



FRENCH
HERITAGE
SOCIETY

FRENCH HERITAGE SOCIETY, INC.

Financial Statements
(Together with Independent Auditors' Report)

Years Ended December 31, 2012 and 2011



Marks Paneth & Shron^{LLP}

Certified Public Accountants & Consultants

IT ALL ADDS UP.

FRENCH HERITAGE SOCIETY, INC.
FINANCIAL STATEMENTS

(Together with Independent Auditors' Report)

YEARS ENDED DECEMBER 31, 2012 AND 2011

CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses.....	4-5
Statement of Cash Flows	6
Notes to Financial Statements.....	7-13

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
French Heritage Society, Inc.

We have audited the accompanying statements of financial position of French Heritage Society, Inc. (the "Organization") which comprise the statements of financial position as of December 31, 2012 and 2011, 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 accounting principles generally accepted in the United State of America; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 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 the 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of account policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



New York, NY
November 14, 2013



FRENCH HERITAGE SOCIETY, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents (Notes 2B, and 11)	\$ 556,387	\$ 866,433
Investments (Notes 2E, 3 and 14)	149,339	119,864
Grants receivable (Notes 2F and 2O)	41,318	36,166
Pledges and contributions receivable, net (Note 4)	322,707	-
Membership receivable (Note 2O)	9,102	13,384
Prepaid expenses and other assets (Note 5)	218,747	117,208
Inventory (Note 2H)	-	21,098
Property and equipment, net (Notes 2D and 6)	4,966	4,705
TOTAL ASSETS	\$ 1,302,566	\$ 1,178,858
LIABILITIES		
Accounts payable and accrued expenses	\$ 46,190	\$ 43,447
Deferred revenue (Note 7)	154,847	315,567
Restoration projects payable (Note 8)	566,836	511,573
TOTAL LIABILITIES	767,873	870,587
COMMITMENTS AND CONTINGENCIES (Note 9)		
NET ASSETS: (Notes 2C, 12 and 13)		
Unrestricted		
Designated for operating activities	216,250	239,771
Designated for scholarships	14,750	13,000
	231,000	252,771
Temporarily restricted (Note 13)	303,693	55,500
TOTAL NET ASSETS	534,693	308,271
TOTAL LIABILITIES AND NET ASSETS	\$ 1,302,566	\$ 1,178,858

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

FRENCH HERITAGE SOCIETY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012 AND 2011

	Year Ended December 31, 2012			Year Ended December 31, 2011		
	Unrestricted	Temporarily Restricted	Total 2012	Unrestricted	Temporarily Restricted	Total 2011
REVENUE AND SUPPORT (Note 2G):						
Grants and contributions	\$ 839,015	\$ 181,391	\$ 1,020,406	\$ 510,438	\$ 55,500	\$ 565,938
Grants and contributions - 30th anniversary	32,189	214,517	246,706	-	-	-
Special events, less direct expense of \$1,266,167 and \$79,154 (Note 1)	252,867	-	252,867	158,456	-	158,456
Program revenue	82,296	-	82,296	443,057	-	443,057
Membership fees	61,951	-	61,951	69,744	-	69,744
Sale of inventory (net of cost of \$- 0- and \$961)	585	-	585	436	-	436
Investment return (Notes 2E and 3)	16,445	-	16,445	16,617	-	16,617
Other income	7,628	-	7,628	17,209	-	17,209
In-kind contributions (Notes 2J and 2K)	116,773	-	116,773	9,782	-	9,782
Net assets released from program restrictions (Note 13)	147,715	(147,715)	-	-	-	-
Total Revenue and Support	1,557,464	248,193	1,805,657	1,225,739	55,500	1,281,239
EXPENSES (Note 2N):						
Program services:						
Restoration (including grants and awards of \$364,081 and \$20,000)	503,085	-	503,085	146,299	-	146,299
Cultural exchange and educational programs	442,999	-	442,999	469,732	-	469,732
Membership services	192,504	-	192,504	230,313	-	230,313
	<u>1,138,588</u>	<u>-</u>	<u>1,138,588</u>	<u>846,344</u>	<u>-</u>	<u>846,344</u>
Supporting services						
Management and general	205,737	-	205,737	214,159	-	214,159
Fundraising	177,523	-	177,523	215,523	-	215,523
	<u>383,260</u>	<u>-</u>	<u>383,260</u>	<u>429,682</u>	<u>-</u>	<u>429,682</u>
Total Expenses	1,521,848	-	1,521,848	1,276,026	-	1,276,026
Change in net assets before translation adjustment	35,616	248,193	283,809	(50,287)	55,500	5,213
Foreign currency translation adjustment (Note 2M)	(57,387)	-	(57,387)	46,742	-	46,742
TOTAL CHANGE IN NET ASSETS	(21,771)	248,193	226,422	(3,545)	55,500	51,955
Net Assets - Beginning of Year	252,771	55,500	308,271	256,316	-	256,316
NET ASSETS - END OF YEAR	\$ 231,000	\$ 303,693	\$ 534,693	\$ 252,771	\$ 55,500	\$ 308,271

