006

**THE FRENCH - AMERICAN FOUNDATION**  
**BALANCE SHEET**

	June 30,	
	<u>2006</u>	<u>2005</u>
<b><u>ASSETS</u></b>		
Cash ( Note 2 )	\$ 473,155	\$ 427,910
Investments-----at Fair Value ( Note 3 )	3,813,894	3,664,081
Contributions Receivable ( Note 4 )	713,250	313,000
Other Receivables and Other Assets	11,590	26,570
Furniture and Equipment-----at Cost, less Accumulated Depreciation of \$13,006 in 2006 and \$6,721 in 2005	32,543	24,790
Works of Art ( Note 5 )	694,000	694,000
<b>Total Assets</b>	<b><u>\$ 5,738,432</u></b>	<b><u>\$ 5,150,351</u></b>
 <b><u>Liabilities and Net Assets</u></b>		
Accrued Expenses and Other Liabilities	\$ 121,718	\$ 82,279
Total Liabilities	\$ 121,718	\$ 82,279
Commitments ( Note 8 )		
<b>Net assets:</b>		
Unrestricted (Note 6 )	\$ 4,158,192	\$ 3,677,874
Temporarily Restricted (Note 7 )	1,458,522	1,390,198
Total Net Assets	\$ 5,616,714	\$ 5,068,072
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 5,738,432</u></b>	<b><u>\$ 5,150,351</u></b>

(See Notes to Financial Statements)

**THE FRENCH - AMERICAN FOUNDATION  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2006 Total</u>	<u>2005 Total</u>
<b><u>Revenue and Reclassifications</u></b>				
Contributions and Grants	\$ 560,029	\$ 539,312	\$ 1,099,341	\$ 1,024,917
Special Events	508,146			
Less: Costs of Direct Benefit to Donors	<u>78,973</u>	429,173	429,173	482,289
Transfer from Board Designated Fund	118,026	24,174	142,200	128,183
Investment Income	190,723	0	190,723	91,530
Other	38	0	38	2,718
<b>Total Revenue</b>	<u>1,297,988</u>	<u>563,487</u>	<u>1,861,475</u>	<u>1,729,637</u>
Net Assets Released from Restrictions (Note 7 )	495,163	-495,163	0	0
<b>Total Revenue and Reclassifications</b>	<u>\$ 1,793,151</u>	<u>\$ 68,324</u>	<u>\$ 1,861,475</u>	<u>\$ 1,729,637</u>
<b><u>Expenses:</u></b>				
Program Services	619,771		619,771	878,174
Supporting Services:				
General and Administrative	271,695		271,695	381,767
Fundraising	283,975		283,975	205,239
Relationship Development	212,298		212,298	0
<b>Total Supporting Services</b>	<u>767,968</u>	<u>0</u>	<u>767,968</u>	<u>587,006</u>
<b>Total Expenses</b>	<u>\$ 1,387,739</u>	<u>\$ -</u>	<u>\$ 1,387,739</u>	<u>\$ 1,465,180</u>
<b>Change in Net Assets</b>	405,412	68,324	473,736	264,457
Realized Gain on Investments	0	0	0	17,017
Unrealized Gain on Investments	74,905	0	74,905	202,180
<b>Change in Net Assets</b>	<u>480,318</u>	<u>68,324</u>	<u>548,641</u>	<u>483,654</u>
Net Assets-----Beginning of Year	3,677,874	1,390,198	5,068,072	4,584,418
<b>Net Assets-----End of Year</b>	<u>\$ 4,158,192</u>	<u>\$ 1,458,522</u>	<u>\$ 5,616,713</u>	<u>\$ 5,068,072</u>

(See Notes to Financial Statements)

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

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	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 548,641	\$ 483,654
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities:		
Change in Unrealized Appreciation of Investments	-149,812	-202,021
Depreciation	7,260	7,868
Change in Operating Assets and Liabilities:		
Other Receivables and Other Assets	14,980	-17,291
Contributions Receivable	-400,250	60,500
Accrued Expenses and Other Liabilities	39,439	44,655
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>\$ 60,258</b>	<b>\$ 377,365</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of Furniture and Equipment	-15,013	-21,564
Purchases of Investments, Net	-236,728	-236,728
<b>Net cash (Used in) Provided by Investing Activities</b>	<b>\$ (15,013)</b>	<b>\$ (258,292)</b>
<b>Net Increase (Decrease) in Cash</b>	45,245	119,073
Cash, Beginning of Year	427,910	308,837
<b>Cash, End of Year</b>	<b>\$ 473,155</b>	<b>\$ 427,910</b>

(See Notes to Financial Statements)

# The French American Foundation

## Notes to Financial Statements

June 30, 2006

### 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**

## **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

## 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, 2006, all of the Foundation's cash is maintained in one major financial institution.

### 3. Investments

Investments consist of the following at June 30:

	2006		2005	
	Cost	Market	Cost	Market
Mutual Funds	2,431,177	3,773,160	2,615,520	3,624,690
U.S. Treasury Money Market	40,734	40,734	39,391	39,391
<b>Totals</b>	<b>\$ 2,471,911</b>	<b>\$ 3,813,894</b>	<b>\$ 2,654,911</b>	<b>\$ 3,664,081</b>

Fair Values of investments are based on quoted market prices.

