

**THE JAMES BEARD FOUNDATION, INC.**  
**FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

# THE JAMES BEARD FOUNDATION, INC.

**CONTENTS**  
**March 31, 2006**

---

<b>Independent Auditor's Report</b>	1
<b>Financial Statements:</b>	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 12



# GOLDSTEIN GOLUB KESSLER LLP

Certified Public Accountants and Consultants

---

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
The James Beard Foundation, Inc.

We have audited the accompanying statement of financial position of The James Beard Foundation, Inc. (the "Foundation") as of March 31, 2006, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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 presents fairly, in all material respects, the financial position of The James Beard Foundation, Inc. as of March 31, 2006, 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 of America.

*Goldstein Golub Kessler LLP*

## GOLDSTEIN GOLUB KESSLER LLP

June 9, 2006, except for Note 13, as to  
which the date is December 21, 2006

# THE JAMES BEARD FOUNDATION, INC.

## STATEMENT OF FINANCIAL POSITION

March 31, 2006

### ASSETS

Cash and Cash Equivalents	\$ 8,716
Restricted Cash and Cash Equivalents	598,333
Grants and Other Receivables	19,499
Restricted Investments, at fair value	109,461
Prepaid Expenses and Other Assets	488,217
Property and Equipment, net	1,074,428
<b>Total Assets</b>	<b>\$ 2,298,654</b>

### LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 652,707
Line of credit	498,333
Deferred revenue	981,792
Grants payable	21,250
Funds received on behalf of others	26,817
<b>Total liabilities</b>	<b>2,180,899</b>

Commitments

Net Assets:	
Unrestricted	(1,172,641)
Temporarily restricted	1,290,396
<b>Net assets</b>	<b>117,755</b>

<b>Total Liabilities and Net Assets</b>	<b>\$ 2,298,654</b>
---	---------------------

See Notes to Financial Statements

# THE JAMES BEARD FOUNDATION, INC.

## STATEMENT OF ACTIVITIES

**Year ended March 31, 2006**

	Unrestricted	Temporarily Restricted	Total
<b>Support and revenue:</b>			
Contributions	\$ 281,981	\$ 92,150	\$ 374,131
Membership fees	683,385		683,385
In-house events	1,553,465		1,553,465
Gala event sponsorships and ticket sales	603,351	19,499	622,850
Out-of-house events and auctions	601,317		601,317
Newsletter advertising and directories income	83,219		83,219
Rental income	214		214
Dividend and interest income	4,941	21,861	26,802
Unrealized and realized net gains on investments		9,271	9,271
Net assets released from restrictions - satisfaction of program and time restrictions	285,800	(285,800)	
<b>Total support and revenue</b>	<b>4,097,673</b>	<b>(143,019)</b>	<b>3,954,654</b>
<b>Expenses:</b>			
Program services:			
Scholarship and education	347,344		347,344
Member services	157,958		157,958
In-house events	1,505,895		1,505,895
Awards	779,618		779,618
Out-of-house events	249,830		249,830
Publications and communications	705,918		705,918
<b>Total program services</b>	<b>3,746,563</b>		<b>3,746,563</b>
Supporting services:			
Management and general	1,181,264		1,181,264
Fund-raising	417,230		417,230
<b>Total supporting services</b>	<b>1,598,494</b>		<b>1,598,494</b>
<b>Total expenses</b>	<b>5,345,057</b>		<b>5,345,057</b>
<b>Change in net assets</b>	<b>(1,247,384)</b>	<b>(143,019)</b>	<b>(1,390,403)</b>
<b>Net assets at beginning of year</b>	<b>74,743</b>	<b>1,433,415</b>	<b>1,508,158</b>
<b>Net assets (deficiency) at end of year</b>	<b>\$(1,172,641)</b>	<b>\$1,290,396</b>	<b>\$ 117,755</b>