FRENCH HERITAGE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Program Services				Supporting Services			Total 2012
	Restoration	Cultural exchange and educational programs	Membership services	Total program Services	Management and general	Fundraising	Total supporting Services	
Salaries	\$ 57,097	\$ 100,760	\$ 60,456	\$ 218,313	\$ 67,173	\$ 50,380	117,553	\$ 335,866
Payroll taxes and employee benefits (Note 10)	22,418	39,561	23,736	85,715	26,374	19,780	46,154	131,869
Total Salaries and Related Costs	79,515	140,321	84,192	304,028	93,547	70,160	163,707	467,735
Grants and awards	364,081	29,163	-	393,244	-	-	-	393,244
Accounting and audit	-	-	-	-	29,100	-	29,100	29,100
Communications and website	2,641	4,651	2,796	10,098	3,107	2,330	5,437	15,535
Postage	3,190	5,630	3,378	12,198	3,753	2,815	6,568	18,766
Occupancy	16,887	29,801	17,880	64,568	19,867	14,900	34,767	99,335
Publications	2,664	2,664	42,618	47,946	2,664	2,664	5,328	53,274
Board meetings	-	-	-	-	11,052	-	11,052	11,052
Office expenses	7,896	13,934	8,360	30,190	9,289	6,967	16,256	46,446
Promotion	611	1,078	647	2,336	718	539	1,257	3,593
Program materials and hospitality	25,149	82,993	33,323	141,465	33,323	76,706	110,029	251,494
Staff hotels and travel	2,095	3,696	2,218	8,009	2,464	1,848	4,312	12,321
Consultants	408	719	432	1,559	480	360	840	2,399
Bad debt expense	-	10,000	-	10,000	-	-	-	10,000
Inventory write-downs	-	21,098	-	21,098	-	-	-	21,098
Depreciation	213	376	225	814	250	188	438	1,252
In-kind expenses	-	100,773	-	100,773	-	-	-	100,773
Currency transaction fluctuation (Note 2M)	(6,103)	(10,681)	(7,629)	(24,413)	(8,392)	(5,340)	(13,732)	(38,145)
Miscellaneous	3,838	6,773	4,064	14,675	4,515	3,386	7,901	22,576
Total Expenses	\$ 503,085	\$ 442,999	\$ 192,504	\$ 1,138,588	\$ 205,737	\$ 177,523	\$ 383,260	\$ 1,521,848

