

***THE AMERICAN CHESTNUT FOUNDATION***

***FINANCIAL STATEMENTS***

***JUNE 30, 2009 AND 2008***

**THE AMERICAN CHESTNUT FOUNDATION**

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**JUNE 30, 2009 AND 2008**

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## INDEPENDENT AUDITOR'S REPORT

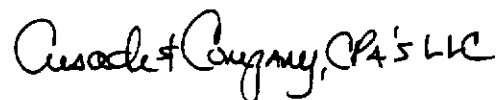
To the Board of Directors of  
The American Chestnut Foundation  
Bennington, VT

We have audited the accompanying statement of financial position of The American Chestnut Foundation as of June 30, 2009, and the related statements of activities and changes in net assets, 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. The financial statements for the year ended June 30, 2008 were audited by another auditor, who issued an unqualified opinion dated November 20, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 the 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 American Chestnut Foundation as of June 30, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2009, on our consideration of The American Chestnut Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Cusack & Company, CPA's LLC". The signature is written in a cursive, flowing style.

**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
October 23, 2009

**THE AMERICAN CHESTNUT FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2009**

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	<b><u>ASSETS</u></b>		
	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Total</u></b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 777,997	\$ 210,720	\$ 988,717
Accounts receivable	47,487	-	47,487
Grants receivable	328,430	-	328,430
Inventory	73,884	-	73,884
Prepaid expenses	<u>9,300</u>	<u>-</u>	<u>9,300</u>
<b>Total Current Assets</b>	<b><u>1,237,098</u></b>	<b><u>210,720</u></b>	<b><u>1,447,818</u></b>
<b>Property and Equipment</b>			
Property and equipment - cost	1,413,359	-	1,413,359
Accumulated depreciation	<u>(370,383)</u>	<u>-</u>	<u>(370,383)</u>
<b>Total Property and Equipment, Net</b>	<b><u>1,042,976</u></b>	<b><u>-</u></b>	<b><u>1,042,976</u></b>
<b>Other Assets</b>			
Investments	883,144	213,259	1,096,403
Intangible assets, net	<u>17,776</u>	<u>-</u>	<u>17,776</u>
<b>Total Other Assets</b>	<b><u>900,920</u></b>	<b><u>213,259</u></b>	<b><u>1,114,179</u></b>
<b>Total Assets</b>	<b><u>\$ 3,180,994</u></b>	<b><u>\$ 423,979</u></b>	<b><u>\$ 3,604,973</u></b>

**THE AMERICAN CHESTNUT FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**JUNE 30, 2009**

**LIABILITIES AND NET ASSETS**

	<b><u>Unrestricted</u></b>	<b><u>Temporarily Restricted</u></b>	<b><u>Total</u></b>
<b>Current Liabilities</b>			
Accounts payable	\$ 62,246	\$ -	\$ 62,246
Accrued expenses	21,117	-	21,117
Current portion note payable	<u>185,009</u>	<u>-</u>	<u>185,009</u>
Total Current Liabilities	<u>268,372</u>	<u>-</u>	<u>268,372</u>
<b>Non Current Liabilities</b>			
Note payable	58,097	-	58,097
Deferred compensation agreement	<u>238,493</u>	<u>-</u>	<u>238,493</u>
Total Non Current Liabilities	<u>296,590</u>	<u>-</u>	<u>296,590</u>
 Total Liabilities	 <u>564,962</u>	 <u>-</u>	 <u>564,962</u>
<b>Net Assets</b>			
Unrestricted	2,616,032	-	2,616,032
Temporarily restricted	<u>-</u>	<u>423,979</u>	<u>423,979</u>
Total Net Assets	<u>2,616,032</u>	<u>423,979</u>	<u>3,040,011</u>
 Total Liabilities and Net Assets	 <u>\$ 3,180,994</u>	 <u>\$ 423,979</u>	 <u>\$ 3,604,973</u>