See Notes to Financial Statements

# THE JAMES BEARD FOUNDATION, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

Year ended March 31, 2006

	Program Services						Supporting Services				Total
	Scholarship and Education	Member Services	In-house Events	Awards	Out-of- house Events	Publications and Communica- tions	Total Program Services	Management and General	Fund- raising	Total Supporting Services	
Salaries	\$104,711	\$ 87,260	\$ 855,148	\$ 69,808	\$ 87,260	\$122,164	\$1,326,351	\$ 314,136	\$104,712	\$ 418,848	\$1,745,199
Payroll taxes and employees benefits	17,876	14,896	166,942	11,917	14,896	23,834	250,361	42,882	5,958	48,840	299,201
Scholarship grants	140,884						140,884				140,884
Grants to other organizations	53,633						53,633				53,633
Accounting and legal fees								413,019	2,570	415,589	415,589
Consultants and other professional fees	605		47,745	167,969	46,305	89,566	352,190	73,602	133,643	207,245	559,435
Office expense	1,242	1,673	4,808	2,141	1,989	10,057	21,910	15,188	829	16,017	37,927
Postage and shipping	438	8,016	6,614	10,232	5,001	63,797	94,098	7,102	5,270	12,372	106,470
Printing	2,760	11,323	2,794	26,625	5,246	180,807	229,555	4,494	13,821	18,315	247,870
Equipment rental and computer maintenance	2,549	15,461	12,722	2,259	26,337	18,866	78,194	38,777	149	38,926	117,120
Maintenance	639	809	39,384	162	3,938	3,343	48,275	49,090		49,090	97,365
Advertising and newsletter	500		450	46,220		36,686	83,856		37	37	83,893
Event and kitchen supplies	13		219,097	5,027	10,440	92	234,669	5,882	4,756	10,638	245,307
Design and layout				3,300	9,750	74,938	87,988		1,700	1,700	89,688
Event and meeting space rental	2,265			19,729	5,000		26,994		85,586	85,586	112,580
Event production				249,666	7,510		257,176		5,175	5,175	262,351
Invitations and programs	5,210			18,180	4,725		28,115		13,047	13,047	41,162
Award items and decorations			17,428	15,210	575	2,137	35,350	341	1,251	1,592	36,942
Rent	6,936	200	8,624	6,079	8,467	39,403	69,709	55,944	972	56,916	126,625
Telephone	1,766	4,346	7,754	875	1,129	6,510	22,380	9,522	107	9,629	32,009
Utilities	407	1,151	29,121	288	407	2,122	33,496	16,796		16,796	50,292
Insurance			6,127		815		6,942	32,071		32,071	39,013
Travel and entertainment	2,804	4,313	3,450	95,455	5,263	1,006	112,291	30,726	17,102	47,828	160,119
Real estate taxes								22,789		22,789	22,789
Photography				3,481		1,615	5,096	202	325	527	5,623
Library				2,832		5,265	8,097				8,097
Auction items									2,175	2,175	2,175
Web site and internet fees	691	520	1,200	16,969	806	22,316	42,502	3,795		3,795	46,297
Interest								28,295		28,295	28,295
Bank charge and credit card and other processing fees	32	6,606	39,894	3,810	2,587	10	52,939	1,282	4,900	6,182	59,121
Miscellaneous			2,000				2,000	800		800	2,800
	345,961	156,574	1,471,302	778,234	248,446	704,534	3,705,051	1,166,735	404,085	1,570,820	5,275,871
Depreciation	1,383	1,384	34,593	1,384	1,384	1,384	41,512	14,529	13,145	27,674	69,186
<b>Total expenses</b>	<b>\$347,344</b>	<b>\$157,958</b>	<b>\$1,505,895</b>	<b>\$779,618</b>	<b>\$249,830</b>	<b>\$705,918</b>	<b>\$3,746,563</b>	<b>\$1,181,264</b>	<b>\$417,230</b>	<b>\$1,598,494</b>	<b>\$5,345,057</b>

See Notes to Financial Statements

# THE JAMES BEARD FOUNDATION, INC.

## STATEMENT OF CASH FLOWS

### Year ended March 31, 2006

Cash flows from operating activities:	
Change in net assets	\$(1,390,403)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	69,186
Unrealized and realized net gains on investments	(9,271)
Changes in operating assets and liabilities:	
Decrease in restricted cash and cash equivalents	394,064
Decrease in grants and other receivables	133,751
Increase in prepaid expenses and other assets	(408,034)
Increase in accounts payable and accrued expenses	191,447
Increase in deferred revenue	302,861
Increase in grants payable	30,000
Decrease in funds received on behalf of others	(3,183)
<b>Net cash used in operating activities</b>	<b>(689,582)</b>
Cash used in investing activity - purchase of property and equipment	(89,262)
Cash flows from financing activity - proceeds from line of credit	184,971
Net decrease in cash and cash equivalents	(593,873)
Cash and cash equivalents at beginning of year	602,589
Cash and cash equivalents at end of year	\$ 8,716

### Supplemental disclosure of cash flow information:

Cash paid during the year for interest	\$ 28,295
--	-----------

See Notes to Financial Statements

# THE JAMES BEARD FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS March 31, 2006

### 1. DESCRIPTION OF ORGANIZATION:

The James Beard Foundation, Inc. (the "Foundation") was incorporated under the Not-for-Profit Corporation law of the State of New York on September 19, 1985. The Foundation is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code").

