

The American Chestnut Foundation

Financial Statements

For the Six Months Ended June 30, 2005 with Summarized
Financial Information for the Year Ended December 31, 2004

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of The American Chestnut Foundation (a not-for-profit organization) as of June 30, 2005, and the related statement of activities and changes in net assets, detail of expenses and statements of cash flows for the six months 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 prior year summarized comparative information has been derived from The American Chestnut Foundation's 2004 financial statements and, in our report dated October 24, 2005, we expressed an unqualified opinion on those financial statements.

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 present fairly, in all material respects, the financial position of The American Chestnut Foundation as of June 30, 2005, and the results of its operations and cash flows for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

Cunningham, Powell & Associates, A.C.
Certified Public Accountants

Morgantown, West Virginia
October 24, 2005

The American Chestnut Foundation
Statements of Financial Position
June 30, 2005 and December 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2005	Summarized Financial Information as of December 31, 2004
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 218,463.67	10,000.00	\$ 1,566.77	\$ 230,030.44	\$ 229,106.31
Accounts receivable	28,469.83	0.00	0.00	28,469.83	134,720.41
Interest and dividends receivable	960.56	0.00	0.00	960.56	5,079.75
Inventory	16,307.63	0.00	0.00	16,307.63	17,385.67
Prepays and deposits	9,106.17	0.00	0.00	9,106.17	45,952.30
Total Current Assets	273,307.86	10,000.00	1,566.77	284,874.63	432,244.44
Property and Equipment					
Property and equipment - cost	880,427.07	0.00	0.00	880,427.07	866,930.67
Accumulated depreciation	(254,879.46)	0.00	0.00	(254,879.46)	(244,758.47)
Total Property and Equipment	625,547.61	0.00	0.00	625,547.61	622,172.20
Other Assets					
Investments	723,152.24	0.00	102,032.08	825,184.32	742,400.68
Accounts receivable	0.00	0.00	0.00	0.00	0.00
Intangible assets, net	7,631.74	0.00	0.00	7,631.74	7,631.74
Total Other Assets	730,783.98	0.00	0.00	832,816.06	750,032.42
Total Assets	\$ 1,629,639.45	\$ 10,000.00	\$ 103,598.85	\$ 1,743,238.30	\$ 1,804,449.06
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable	\$ 23,016.21	0.00	0.00	\$ 23,016.21	\$ 49,661.69
Accrued expenses	2,805.31	0.00	0.00	2,805.31	9,657.32
Current portion loan payable	0.00	0.00	0.00	0.00	161,415.00
Loan payable	0.00	0.00	0.00	0.00	0.00
Total Current Liabilities	25,821.52	0.00	0.00	25,821.52	220,734.01
Non Current Liabilities					
Deferred compensation agreement	158,839.00	0.00	0.00	158,839.00	153,383.62
Note payable	0.00	0.00	0.00	0.00	0.00
Total Non Current Liabilities	158,839.00	0.00	0.00	158,839.00	153,383.62
Total Liabilities	184,660.52	0.00	0.00	184,660.52	374,117.63
Net Assets					
Unrestricted	1,444,978.93	0.00	0.00	1,444,978.93	1,150,446.66
Temporarily restricted	0.00	10,000.00	0.00	10,000.00	13,054.39
Permanently restricted	0.00	0.00	103,598.85	103,598.85	266,830.38
Total Net Assets	1,444,978.93	10,000.00	103,598.85	1,558,577.78	1,430,331.43

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

The American Chestnut Foundation
Statements of Financial Position
June 30, 2005 and December 31, 2004

Total Liabilities and Net Assets	\$	<u>1,629,639.45</u>	\$	<u>10,000.00</u>	\$	<u>103,598.85</u>	\$	<u>1,743,238.30</u>	\$	<u>1,804,449.06</u>
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The accompanying notes are an integral part of these financial statements.

The American Chestnut Foundation
 Statements of Activities and Changes in Net Assets
 For the Six Months Ended June 30, 2005 and the Year Ended December 31, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2005	Summarized Financial Information for the Year Ended December 31, 2004
Public Support and Revenue					
Contributions	\$ 254,241.54	\$ 350,874.78	\$ 0.00	\$ 605,116.32	\$ 829,541.00
Membership dues	119,943.78	0.00	0.00	119,943.78	233,040.58
Investment return	11,191.67	4,710.21	8,704.45	24,606.33	97,370.01
Merchandise sales, net of cost of \$7,798.00 and \$20,247.94	1,818.86	0.00	0.00	1,818.86	11,354.15
Contributed services	85,050.00	0.00	0.00	85,050.00	254,225.00
Other support and revenue	0.00	0.00	0.00	0.00	5,616.87
Net assets released from restriction	358,639.38	(358,639.38)	0.00	0.00	0.00
Total Public Support and Revenue	830,885.23	(3,054.39)	8,704.45	836,535.29	1,431,147.61
Expenses					
Program services	575,524.23	0.00	0.00	575,524.23	1,043,019.85
Management and general	100,062.78	0.00	0.00	100,062.78	171,130.66
Fundraising	32,701.93	0.00	0.00	32,701.93	67,152.92
Total Expenses	708,288.94	0.00	0.00	708,288.94	1,281,303.43
Change in Net Assets	122,596.29	(3,054.39)	8,704.45	128,246.35	149,844.18
Transfers	171,935.98		(171,935.98)		
Net Assets, beginning of year	1,150,446.66	13,054.39	266,830.38	1,430,331.43	1,280,487.25
Net Assets, end of year	<u>\$ 1,444,978.93</u>	<u>\$ 10,000.00</u>	<u>\$ 103,598.85</u>	<u>\$ 1,558,577.78</u>	<u>\$ 1,430,331.43</u>