**THE AMERICAN CHESTNUT FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2008**

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	<b><u>ASSETS</u></b>		
	<b>Unrestricted (Restated)</b>	<b>Temporarily Restricted (Restated)</b>	<b>Total</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,051,427	\$ 56,829	\$ 1,108,256
Grants receivable	244,794	-	244,794
Inventory	105,967	-	105,967
Prepaid expenses	6,939	-	6,939
<b>Total Current Assets</b>	<b><u>1,409,127</u></b>	<b><u>56,829</u></b>	<b><u>1,465,956</u></b>
<b>Property and Equipment</b>			
Property and equipment - cost	1,199,560	-	1,199,560
Accumulated depreciation	(343,249)	-	(343,249)
<b>Total Property and Equipment, Net</b>	<b><u>856,311</u></b>	<b><u>-</u></b>	<b><u>856,311</u></b>
<b>Other Assets</b>			
Investments	1,261,912	89,880	1,351,792
Intangible assets, net	16,494	-	16,494
<b>Total Other Assets</b>	<b><u>1,278,406</u></b>	<b><u>89,880</u></b>	<b><u>1,368,286</u></b>
 <b>Total Assets</b>	 <b><u>\$ 3,543,844</u></b>	 <b><u>\$ 146,709</u></b>	 <b><u>\$ 3,690,553</u></b>

**THE AMERICAN CHESTNUT FOUNDATION**  
**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**JUNE 30, 2008**

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**LIABILITIES AND NET ASSETS**

	<b>Unrestricted (Restated)</b>	<b>Temporarily Restricted (Restated)</b>	<b>Total</b>
<b>Current Liabilities</b>			
Accounts payable	\$ 62,285	\$ -	\$ 62,285
Accrued expenses	13,355	-	13,355
Current portion note payable	<u>27,500</u>	<u>-</u>	<u>27,500</u>
Total Current Liabilities	<u>103,140</u>	<u>-</u>	<u>103,140</u>
<b>Non Current Liabilities</b>			
Note payable	180,000	-	180,000
Deferred compensation agreement	<u>213,951</u>	<u>-</u>	<u>213,951</u>
Total Non Current Liabilities	<u>393,951</u>	<u>-</u>	<u>393,951</u>
 Total Liabilities	 <u>497,091</u>	 <u>-</u>	 <u>497,091</u>
<b>Net Assets</b>			
Unrestricted	3,046,753	-	3,046,753
Temporarily restricted	<u>-</u>	<u>146,709</u>	<u>146,709</u>
Total Net Assets	<u>3,046,753</u>	<u>146,709</u>	<u>3,193,462</u>
 Total Liabilities and Net Assets	 <u>\$ 3,646,984</u>	 <u>\$ 146,709</u>	 <u>\$ 3,690,553</u>

**THE AMERICAN CHESTNUT FOUNDATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Contributions and foundation grants	\$ 1,166,247	\$ 160,000	\$ 1,326,247
Federal grants	552,325	-	552,325
Membership dues	281,538	-	281,538
Investment return	(218,148)	(67,566)	(285,714)
Merchandise sales (net cost of \$40,914)	18,118	-	18,118
Donated services	265,500	-	265,500
Donated fixed assets and supplies	17,833	-	17,833
Donated stock	9,694	-	9,694
Other support and revenue	<u>1,170</u>	<u>-</u>	<u>1,170</u>
 Total Public Support and Revenue	 <u>2,094,277</u>	 <u>92,434</u>	 <u>2,186,711</u>
Expenses			
Program services	1,975,112	-	1,975,112
Management and general	291,839	-	291,839
Fundraising	<u>73,211</u>	<u>-</u>	<u>73,211</u>
 Total Expense	 <u>2,340,162</u>	 <u>-</u>	 <u>2,340,162</u>
 Change in Net Assets	 (245,885)	 92,434	 (153,451)
 Net Assets, beginning of year (as restated)	 <u>2,861,917</u>	 <u>331,545</u>	 <u>3,193,462</u>
 Net Assets, end of year	 <u>\$ 2,616,032</u>	 <u>\$ 423,979</u>	 <u>\$ 3,040,011</u>

**THE AMERICAN CHESTNUT FOUNDATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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	<b>Unrestricted (Restated)</b>	<b>Temporarily Restricted (Restated)</b>	<b>Total</b>
Public Support and Revenue			
Contributions and foundation grants	\$ 2,045,342	\$ -	\$ 2,045,342
Federal grants	321,896	-	321,896
Membership dues	364,813	-	364,813
Investment return	(60,252)	10,167	(50,085)
Merchandise sales (net cost of \$52,547)	23,348	-	23,348
Donated services	279,000	-	279,000
Other support and revenue	<u>2,868</u>	<u>-</u>	<u>2,868</u>
 Total Public Support and Revenue	 <u>2,977,015</u>	 <u>10,167</u>	 <u>2,987,182</u>
Expenses			
Program services	1,787,260	-	1,787,260
Management and general	350,711	-	350,711
Fundraising	<u>75,198</u>	<u>-</u>	<u>75,198</u>
 Total Expense	 <u>2,213,169</u>	 <u>-</u>	 <u>2,213,169</u>
 Change in Net Assets	 763,846	 10,167	 774,013
 Net Assets, beginning of year (as restated)	 <u>2,098,071</u>	 <u>321,378</u>	 <u>2,419,449</u>
 Net Assets, end of year (as restated)	 <u>\$ 2,861,917</u>	 <u>\$ 331,545</u>	 <u>\$ 3,193,462</u>