The charitable and educational purposes for which the Foundation was established are to preserve and promulgate America's culinary heritage and the legacy of James Beard, maintain the Beard house as a historical culinary center, maintain the Beard house as a showcase for educational programs relating to food, and maintain the Beard house as a performance space, gallery, research library and meeting center for those interested in the advancement of the culinary arts in America. Additionally, the Foundation was established to support other not-for-profit culinary organizations, provide scholarships to individuals pursuing a career in the culinary arts and recognize and promote excellence in all aspects of the culinary arts.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Foundation reports all gifts of cash and other assets as unrestricted support unless they are received with donor stipulations that limit the use of the donated assets or are designated for future periods. When a purpose restriction is accomplished or a stipulated time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions of assets other than cash are recorded at their estimated fair value.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, and are performed by people with those skills and would otherwise be purchased by the Foundation.

The value of sanitation services contributed by a corporate sponsor amounted to \$15,000 for the year ended March 31, 2006 and is included in contributions and in-house events program service expenses in the accompanying statement of activities.

The Foundation received food, wine, Perrier water, coffee, tea, countertop appliances, utensils, room accommodations, delivery services and gift bags in connection with its in-house and out-of-house events. Additionally, the Foundation received goods, services and other prizes for its auctions held in conjunction with its fund-raising events. No amounts have been recognized as revenue in the accompanying statement of activities since they do not meet the criteria for recognition under Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*. The Foundation estimates the fair value of these contributed goods, services and facilities to be approximately \$155,000 (unaudited) for the year ended March 31, 2006.

A number of volunteers have made a contribution of their time to the Foundation to develop its programs and to serve on the Foundation's board of directors. The value of this contributed time is not reflected in these financial statements.

# THE JAMES BEARD FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS March 31, 2006

---

Membership fees are recorded in the applicable membership period. The unexpired portion of payments made by members is reflected as deferred revenue. Revenue from the in-house, out-of-house and awards gala events are recognized upon completion of the activity. Prepayments in connection with in-house, out-of-house and awards gala events are expensed in the period in which such events occur. The payments received for the May 2006 awards gala event and fiscal 2007 in-house and out-of-house events are reflected as deferred revenue.

The Foundation maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in these accounts.

The Foundation considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents consist of money market account balances.

Investments are stated at fair value, which is the prevailing market value, with the resulting change in unrealized gains or losses included in the statement of activities.

The Foundation's policy for capitalization of building improvements and office equipment is limited to purchases of \$1,000 or more. Building, building improvements and office equipment are recorded at cost. Depreciation of building, building improvements and office equipment is being provided for by the straight-line method over their estimated useful lives.

Advertising costs are expensed as incurred.

Expenses are classified according to the categories for which they were incurred and are summarized on a functional basis in the accompanying statement of activities. Program services include costs directly associated with the publication of membership newsletters, regular brunch and dinner meetings, and luncheons held to promote and encourage the development of the culinary arts in America, special events to promote innovations in American cuisine and encourage the careers of aspiring chefs and granting scholarships to culinary students to assist with funding culinary education tuition costs.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from those estimates.

### **3. RESTRICTED CASH AND CASH EQUIVALENTS:**

The Foundation maintains funds in separate money market accounts for The Alberto Bello Scholarship Fund, The Arthur Cutler Scholarship Fund, Dana Campbell Scholarship Fund, Friends of James Beard Scholarship Fund, Gene Hovis Scholarship Fund, Peter Cameron Scholarship Fund and Peter Kump Scholarship Fund and House Preservation Fund to fund both scholarship grants and renovations made to the Beard house.