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

FRENCH HERITAGE SOCIETY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services			Supporting Services			Total 2011	
	Restoration	Cultural exchange and educational programs	Membership services	Total program Services	Management and general	Fundraising		Total supporting Services
Salaries	\$ 53,899	\$ 94,323	\$ 67,374	\$ 215,596	\$ 74,111	\$ 47,162	121,273	\$ 336,869
Payroll taxes and employee benefits (Note 9)	20,909	36,590	26,136	83,635	28,750	18,295	47,045	130,680
Total Salaries and Related Costs	74,808	130,913	93,510	299,231	102,861	65,457	168,318	467,549
Grants and awards	20,000	22,112	-	42,112	-	-	-	42,112
Accounting and audit	-	-	-	-	21,400	-	21,400	21,400
Communications and website	3,667	6,417	4,583	14,667	5,042	3,208	8,250	22,917
Postage	3,104	5,432	3,880	12,416	4,268	2,716	6,984	19,400
Occupancy	12,882	22,544	16,103	51,529	17,713	11,272	28,985	80,514
Publications	-	-	73,191	73,191	-	-	-	73,191
Board meetings	-	-	-	-	10,174	-	10,174	10,174
Office expenses	6,145	10,755	7,682	24,582	8,450	5,377	13,827	38,409
Promotion	690	1,207	862	2,759	948	604	1,552	4,311
Program materials and hospitality	3,008	230,832	3,008	236,848	3,008	107,645	110,653	347,501
Participants hotels and travel	-	1,028	-	1,028	-	-	-	1,028
Staff hotels and travel	6,510	11,392	8,137	26,039	8,951	5,696	14,647	40,686
Consultants	2,784	4,873	3,481	11,138	3,829	2,436	6,265	17,403
Bad debt expense	-	-	-	-	10,050	-	10,050	10,050
Depreciation	26	45	32	103	36	23	59	162
Currency transaction fluctuation (Note 2M)	7,932	13,881	9,915	31,728	10,907	6,941	17,848	49,576
Miscellaneous	4,743	8,301	5,929	18,973	6,522	4,148	10,670	29,643
Total Expenses	\$ 146,299	\$ 469,732	\$ 230,313	\$ 846,344	\$ 214,159	\$ 215,523	\$ 429,682	\$ 1,276,026

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

FRENCH HERITAGE SOCIETY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 226,422	\$ 51,955
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,252	162
Bad debt	10,000	-
Inventory write-downs	21,098	-
Realized gain on investments	(4,189)	-
Unrealized (gain)/loss on investments	(7,060)	(11,751)
Subtotal	247,523	40,366
Changes in operating assets and liabilities:		
Grants receivable	(5,152)	7,015
Pledges and contributions receivable	(332,707)	-
Membership receivable	4,282	(699)
Inventory	-	961
Prepaid expenses and other assets	(101,539)	(97,306)
Accounts payable and accrued expenses	2,743	(11,639)
Deferred revenue	(160,720)	190,912
Restoration projects payable	55,263	(209,620)
Net Cash Used in Operating Activities	(290,307)	(80,010)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(18,226)	(20,605)
Purchases of property and equipment	(1,513)	(4,867)
Net Cash Used in Investing Activities	(19,739)	(25,472)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(310,046)	(105,482)
Cash and cash equivalents, beginning of year	866,433	971,915
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 556,387	\$ 866,433

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

**FRENCH HERITAGE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

French Heritage Society, Inc. (the "Organization"), formerly known as Friends of VMF, Inc., was established in 1981. The Organization is dedicated to preserving the French architectural, cultural and historical heritage and environment, and to fostering educational and cultural exchange between France and the United States.

The Organization has been determined by the Internal Revenue Service to be exempt from Federal income taxes pursuant to Section 501(c) (3) of the Internal Revenue Code of 1986, as amended.