**THE AMERICAN CHESTNUT FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Program Service</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants to others	\$ 230,539	\$ -	\$ -	\$ 230,539
Direct program expenses	290,253	21,500	1,986	313,739
Salaries and wages	649,123	164,844	25,176	839,143
Retirement	25,141	12,124	3,292	40,557
Other employee benefits	60,229	8,829	2,306	71,364
Payroll taxes	62,041	11,549	707	74,297
Accounting and audit fees	-	29,086	-	29,086
Legal fees	18,667	5,274	2,500	26,441
Supplies	30,578	5,526	1,948	38,052
Telephone	17,581	3,884	914	22,379
Postage and shipping	22,887	3,538	9,707	36,132
Insurance	17,831	3,573	480	21,884
Vehicle expense	15,121	-	-	15,121
Occupancy	42,939	6,693	1,827	51,459
Equipment rental and maintenance	41,732	50	-	41,782
Printing and publications	74,522	-	13,431	87,953
Travel	80,291	5,380	6,316	91,987
Conferences, conventions and meetings	104,670	-	-	104,670
Interest expense	15,481	-	-	15,481
Depreciation	50,763	452	-	51,215
Amortization	456	-	-	456
State chapter dues	111,543	-	-	111,543
Contact labor	4,188	226	-	4,414
Deferred compensation	4,225	2,112	704	7,041
Other expenses	<u>4,311</u>	<u>7,199</u>	<u>1,917</u>	<u>13,427</u>
Total Expenses	<u>\$ 1,975,112</u>	<u>\$ 291,839</u>	<u>\$ 73,211</u>	<u>\$ 2,340,162</u>

**THE AMERICAN CHESTNUT FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2008

	<u>Program Service</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants to others	\$ 216,694	\$ -	\$ -	\$ 216,694
Direct program expenses	287,557	76,151	7,295	371,003
Salaries and wages	529,643	146,135	12,500	688,278
Retirement	17,933	6,833	2,250	27,016
Other employee benefits	51,078	7,838	-	58,916
Payroll taxes	61,314	7,541	101	68,956
Accounting and audit fees	-	45,428	-	45,428
Legal fees	18,667	1,333	-	20,000
Supplies	26,714	6,367	2,724	35,805
Telephone	14,453	3,438	691	18,582
Postage and shipping	64,542	3,512	13,937	81,991
Insurance	16,993	5,092	1,388	23,473
Vehicle expense	26,752	-	-	26,752
Occupancy	47,577	9,181	1,606	58,364
Equipment rental and maintenance	45,504	-	-	45,504
Printing and publications	54,196	609	21,762	76,567
Travel	16,108	4,471	5,816	26,395
Conferences, conventions and meetings	102,738	-	-	102,738
Interest expense	14,312	-	-	14,312
Depreciation	44,106	1,149	-	45,255
State chapter dues	81,648	-	-	81,648
Contact labor	2,157	719	-	2,876
Deferred compensation	29,268	14,634	4,878	48,780
Other expenses	<u>17,306</u>	<u>10,280</u>	<u>250</u>	<u>27,836</u>
Total Expenses	<u>\$ 1,787,260</u>	<u>\$ 350,711</u>	<u>\$ 75,198</u>	<u>\$ 2,213,169</u>