# THE JAMES BEARD FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS March 31, 2006

The restricted cash and cash equivalents consist of the following:

March 31, 2006

Scholarship funds	\$ 2,136
House Preservation Fund	596,197
	<hr/>
	\$598,333

**4. GRANTS AND  
OTHER  
RECEIVABLES:**

Grants and other receivables include unconditional promises due in less than one year amounting to \$19,499. Management believes that the entire amount of grants and other receivables are fully collectible and, accordingly, has not provided an allowance on such receivables.

**5. RESTRICTED  
INVESTMENTS:**

The Foundation maintains funds in a separate brokerage account for its House Preservation Fund to fund renovations made to the Beard house.

The restricted investments consist of the following:

March 31, 2006

Common stock	\$ 38,054
Mutual fund	71,407
	<hr/>
	\$109,461

**6. PROPERTY AND  
EQUIPMENT, NET:**

Property and equipment, net, at cost, consists of the following:

March 31, 2006		Estimated Useful Life
Land	\$ 418,869	
Office equipment	264,444	7 years
Building and building improvements	978,466	27 years
	<hr/>	
	1,661,779	
Less accumulated depreciation	(587,351)	
	<hr/>	
	\$1,074,428	

# THE JAMES BEARD FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS March 31, 2006

**7. LINE OF CREDIT:** The Foundation entered into a line of credit facility on December 23, 2004, with an amendment to its security agreement executed on May 1, 2006, providing for maximum borrowings up to \$650,000. The line of credit bears interest at the bank's prime rate (7.5% at March 31, 2006) rounded up to the nearest 1/8th of one percentage point. The outstanding principal balance and any unpaid interest is due on October 1, 2007. Additionally, the line of credit agreement is collateralized by the Foundation's House Preservation Fund's restricted cash and cash equivalents and investments. The line of credit agreement provides, among other things, that the Foundation maintain minimum compensating balances of its House Preservation Fund's restricted cash and cash equivalents and investments in accounts with this financial institution.

**8. TEMPORARILY RESTRICTED NET ASSETS:** Temporarily restricted net assets are available for the following purposes or periods:

Scholarship funds	\$ 502,174
House Preservation Fund	768,723
Time restricted for future periods	19,499
	<hr/>
	\$1,290,396

During the year ended March 31, 2006, net assets were released from donor restrictions by incurring expenses satisfying the following temporarily restricted purposes or by passage of time:

Scholarships	\$132,550
Time restrictions	153,250
	<hr/>
	\$285,800

**9. PENDING LEGAL MATTERS AND INTERNAL REVENUE SERVICE EXAM STATUS:** In the spring of 2004, the Foundation's board of directors became aware of possible inconsistencies and unsubstantiated expenses relating to the Foundation's financial books and records. Upon being made aware of these issues, the board of directors promptly engaged independent legal counsel to conduct an investigation and forensic audit of the Foundation's financial books and records for the fiscal years ended March 31, 2002, 2003 and 2004 (the "Investigation"). Upon completing the Investigation, legal counsel determined that there was sufficient evidence to allege that the Foundation's president/chief executive officer engaged in irregular and inappropriate accounting practices and improper use of Foundation assets for personal benefit. Upon receiving the Investigation report, the Foundation's board of directors promptly initiated action to inform the Charities Bureau of the New York State Attorney General's office (the "Charities Bureau") of the alleged wrongdoing and misuse of Foundation assets and to ask the Foundation's president/chief executive officer to take administrative leave pending further investigation by the Foundation. Due to the uncertainty of the Foundation being able to recoup the alleged improper expenditures, the questionable expenditures were reflected as a "loss from unsubstantiated expenditures" below total expenses in the statement of activities for the years ended March 31, 2004 and 2003. For the fiscal year ended March 31, 2003, the

# THE JAMES BEARD FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS March 31, 2006

---

aggregate amount of the loss from unsubstantiated expenditures was reported as \$371,907, of which: (i) \$237,951 has been concluded in the Investigation to be improper, and (ii) \$133,956 is considered likely of being deemed improper pending receipt of substantiation or other justification. The Investigation report concludes that losses of \$373,251 for the fiscal year ended March 31, 2002 and \$284,915 for the fiscal year ended March 31, 2004 are likely to have occurred, pending receipt of substantiation or other justification. The Charities Bureau is in the process of continuing its own investigation of this matter. On January 11, 2005, the Charities Bureau sent a letter notifying the Foundation that the Charities Bureau was holding the then board of directors responsible for restoring to the Foundation any funds that were improperly expended during their tenure on the board. On March 15, 2005, the board elected three new directors and, with the exception of the three new directors, the directors of the Foundation resigned shortly thereafter. Discussions between the Charities Bureau and legal counsel for the new board of directors continues and the Foundation's current management has an understanding that two members of the former board of directors have entered into settlement agreements with the Charities Bureau and the Foundation. In connection with cooperating fully with this Investigation, the Foundation's current board of directors, which as of March 31, 2006, consists of 20 directors, and management are working with its current legal counsel to keep the Charities Bureau apprised of major Foundation activities and program initiatives.