In keeping with its tradition of having major fundraising-celebratory events every fifth anniversary year, in October 2012 the Organization celebrated its 30th anniversary with a series of events for its members that included: trips through the southwest of France, from the city of Toulouse to the town of Saint Jean de Luz on the Atlantic coast (during which trips the participants were hosted in private residences and visited restoration projects that the Organization had funded); a private reception at the City Hall of Paris; and a Gala Dinner and Dance at the legendary Royal Château de Fontainebleau. The amounts related to those events for revenues received (including grants and contributions and pledges and contributions receivable), for expenses incurred, and for prepaid expenses and deferred revenues, exceeded the amounts typically reflected in the Organization's financial statements for years not affected by fifth anniversary events.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The Organization's financial statements have been prepared on the accrual basis of accounting. The Organization adheres to accounting principles generally accepted in the United States of America.
- B. The Organization considers all highly liquid instruments with maturities of 90 days or less, when acquired, to be cash and cash equivalents.
- C. The Organization maintains its net assets under the following three classes:
- Unrestricted – represents resources available for support of the Organization's operations over which the Board of Directors has discretionary control.
 - Temporarily Restricted – represents contributions and other inflows of assets that are subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reported in the statement of activities as net assets released from restrictions.
 - Permanently Restricted – represents those resources subject to donor imposed stipulations that they be maintained intact in perpetuity. The donor permits the use of all the income on related investments and the net capital appreciation thereon, for restricted purpose. There were no permanently restricted net assets as at December 31, 2012 and 2011.
- D. Property and equipment is stated at cost less accumulated depreciation and amortization. These amounts do not purport to represent replacement or realizable values. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The Organization capitalizes property and equipment with a cost of \$1,000 or more and a useful life greater than one year.
- E. Investments are stated at fair values. Unrealized and realized gains and losses and investment income are reported in the statement of activities in investment return, as increases or decreases in unrestricted net assets.

FRENCH HERITAGE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- F. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts were computed using risk-free interest rates applicable to the years in which the promises were received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.
- G. In accordance with accounting principles generally accepted in the United States of America, contributions received are classified depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support and increase those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- H. Inventory consists of cultural and educational books and was valued at cost for the year ended December 31, 2011.
- I. Deferred revenue represents funds received in advance, but relating to future periods.
- J. Donated goods are recorded as support at their estimated fair value at the date of the donation. Each donation is reported as unrestricted support unless the donor has restricted it for a specific purpose. The value of these contributions is reflected in the accompanying financial statements as in-kind contributions in the accompanying statement of activities, since they are subject to objective measurement or valuation. The in-kind contributions for the years ended December 31, 2012 and 2011 amounted to \$116,773 and \$9,782, respectively.
- K. Donated services are recognized as contributions in the financial statements if the services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. There were no donated services for the years ended December 31, 2012 and 2011.
- L. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels as described in Note 14.
- M. The functional currency of the New York office of the Organization is the U.S dollar. The functional currency of the Paris office is the Euro. Revenues and expenditures of the Paris office have been translated into U.S. dollars at the average exchange rates prevailing during the period. Assets and liabilities have been translated at the rates of exchanges on the statement of financial position date and net assets are translated at historical rates. The resulting translation gain and loss adjustments are recorded directly as a component of net assets. Foreign currency translation adjustments amounted to a gain/(loss) of \$57,387 and (\$46,742) for the years ended December 31, 2012 and 2011, respectively. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the statement of activities. The Organization has recorded realized transaction (gains)/losses of (\$38,145) and \$49,576 for the years ended December 31, 2012 and 2011, respectively.

**FRENCH HERITAGE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- N. Functional expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated between program and supporting service classifications using estimates determined by management to be reasonable.
- O. The Organization uses a combination of factors, such as management's assessment of the credit worthiness of its sponsors, age basis of the receivable, current economic conditions and historical experience to determine allowances for grants, pledges and membership receivables. As of December 31, 2012 and 2011, the Organization determined that no allowance for uncollectable accounts was necessary for grants, pledges and membership receivables.
- P. The Organization has no uncertain tax positions as of December 31, 2012 and 2011 in accordance with Accounting Standards Codification ("ASC") 740, which provides standards for establishing and classifying any tax provision for uncertain tax positions. The Organization is no longer subject to federal, state or local income tax examinations by the authorities for the years before 2009.
- Q. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the financial statements. Actual results could differ from those estimates.
- R. Certain items in the December 31, 2011 financial statements have been reclassified to conform with the December 31, 2012 presentation. These reclassifications had no impact on the change in net assets for the year ended December 31, 2011.