**THE AMERICAN CHESTNUT FOUNDATION**

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (153,451)	\$ 774,012
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	51,215	45,255
Amortization	456	-
Loss on disposal of fixed assets	127	-
Donated fixed assets	(16,813)	-
Donated stock	(9,694)	-
Unrealized and realized loss on investments, net	311,970	92,839
(Increase) decrease in:		
Accounts receivable	(47,487)	-
Grants receivable	(83,636)	(61,980)
Inventory	32,083	16,006
Prepays and deposits	(2,361)	17,578
Increase (decrease) in:		
Accounts payable	(39)	44,052
Accrued expenses.	7,762	(2,197)
Deferred compensation agreement	7,042	48,780
Net Cash Provided By Operating Activities	<u>97,174</u>	<u>974,345</u>
Cash Flows from Investment Activities:		
Proceeds from sale of investments	644,000	1,970,947
Purchase of investments	(690,887)	(2,030,465)
Purchase of intangible assets	(1,738)	(90,543)
Purchase of property and equipment	<u>(221,194)</u>	<u>(98,876)</u>
Net Cash Used In Investing Activities	<u>(269,819)</u>	<u>(248,937)</u>
Cash Flows from Financing Activities:		
Repayment of debt instruments	(11,894)	(10,000)
Proceeds from increase in debt instruments	<u>65,000</u>	<u>-</u>
Net Cash Provided By (Used In) Financing Activities	<u>53,106</u>	<u>(10,000)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(119,539)	715,408
Cash and Cash Equivalents, Beginning of Year	<u>1,108,256</u>	<u>392,848</u>
Cash and Cash Equivalents, End of Year	<u>\$ 988,717</u>	<u>\$ 1,108,256</u>
Supplemental Cash Flow Information:		
Interest Expense	<u>\$ 15,481</u>	<u>\$ 14,312</u>
Supplemental Non-Cash Information:		
Donated fixed assets	<u>\$ 16,813</u>	<u>\$ -</u>
Donated stock	<u>\$ 9,694</u>	<u>\$ -</u>

**THE AMERICAN CHESTNUT FOUNDATION**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature and Purpose of the Foundation*

The American Chestnut Foundation (the Foundation) is a not-for-profit organization. The Foundation conducts research on the American chestnut tree to find a control from the disease chestnut blight. Most research activities are conducted on the Foundation's research farms in Meadowview, Virginia. The Foundation's main office is located in Bennington, Vermont. The office provides administrative functions and educational information to members and the general public to create interest in the preservation of the American chestnut tree. The organization maintains a satellite office in Asheville, North Carolina. This office is primarily involved in membership development activities and regional science coordination.

*Basis of Accounting*

The financial statements of the Foundation have been prepared on the accrual basis and accordingly reflect all significant receivables, payables and other liabilities.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

*Accounts and Grants Receivable*

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management estimates all amounts to be fully collectible. Management discounts promises to give in excess of one year to their fair values.

*Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

*Inventory*

Inventory consists of seed kits, coffee cups, clothing, and other Chestnut related merchandise. Inventory is valued at the lower of cost or market on a first-in, first-out basis.

*Property and Equipment*

The Foundation follows the practice of capitalizing all major expenditures and donations of property, furniture, and fixtures over \$500. Depreciation or amortization of all such items is computed on the straight-line method over the estimated useful lives of the assets as follows:

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Property and Equipment (Continued)*

Furniture and equipment	5 or 7 years
Vehicles	5 years
Leasehold improvements	39 years

The basis of valuation of fixed assets is cost if purchased or fair market value if donated. Donated assets are recorded as unrestricted unless otherwise stated by the donor. Restricted assets are released from restriction when the asset has been put into service for the intended use.

*Amortization*

The trademark is recorded at purchase cost. Amortization is computed based upon a straight-line basis over forty years.

*Contributions*

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

*Expenses*

The Foundation separates expenses between functional classifications which are program services, management and general, and fundraising. Shipping and handling costs are expensed when occurred.

*Income Taxes*

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**THE AMERICAN CHESTNUT FOUNDATION**  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2009 AND 2008

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Reclassifications*

Certain prior year amounts have been reclassified to conform to current year presentation.

*Subsequent Events*

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for the disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. SFAS No. 165 sets forth: (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective prospectively for interim and annual periods ending after June 15, 2009. In accordance with SFAS No. 165, the Foundation has evaluated subsequent events through October 23, 2009, the date these financial statements were available to be issued. There was one subsequent event which warranted disclosure in the notes to the financial statements.