On January 24, 2005, in connection with *People of the State of New York v. Leonard Pickell, Indictment No. 6458/04,* the Foundation's former president/chief executive officer pleaded guilty to grand larceny in the second degree for the theft of more than \$50,000, in connection with the above Investigation. On June 13, 2005, Justice Yates sentenced the Foundation's former president/chief executive officer to one to three years in prison for this offense. Under New York law, a person is guilty of grand larceny in the second degree when the individual steals property valued in excess of \$50,000. At the sentencing, the Foundation's former president/chief executive officer admitted to having stolen \$90,000 in the aggregate or \$30,000 annually during the three years prior to his resignation.

In connection with the above Investigation, the Foundation has incurred approximately an additional \$134,000 for legal and other professional fees during fiscal 2006. Cumulative expenses for legal and other professional fees incurred with the above Investigation during fiscal 2005 and 2006 amounted to approximately \$781,000.

On September 29, 2005, the Internal Revenue Service ("IRS") notified the Foundation that it was conducting an examination of the Foundation's annual information return (Form 990) for the fiscal year ended March 31, 2003, stemming from the newspaper reports of the former president/chief executive officer's wrongdoing. The Foundation's management and legal counsel are cooperating fully with the examination and provided any necessary supporting documentation.

# THE JAMES BEARD FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS March 31, 2006

---

**10. EMPLOYEE  
BENEFIT PLAN:**

The Foundation maintains a defined contribution plan under Section 403(b) of the Code covering all eligible employees. Contributions by the Foundation to the plan are at the discretion of the board of directors. No contributions were made on behalf of the employees to the plan for the year ended March 31, 2006.

**11. COMMITMENTS:**

The Foundation leases office space under a noncancelable operating lease expiring on November 30, 2008. The lease is subject to escalations for the Foundation's proportionate share of increases in real estate taxes and other operating expenses.

The Foundation is obligated under operating leases for office equipment expiring through September 16, 2011.

At March 31, 2006, the aggregate minimum annual rental commitments under the above noncancelable leases are as follows:

Year ending March 31,

2007	\$106,000
2008	96,000
2009	77,000
2010	35,000
2011	14,000

---

\$328,000

---

On April 24, 2006, the Foundation entered into an employment agreement with its new president for an annual base salary of \$225,000, subject to a discretionary bonus based upon meeting certain performance criteria as defined in the agreement expiring in April 2007.

**12. OPERATING  
DEFICITS:**

Through the year ended March 31, 2006, the Foundation has experienced significant operating deficits, primarily as a result of unsubstantiated expenditures incurred by the Foundation's former president/chief executive officer described in Note 9, expenses being incurred in connection with the Investigation, and the hiring of new management personnel.

Management is attempting to reduce such operating deficits by 1) refinancing the terms of its current line of credit facility, 2) seeking additional corporate sponsorships for its events, 3) increasing the fees currently being charged to attend in-house events, and 4) reevaluating current vendor and consultant relationships in connection with publications and printing costs being incurred. However, there is no assurance that management will be successful in its efforts.

# THE JAMES BEARD FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS

March 31, 2006

---

### 13. SUBSEQUENT EVENTS:

On December 21, 2006, the Foundation entered into a mortgage with a new financial institution in the amount of \$2,000,000. The proceeds from this new credit facility will be used to repay the outstanding vendor balances and line of credit facility and to fund the Foundation's current and future operations. Monthly installments of interest only will be made commencing on February 1, 2007 at an interest rate of 11% per annum. The entire outstanding principal balance and any unpaid interest will be due on January 1, 2008.

Additionally, the Foundation's board of directors passed a resolution to allow for the release of House Preservation temporarily restricted net assets to fund renovations being made to the Beard house commencing in fiscal 2007. Previously, such renovations were funded by the Foundation's general operations.