NOTE 3 – INVESTMENTS

Investments consist of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
U.S. Common stock:		
Basic materials	\$ 69,431	\$ 48,351
Consumer goods	39,978	35,133
Healthcare	16,288	16,913
Technology	<u>23,642</u>	<u>19,467</u>
	<u>\$ 149,339</u>	<u>\$ 119,864</u>

Investments are subject to market volatility that could substantially change their carrying value in the near term.

Investment return consists of the following for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 5,196	\$ 4,866
Unrealized gain/(loss) on investments	7,060	11,751
Realized gain/(loss) on investments	<u>4,189</u>	<u>-</u>
	<u>\$ 16,445</u>	<u>\$ 16,617</u>

**FRENCH HERITAGE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 4 – PLEDGES AND CONTRIBUTIONS RECEIVABLE, NET

Contributions expected to be received after one year are discounted at a risk-adjusted rate of return. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contribution.

At December 31, 2012, pledges and contributions receivable are as follows:

	<u>2012</u>
Amount expected to be collected in:	
Less than one year	\$ 183,565
One to five years	<u>143,334</u>
	<u>326,899</u>
Less: Discount for net present value (4.0%)	<u>(4,192)</u>
	<u>\$ 322,707</u>

NOTE 5 – PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other receivables consist of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Security deposits	\$ 18,662	\$ 18,662
Credit card processing – deposit (a)	162,297	-
Prepaid 30 th anniversary event	-	76,120
Other	<u>37,788</u>	<u>22,426</u>
	<u>\$ 218,747</u>	<u>\$ 117,208</u>

(a) In 2012 First Data Corporation, the credit card processing company engaged by the Organization, required a reserve of \$162,297 for the processing of ticket purchases relating to the 30th anniversary events.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>	<u>Estimated Useful Lives</u>
Software and computer equipment	\$ 36,736	\$ 36,026	5 years
Furniture and equipment	<u>4,779</u>	<u>3,924</u>	5 years
	41,515	39,950	
Less: accumulated depreciation	<u>(36,549)</u>	<u>(35,245)</u>	
Net book value	<u>\$ 4,966</u>	<u>\$ 4,705</u>	

Depreciation and amortization expense amounted to \$1,252 and \$162 for the years ended December 31, 2012 and 2011, respectively.

**FRENCH HERITAGE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 7 – DEFERRED REVENUE

Deferred revenue consists of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Membership	\$ 137,147	\$ 116,169
Programs	17,700	41,224
30 th anniversary event	<u>-</u>	<u>158,174</u>
	<u>\$ 154,847</u>	<u>\$ 315,567</u>

NOTE 8 – RESTORATION PROJECTS PAYABLE

The Organization's obligation to pay grants and awards for restoration projects is incurred and recorded as a liability when all conditions of the grants and awards are met. The principal conditions to be met are the availability of matching funds, substantial completion of the projects, and submission of all supporting documentation. Of the total \$566,836 restoration projects payable, \$296,836 is payable in 2013, and the remaining balance of \$270,000 is payable in 2014.

In addition, the Organization is committed to other restoration projects, which are in the early stages and where all conditions have not been met. This commitment totaled approximately \$207,000 and \$55,000 as of December 31, 2012 and 2011, respectively.

NOTE 9 – COMMITMENTS

The Organization has two lease agreements for its office spaces in New York, New York and Paris, France expiring on April 30, 2013 and September 30, 2017, respectively.

In addition, the Organization leases certain equipment under agreements expiring through June 30, 2013.