**2. INVESTMENTS**

Investments are stated at fair value and are summarized as follows as of June 30, 2009 and 2008.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b><u>June 30, 2009</u></b>			
Cost	\$ 1,186,058	\$ 316,485	\$ 1,502,543
Fair Value	\$ 883,144	\$ 213,259	\$ 1,096,403
Carrying Value	\$ 883,144	\$ 213,259	\$ 1,096,403
<b><u>June 30, 2008</u></b>			
Cost	\$ 1,344,854	\$ 100,047	\$ 1,444,901
Fair Value	\$ 1,261,912	\$ 89,880	\$ 1,351,792
Carrying Value	\$ 1,261,912	\$ 89,880	\$ 1,351,792

**THE AMERICAN CHESTNUT FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009 AND 2008**

**2. INVESTMENTS (CONTINUED)**

The following is a summary of the nature and carrying amounts of the Foundation's groups of investments as of June 30, 2009:

<u>Unrestricted Investments</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Merrill Lynch			
Equities	\$ 11,781	\$ 8,366	\$ 8,366
Mutual Funds - Equity Based	<u>322,650</u>	<u>206,531</u>	<u>206,531</u>
Total Merrill Lynch	<u>334,431</u>	<u>214,897</u>	<u>214,897</u>
Pershing Account			
Equities	73,717	48,688	48,688
Mutual Funds - Equity Based	64,270	91,180	91,180
Treasury Bills	<u>215,907</u>	<u>216,000</u>	<u>216,000</u>
Total Pershing	<u>353,894</u>	<u>355,868</u>	<u>355,868</u>
Vanguard Investment Account - Equities	<u>487,735</u>	<u>312,379</u>	<u>312,379</u>
Total Unrestricted Investments	<u>852,949</u>	<u>676,194</u>	<u>676,194</u>
<u>Temporarily Restricted Investments</u>			
Merrill Lynch - Mutual Funds - Equity Based	<u>316,485</u>	<u>213,259</u>	<u>213,259</u>
Total All Investments	<u>\$ 1,502,543</u>	<u>\$ 1,096,403</u>	<u>\$ 1,096,403</u>

The following schedule summarizes investment return and its classification in the Statement of Activities for the year ended June 30, 2009 and 2008.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>June 30, 2009</u>			
Interest	\$ 1,021	\$ -	\$ 1,021
Dividends	21,573	3,662	25,235
Net realized gain	1,331	-	1,331
Net unrealized loss	<u>(242,073)</u>	<u>(71,228)</u>	<u>(313,301)</u>
Total	<u>\$ (218,148)</u>	<u>\$ (67,566)</u>	<u>\$ (285,714)</u>

**THE AMERICAN CHESTNUT FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2009 AND 2008**

**2. INVESTMENTS (CONTINUED)**

	<b>Unrestricted (Restated)</b>	<b>Temporarily Restricted (Restated)</b>	<b>Total</b>
<b>June 30, 2008</b>			
Interest	\$ 1,407	\$ -	\$ 1,407
Dividends	53,418	-	53,418
Net realized loss	(12,072)	-	(12,072)
Net unrealized gain (loss)	(103,005)	10,167	(92,838)
Total	<u>\$ (60,252)</u>	<u>\$ 10,167</u>	<u>\$ (50,085)</u>

**3. FAIR VALUE MEASUREMENTS**

The following table presents the Foundation's assets and liabilities that are measured at fair value on a recurring basis at June 30, 2009 consistent with the fair value hierarchy provisions of SFAS No. 157:

**Assets at Fair Value as of June 30, 2009**

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Levels 3)</b>	<b>Total</b>
Mutual Funds - Equity				
Based	\$ 297,711	\$ -	\$ -	\$ 297,711
Equities	582,692	-	-	582,692
Treasury Bills	216,000	-	-	216,000
Total	<u>\$ 1,096,403</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,096,403</u>

At June 30, 2009, the Foundation did not have any assets or liabilities measured at fair value on a recurring basis using significant other observable inputs (Level 2) or significant unobservable inputs (Level 3) in the statement of financial position.

The following is a description of the valuation methodologies used for assets measured at fair value:

*Equities, mutual fund equities, and treasury bills:* Valued at the closing price reported on the active market on which the individual securities are traded.

**THE AMERICAN CHESTNUT FOUNDATION**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
JUNE 30, 2009 AND 2008

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**3. FAIR VALUE MEASUREMENTS (CONTINUED)**

The preceding methods described may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**4. PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 839,854	\$ 670,864
Land improvements	122,980	122,980
Leasehold improvements	13,779	13,779
Farm equipment	350,243	329,624
Office equipment	63,681	62,313
Work in progress	<u>22,822</u>	<u>-</u>
	1,413,359	1,199,560
Accumulated depreciation	<u>(370,383)</u>	<u>(343,249)</u>
Net Property and Equipment	<u>\$ 1,042,976</u>	<u>\$ 856,311</u>

Depreciation expense was \$51,215 and \$45,255 for the years ended June 30, 2009 and 2008, respectively.