### 4. Contributions Receivable

At June 30, 2006, contributions receivable are due as follows:

<i>One Year</i>	<i>\$713,250</i>
<i>Two-Five Years</i>	<i>- 0 -</i>
<i>Total</i>	<i><u>\$713,250</u></i>

## The French American Foundation

### 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 \$ 694,000

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, 2006, the balance of the Board Designated Fund was \$3,255,053 and is included within the unrestricted net assets in the accompanying balance sheet.

### 7. Temporarily Restricted Net Assets

At June 30, 2006, the Foundation's temporarily restricted net assets are available for the following purposes:

EHT Fund	\$ 886,219
Bicentennial Fellowships	368,344
Courants	85,199
Young Leaders	59,928
French Government Grant	19,750
Lounsbery Project – Historical Ties	14,861
Signature Conference	9,408
Minorities Programs	6,394
Translation Prize	<u>8,420</u>
	<u>\$1,458,523</u>

## The French American Foundation

### 7. Temporarily Restricted Net Assets ( Continued )

EHT Speaker Series	\$ 34,018
National Programming	32,600
Policy Meetings & Briefings	19,417
Congressional Roundtable	16,398
Young Leaders Symposium	15,399
Others	<u>6,776</u>
Total	<u>\$124,608</u>

### 8. Commitments

The foundation leases office space in New York City under an operating lease which expires July 2010. Rent expense for fiscal year 2006 was \$107,235. 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, 2006. The future minimum annual rental commitments of the lease are approximately as follows:

2007	97,244
2008	99,432
2009	101,699
2010	105,608

### 9. 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 2006, the Foundation made contributions in the amount of \$ 10,502.

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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. Klaus & Co., P.C.*

Certified Public Accountants

Dated: October 31, 2006

**THE FRENCH - AMERICAN FOUNDATION**  
**SCHEDULE OF EXPENSES**  
**YEAR ENDED JUNE 30, 2006**

**Supporting Services**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Relationship Development</u>	<u>Total</u>
Salaries/ Project Staff Fees	\$ 28,599	\$ 548,541	\$ -	\$ -	\$ 577,140
Transportation and Lodging	126,960	8,689	2,093	21,014	158,756
Project Consulting and Professional Fees	0	31,163	62,369	5,240	98,772
Meeting Space / Equipment	11,723	0	0	0	11,723
Occupancy	0	107,235	0	0	107,235
Awards	20,000	-	0	0	20,000
Office Expense	0	9,841	3,180	0	13,021
Catering, Meals and Conference Facilities	104,344	9,796	12,134	24,501	150,775
Duplicating, Printing and Publications	7,386	22,538	25,123	14,478	69,525
Insurance	0	7,649	0	0	7,649
Employee Benefits	0	61,821	0	0	61,821
Payroll Taxes	0	39,314	0	0	39,314
Postage and Shipping	4,384	6,651	2,756	67	13,859
Equipment Rental/Maintenance	1,275	13,558	0	0	14,833
Telephone	697	14,136	0	43	14,876
Performers Fees	0	12,324	0	0	12,324
Depreciation	0	7,260	0	0	7,260
Other	3,648	4,336	872	0	8,857
<b>Sub - Total</b>	<b>309,017</b>	<b>904,851</b>	<b>108,527</b>	<b>65,344</b>	<b>1,387,739</b>
Allocations	310,754	(633,156)	175,448	146,954	0
<b>Totals</b>	<b>\$ 619,771</b>	<b>\$ 271,695</b>	<b>\$ 283,975</b>	<b>\$ 212,298</b>	<b>\$ 1,387,739</b>

**The French-American Foundation**  
**Schedule of Program Activities**  
Year ended June 30, 2006

	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	\$ 886,219	-	886,219	-	-	-	886,219
Bicentennial Fellowships	368,344	-	368,344	-	-	-	368,344
Young Leaders Meeting	53,368	159,800	213,168	153,240	153,240	-	59,928
Minorities Programs	31,552	-	31,552	25,158	25,158	-	6,394
Courants	24,158	90,000	114,158	28,959	28,959	-	85,199
Young Leaders Circle Symposium	12,733	97,691	110,424	125,823	110,424	15,399	-
Translation Prize	7,126	52,662	59,788	51,368	51,368	-	8,420
Lounsbury Project -Historical Ties	6,699	95,010	101,709	86,848	86,848	-	14,861
Signature Conference	-	12,200	12,200	2,792	2,792	-	9,408
Defense Symposium	-	12,200	12,200	15,740	12,200	3,540	-
EHT Speaker Series	-	24,174	24,174	58,192	24,174	34,018	-
Policy Meetings & Briefings	-	-	-	19,417	-	19,417	-
French Government Grant	-	19,750	19,750	-	-	-	19,750
National Programming	-	-	-	32,600	-	32,600	-
Congressional Roundtable	-	-	-	16,398	-	16,398	-
Publishers Exchange	-	-	-	1,402	-	1,402	-
Early Education	-	-	-	1,834	-	1,834	-
	<b>\$ 1,390,199</b>	<b>\$ 563,487</b>	<b>\$1,953,686</b>	<b>\$ 619,771</b>	<b>\$ 495,163</b>	<b>\$ 124,608</b>	<b>\$ 1,458,523</b>