The approximate future minimum lease payments as of December 31, 2012 are as follows:

	<u>Equipment</u>	<u>Real Property</u>
2013	\$ 3,900	\$ 80,000
2014	3,900	77,000
2015	3,900	77,000
2016	900	79,000
2017	500	70,000
Thereafter	<u>-</u>	<u>14,000</u>
	<u>\$ 13,100</u>	<u>\$ 397,000</u>

Rent expense amounted to the following for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Equipment	<u>\$ 3,815</u>	<u>\$ 7,306</u>
Real property	<u>\$ 99,335</u>	<u>\$ 80,514</u>

**FRENCH HERITAGE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 10 – SAVINGS INCENTIVE MATCH PLAN FOR EMPLOYEES

The Organization has a Savings Incentive Match Plan for Employees (SIMPLE IRA) for its eligible employees. The plan will provide individual retirement accounts in accordance with the Internal Revenue Code. The plan stipulates that the employer may make discretionary contributions in each of its taxable years (up to 3% of compensation) to the individual retirement accounts of all eligible employees. The Organization contributed \$7,820 and \$3,000 to the plan in for the years ended December 31, 2012 and 2011, respectively.

NOTE 11 – CONCENTRATIONS

Financial instruments that potentially subject the Organization to a concentration of credit risk include cash accounts with various financial institutions that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. In 2010 the basic limit on FDIC insurance was permanently increased to \$250,000 and, beginning December 31, 2010 through December 31, 2012, deposits held in noninterest-bearing accounts were fully insured regardless of the amount in the account, at all FDIC-insured institutions. As of December 31, 2012 and 2011, the Organization had cash accounts with various financial institutions that exceeded the FDIC insurance limits by approximately \$93,781 and \$264,000, respectively.

NOTE 12 – BOARD DESIGNATED NET ASSETS

The Board of Directors of the Organization has established that all donations received for scholarships (\$14,750 and \$13,000 as of December 31, 2012 and 2011 respectively) would be separately accounted for as unrestricted net assets, designated for scholarships.

NOTE 13 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
For restoration projects:		
Chateau de Chavaniac	\$ 21,830	\$ 20,500
Chateau de Lacour d’Arcenay	10,300	10,000
Historic preservation internship program	1,922	25,000
Monticello	10,581	-
Abbaye de Mondaye	46,667	-
Gizeux	24,818	-
St. Gery	27,960	-
Auch	124,321	-
Fontainebleau	<u>35,294</u>	<u>-</u>
 Total temporarily restricted net assets	 <u>\$ 303,693</u>	 <u>\$ 55,000</u>

Net assets totaling \$147,715 were released from restrictions during the year ended December 31, 2012 by incurring expenses in satisfaction of the donor restrictions.

**FRENCH HERITAGE SOCIETY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

NOTE 14 – FAIR VALUE MEASUREMENTS

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted price in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. Investments in equities and mutual funds are valued using market prices in active markets (Level 1). Level 1 instrument valuations are obtained from real-time quotes in active exchange markets involving identical assets. Corporate bonds are designated as Level 2 instruments and valuations are obtained from readily-available pricing sources for comparable instruments (credit risk/grade, maturities, etc).

Financial assets carried at fair value at December 31, 2012 and 2011 are classified in the fair value hierarchy in Level 1 as follows:

	<u>2012</u> <u>Level 1</u>	<u>2011</u> <u>Level 1</u>
ASSETS CARRIED AT FAIR VALUE		
U.S. Common stock:		
Basic materials	\$ 69,431	\$ 48,351
Consumer goods	39,978	35,133
Healthcare	16,288	16,913
Technology	<u>23,642</u>	<u>19,467</u>
	<u>\$ 149,339</u>	<u>\$ 119,864</u>

NOTE 15 – SUBSEQUENT EVENTS

The Organization has evaluated, for potential recognition and disclosure, events subsequent to the statement of financial position date through November 14, 2013, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through November 14, 2013 that would require adjustment to or disclosure in the financial statements.