Land with a cost of \$200,000 is pledged as collateral for a note payable. Land with a cost of \$168,990 is pledged as collateral for a note payable.

Work in progress consists of expenses capitalized relating to the construction of a laboratory in Meadowview, VA.

**5. DEFERRED COMPENSATION**

The Foundation entered into a deferred compensation agreement with its President and CEO in July 2003. The President will receive non-forfeitable compensation of \$90,000 per year starting in 2013 through and including 2017. The amount reported in the financial statements represents the present value of the \$90,000 for four years discounted using a 7% interest rate. The Foundation has set aside investments to satisfy this obligation.

**THE AMERICAN CHESTNUT FOUNDATION**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
 JUNE 30, 2009 AND 2008

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**6. NOTES PAYABLE**

The Foundation has the following notes payable:

Note payable to private party in annual installments of \$8,660 including interest at 6.0% through January 2019, collateralized by land.	\$ 63,106
Note payable to bank in annual principal installments of \$10,000 plus interest at 7.25%, with a balloon payment due November 2009, collateralized by land.	<u>180,000</u>
	243,106
Less current portion	<u>(185,009)</u>
Long term portion	<u>\$ 58,097</u>

Five year principal maturity is as follows:

Year ending June 30, 2010	\$ 185,009
Year ending June 30, 2011	5,318
Year ending June 30, 2012	5,646
Year ending June 30, 2013	5,995
Year ending June 30, 2014	6,364
Thereafter	<u>34,774</u>
Total	<u>\$ 243,106</u>

**7. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are restricted for the following purposes:

	<u>2009</u>	<u>2008</u>
Laboratory construction in Meadowview, Virginia	<u>\$ 451,923</u>	<u>\$ 146,709</u>

Temporarily restricted net assets consist of donor restricted net assets for the construction of the laboratory in Meadowview, Virginia. Construction for this project is currently underway.

**8. CONCENTRATIONS AND CONTINGENCIES**

At times, the Foundation maintains deposits in excess of the FDIC and SIPC insured limits. Deposits exceeded FDIC/SIPC limits of \$250,000 and \$100,000 by \$345,616 and \$824,282 as of June 30, 2009 and 2008, respectively.

**THE AMERICAN CHESTNUT FOUNDATION**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
JUNE 30, 2009 AND 2008

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**8. CONCENTRATIONS AND CONTINGENCIES (CONTINUED)**

The Foundation received 76% of its contributions from three grantors in the year ended June 30, 2009. For the year ended June 30, 2008, the Foundation received 77% of its contributions from four grantors.

The Foundation received funding from two unrelated not-for-profit organizations. Funds are given with the assumption that all of the funding will be spent within the contracted period, otherwise the Foundation will be required to give the money back to these organizations. The Foundation has reviewed the current status of this funding and believes the amount due back to the organizations, if any, is immaterial to the financial statements.

**9. LEASE AGREEMENTS**

In 1989, the Foundation entered into a thirty-year lease agreement for one of its research farms in Meadowview, Virginia. The lease provides for an annual rent payment of \$3,600. The lease also grants the Foundation the option to purchase the property at any time after the first twenty years of the lease at the fair market value to be determined at the time the option is exercised.

In September 2007, the Foundation exercised its option to renew its lease agreement and entered into a three-year lease agreement for its Bennington, Vermont office. The lease requires monthly rent payments of \$1,200.

In January 2000, the Foundation entered into a ten-year lease agreement for land in West Salem, Wisconsin. The lease requires an annual rent payment of \$5,000.

In March 2001, the Foundation entered into a nine-year lease agreement for additional land in West Salem, Wisconsin. The lease requires an annual rent payment of \$3,520.

In July 2009, the Foundation exercised its option to renew its lease agreement for the Asheville, North Carolina office through June 30, 2015. The lease provides for a monthly rent payment of \$1,490 with lease payments increased at an annual rate of 15¢ per square foot.