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

The American Chestnut Foundation
 Detail of Expenses
 For the Years Ended June 30, 2005 and December 31, 2004

	Program Service	Management and General	Fundraising	June 30, 2005	Summarized Financial Information for the year ended December 31, 2004
Grants to others	\$ 54,217.67	\$ 0.00	\$ 0.00	\$ 54,217.67	\$ 32,766.32
Direct program expenses	95,553.93	0.00	0.00	95,553.93	261,394.81
Other salaries and wages	145,213.65	62,489.72	19,249.98	226,953.35	396,306.24
Educational research project	56,518.09	0.00	0.00	56,518.09	74,185.43
Fuel	4,195.52	0.00	0.00	4,195.52	12,516.60
Other employee benefits	20,474.75	3,657.87	722.64	24,855.26	43,512.12
Payroll taxes	20,399.61	2,380.58	34.79	22,814.98	39,610.33
Professional fundraising fees	0.00	0.00	11,544.35	11,544.35	33,317.49
Accounting fees	744.06	11,900.79	124.00	12,768.85	27,344.80
Legal fees	5,400.00	600.00	0.00	6,000.00	15,000.00
Supplies	5,251.41	1,811.12	454.41	7,516.94	15,645.87
Telephone	3,760.64	1,611.83	0.00	5,372.47	11,519.43
Postage and shipping	27,682.06	649.78	0.00	28,331.84	25,126.51
Occupancy	18,853.52	6,571.54	0.00	25,425.06	51,057.52
Equipment rental and maintenance	11,498.33	0.00	0.00	11,498.33	20,031.01
Printing and publications	25,724.23	0.00	0.00	25,724.23	26,621.70
Travel	5,168.12	1,745.19	0.00	6,913.31	17,951.97
Conferences, conventions, and meetings	11,300.51	0.00	0.00	11,300.51	45,254.96
Depreciation	15,799.09	325.50	0.00	16,124.59	35,752.53
State chapter dues	25,267.60	0.00	0.00	25,267.60	4,239.44
Contract labor	1,140.00	425.00	0.00	1,565.00	4,032.19
Interest Expense	2,961.01	0.00	0.00	2,961.01	11,097.34
Deferred compensation	3,273.23	1,636.61	545.54	5,455.38	10,355.11
Other expenses	15,127.20	4,257.25	26.22	19,410.67	66,663.71
Total Expenses	\$ 575,524.23	\$ 100,062.78	\$ 32,701.93	\$ 708,288.94	\$ 1,281,303.43

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

The American Chestnut Foundation
 Statements of Cash Flows
 For the Six Months Ended June 30, 2005 and the Year Ended December 31, 2004

	June 30, 2005	December 31, 2004
Cash Flows From Operating Activities		
Change in net assets	\$ 128,246.35	\$ 149,844.18
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	16,124.59	35,752.53
Donated property and equipment	0.00	0.00
Unrealized loss (gain) on investments	(8,035.88)	(80,679.04)
Gain on disposal of asset	(5,962.68)	(149.34)
(Increase) decrease in:		
Accounts receivable	106,250.58	111,534.59
Interest and dividends receivable	4,119.19	(4,157.88)
Inventory	1,078.04	(4,319.65)
Prepays and deposits	36,846.13	(42,432.30)
Increase (decrease) in:		
Accounts payable	(26,645.48)	9,544.48
Accrued expenses	(6,852.01)	(1,259.25)
Deferred compensation	5,455.38	10,355.11
	250,624.21	184,033.43
Net Cash Provided (Used) by Operating Activities		
 Cash Flows From Investing Activities		
Proceeds from sale of investments	250,666.08	166,073.48
Purchase of investments	(319,451.16)	(138,036.73)
Purchase of property and equipment	(19,500.00)	(31,367.02)
	(88,285.08)	(3,330.27)
Net Cash Provided (Used) by Investing Activities		
 Cash Flows From Financing Activities		
Repayment of debt instruments	(161,415.00)	(74,448.79)
Proceeds from increase in debt instruments	0.00	0.00
	(161,415.00)	(74,448.79)
Net Cash Provided (Used) by Financing Activities		
 Net Increase (decrease) in Cash and Cash Equivalents	924.13	106,254.37
Cash and Cash Equivalents, beginning of year	229,106.31	122,851.94
Cash and Cash Equivalents, end of year	\$ 230,030.44	\$ 229,106.31

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

The American Chestnut Foundation
Notes to Financial Statements
June 30, 2005 and December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature and Purpose of the Foundation

The American Chestnut Foundation (TACF) is a not-for-profit organization. TACF conducts research on the American chestnut tree to find a control for the disease chestnut blight. Most research activities are conducted on the Foundation's research farms in Meadowview, Virginia. TACF'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.