Future minimum lease payments for the next five years and thereafter are as follows:

June 30, 2010	\$ 34,185
June 30, 2011	24,183
June 30, 2012	18,381
June 30, 2013	18,592
June 30, 2014	18,817
Thereafter	<u>28,591</u>
Total	<u>\$ 142,749</u>

**THE AMERICAN CHESTNUT FOUNDATION**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
JUNE 30, 2009 AND 2008

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**9. LEASE AGREEMENTS (CONTINUED)**

Rent expense for the years ended June 30, 2009, and 2008 was \$45,422 and \$51,331, respectively, and is included in occupancy expense in the statement of functional expenses.

**10. RETIREMENT PLAN**

In 2003, the Foundation entered into a defined contribution plan that operates under Section 403(b) of the Internal Revenue Code. The Foundation contributes 100% of employee contributions up to a maximum of 5% of eligible salaries after two years of service and after eight years of service the Foundation contributes the maximum amount allowable under current law. The Foundation incurred costs of \$40,557 and 27,016 for the years ended June 30, 2009 and 2008, respectively.

**11. DONATED SERVICES**

The Foundation received donated services in the amounts of \$265,500 and \$279,000 for the years ended June 30, 2009 and 2008, respectively, to further the professional and scientific research of the Foundation. These donated services consisted of the specialized skills of scientists and are recorded at fair market value of standardized hourly rates as approved by management. Expenses for these donated services are included in direct program expenses (\$235,000), legal expenses (\$22,500) and printing and publication expenses (\$6,000) in the statement of functional expenses for the year ended June 30, 2009. Expenses for these donated services are included in direct program expenses (\$235,000), legal expenses (\$24,000) and printing and publication expenses (\$20,000) for the year ended June 30, 2008.

**12. CONDITIONAL PROMISES TO GIVE**

The Foundation has received conditional promises to give which are not recorded in the financial statements as the conditions have not been fulfilled. The conditional promises to give are in the following categories:

	<u>2009</u>	<u>2008</u>
Grants for research	<u>\$ 83,195</u>	<u>\$ 131,837</u>

**13. JOINT COST ALLOCATION**

The Foundation publishes a quarterly newsletter to educate the members and the general public about the Foundation's mission and activities in fulfillment of the mission. The publication also serves to raise contributions for the Foundation. The Foundation has allocated the following costs to fundraising expenses in connection with the activity:

**THE AMERICAN CHESTNUT FOUNDATION**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
JUNE 30, 2009 AND 2008

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**13. JOINT COST ALLOCATION (CONTINUED)**

	<u>2009</u>	<u>2008</u>
Salaries and wages	\$ 3,650	\$ 1,940
Payroll taxes	558	296
Printing and publication	2,332	3,537
Postage	501	447
Total	<u>\$ 7,041</u>	<u>\$ 6,220</u>

**14. INTANGIBLE ASSETS**

Intangible assets are comprised of:

	<u>2009</u>	<u>2008</u>
Trademark	\$ 18,232	\$ 16,494
Less: Accumulated Amortization	<u>(456)</u>	<u>-</u>
	<u>\$ 17,776</u>	<u>\$ 16,494</u>

**15. SUBSEQUENT EVENTS**

The Foundation's board of directors have approved a resolution to solicit bids for construction of a laboratory in Meadowview, VA for a price not to exceed \$650,000.

***THE AMERICAN CHESTNUT FOUNDATION***

***SINGLE AUDIT***

***FOR THE YEAR ENDED JUNE 30, 2009***

**THE AMERICAN CHESTNUT FOUNDATION**  
*SINGLE AUDIT*  
*FOR THE YEAR ENDED JUNE 30, 2009*

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	3-4
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Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7

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CERTIFIED PUBLIC ACCOUNTANTS  
AND  
NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

***REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND ON OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

Board of Directors  
The American Chestnut Foundation

We have audited the financial statements of The American Chestnut Foundation as of and for the year ended June 30, 2009 and have issued our report thereon dated October 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered The American Chestnut Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The American Chestnut Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Foundation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Foundation's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Foundation's internal control.

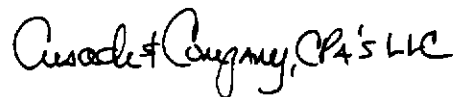
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether The American Chestnut Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of The American Chestnut Foundation in a separate letter dated October 23, 2009.

This report is intended solely for the information of the Board of Directors, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
October 23, 2009

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***REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133***

Board of Directors  
The American Chestnut Foundation

**COMPLIANCE**

We have audited the compliance of The American Chestnut Foundation with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The American Chestnut Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of The American Chestnut Foundation's management. Our responsibility is to express an opinion on The American Chestnut Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The American Chestnut Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The American Chestnut Foundation's compliance with those requirements.

In our opinion, The American Chestnut Foundation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

## INTERNAL CONTROL OVER COMPLIANCE

The management of The American Chestnut Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The American Chestnut Foundation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The American Chestnut Foundation's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

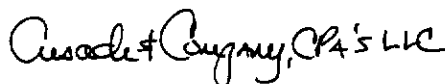
A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the basic financial statements of The American Chestnut Foundation as of and for the year ended June 30, 2009, and have issued our report thereon dated October 23, 2009. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Directors, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.



CUSACK & COMPANY, CPA'S LLC

Latham, New York  
October 23, 2009

**THE AMERICAN CHESTNUT FOUNDATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture:</b>		
Cooperative Forestry Assistance		
Total U.S. Department of Agriculture	10.664	\$ <u>398,642</u> *
		<u>398,642</u>
<b>U.S. Department of the Interior:</b>		
Office of Surface Mining - Applied Science Program	15.255	<u>126,761</u>
Total U.S. Department of the Interior		<u>126,761</u>
<b>National Science Foundation:</b>		
Biological Sciences	47.074	<u>26,922</u>
Total National Science Foundation		<u>26,922</u>
		<u>552,325</u>
Total Expenditures of Federal Awards		\$ <u>552,325</u>

\* Denotes major program

**THE AMERICAN CHESTNUT FOUNDATION**  
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 JUNE 30, 2009

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

The accompanying Schedule of Expenditures of Federal Awards presents all activity of all federal financial assistance programs of The American Chestnut Foundation for the year ended June 30, 2009. The significant accounting policies of The American Chestnut Foundation are described in Note 1 to the basic financial statements. Federal awards received directly from federal agencies as well as federal financial assistance, if any, passed through other government agencies are included on the Schedule.

*Basis of Accounting*

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting used by The American Chestnut Foundation to report to the Federal Government.

*Relationship to Financial Statements*

Federal awards revenue are reported in The American Chestnut Foundation's financial statements as grant revenue. The American Chestnut Foundation's financial statements are presented using the accrual basis of accounting.

**2. LOANS OUTSTANDING**

The American Chestnut Foundation has no loans from federal agencies outstanding at June 30, 2009.

**3. SUBRECIPIENTS**

The American Chestnut Foundation provided federal awards to subrecipients as follows:

<u>Project Title</u>	<u>Federal CFDA #</u>	<u>Amount Provided</u>
<b>Cooperative Forestry Assistance:</b>		
Penn State Research Center	10.664	\$ 47,922
Kentucky Chapter TACF	10.664	10,000
Tennessee Chapter TACF	10.664	2,500
Carolina Chapter TACF	10.664	2,500
Hood College	10.664	<u>15,000</u>
Total Cooperative Forestry Assistance		<u>77,922</u>
<b>Office of Surface Mining - Applied Science Program:</b>		
Ohio University	15.255	8,922
University of Maryland	15.255	23,260
West Virginia Research Center	15.255	13,332
Penn State University	15.255	10,044
University of Kentucky	15.255	<u>21,202</u>
Total Office of Surface Mining - Applied Science Program		<u>76,760</u>
Total Federal Awards to Subrecipients		<u>\$ 154,682</u>

**THE AMERICAN CHESTNUT FOUNDATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

"Going Concern" explanatory paragraph included in audit report?	_____ yes	<u>  X  </u> no
Significant deficiency(ies) disclosed?	_____ yes	<u>  X  </u> no
Significant deficiency(ies) reported as material weakness(es)?	_____ yes	<u>  X  </u> no
Material noncompliance disclosed?	_____ yes	<u>  X  </u> no

**FEDERAL AWARDS**

Internal control over major programs:

Significant deficiency(ies) disclosed?	_____ yes	<u>  X  </u> no
Significant deficiency(ies) reported as material weakness(es)?	_____ yes	<u>  X  </u> no
Any known questioned costs reported?	_____ yes	<u>  X  </u> no

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ yes   X   no

Identification of major programs.

<b><u>CFDA NUMBER(S)</u></b>	<b><u>NAME OF FEDERAL PROGRAM OR CLUSTER</u></b>
10.664	Cooperative Forestry Assistance

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Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes   X   no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No findings or matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No findings or matters were reported.