Financial Statement Presentation

The Foundation has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Foundations." Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows.

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.

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

TACF follows the practice of capitalizing all major expenditures for and donations of property, furniture, and fixtures over \$500.00. Depreciation or amortization of all such items is computed on a straight-line, double declining, or 150% declining balance method over the estimated useful lives of the assets as follows:

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.

See independent auditors' report.

The American Chestnut Foundation
Notes to Financial Statements
June 30, 2005 and December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

The Foundation adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

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.

NOTE 2 – TEMPORARILY RESTRICTED ASSETS

Temporarily restricted net assets are available for the following purposes:

	June 30, <u>2005</u>	December 31, <u>2004</u>
Audio Visual Equipment	\$ 10,000.00	\$ 0.00
Operation of the Meadowview Farm	<u>0.00</u>	<u>13,054.39</u>
Total	<u>\$ 10,000.00</u>	<u>\$ 13,054.39</u>

NOTE 3 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are available for the following purposes:

	June 30, <u>2005</u>	December 31, <u>2004</u>
Operation of the Meadowview, Virginia research farm	<u>\$ 103,598.85</u>	<u>\$ 266,830.38</u>

See independent auditors' report.

The American Chestnut Foundation
Notes to Financial Statements
June 30, 2005 and December 31, 2004

NOTE 4 – INVESTMENTS

Investments are stated at fair value and are summarized as follows as of June 30, 2005 and December 31, 2004.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2005</u>				
Cost	\$ 718,268.65	\$ 0.00	\$ 98,929.79	\$ 817,198.44
Fair Value	\$ 723,152.24	\$ 0.00	\$ 102,081.19	\$ 825,233.43
Carrying Value	\$ 723,152.24	\$ 0.00	\$ 102,081.19	\$ 825,233.43
<u>December 31, 2004</u>				
Cost	\$ 441,203.64	\$ 0.00	\$ 220,518.00	\$ 616,667.08
Fair Value	\$ 485,232.68	\$ 0.00	\$ 257,168.00	\$ 742,400.68
Carrying Value	\$ 485,832.68	\$ 0.00	\$ 257,168.00	\$ 742,400.68

The following is a summary of the nature and carrying amounts of the Foundation's groups of investments as of June 30, 2005:

Unrestricted Investments	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Merrill Lynch			
Certificates of Deposit	\$ 52,000.00	\$ 51,928.00	\$ 51,928.00
Equities	<u>256,409.10</u>	<u>263,387.77</u>	<u>263,387.77</u>
Totals	<u>\$ 308,409.10</u>	<u>\$ 315,315.77</u>	<u>\$ 315,315.77</u>
Pershing			
Common Stock	98,025.19	93,216.83	93,216.83
Mutual Funds	28,719.09	75,627.42	75,627.42
Corporate Bonds	13,105.00	13,128.05	13,128.05
Treasury Bills	<u>112,823.44</u>	<u>112,655.35</u>	<u>112,655.35</u>
Totals	<u>\$ 296,477.72</u>	<u>\$ 294,627.65</u>	<u>\$ 294,627.65</u>
Merrill Lynch–Mutual Funds	\$ 100,802.02	\$ 100,684.01	\$ 100,624.01
Merrill Lynch–Unrestricted Permanently Restricted	\$ 12,584.81	\$ 12,584.81	\$ 12,584.81
Merrill Lynch			
Equities	<u>98,929.79</u>	<u>\$ 102,081.19</u>	<u>\$ 102,081.19</u>
Totals	<u>\$ 111,514.60</u>	<u>\$ 114,666.00</u>	<u>\$ 114,666.00</u>

See independent auditors' report.

The American Chestnut Foundation
Notes to Financial Statements
June 30, 2005 and December 31, 2004

NOTE 4 – INVESTMENTS - Continued

The following schedule summarizes investment return and its classification in the Statement of Activities six months ended June 30, 2005 and for the year ended December 31, 2004.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2005</u>				
Interest	\$ 601.34	\$ 2,267.21	\$ 0.00	\$2,868.55
Dividends	5,296.22	2,443.00	0.00	7,739.22
Realized gain (loss)	5,962.68	0.00	0.00	5,962.68
Unrealized gain (loss)	(668.57)	0.00	8,704.45	8,035.88
Total	<u>\$ 11,191.67</u>	<u>\$ 4,710.21</u>	<u>\$ 8,704.45</u>	<u>\$24,606.33</u>
<u>December 31, 2004</u>				
Interest	\$ 1,715.51	\$ 5,337.51	\$ 0.00	\$ 15,985.08
Dividends	10,680.96	3,613.75	0.00	11,944.06
Realized gain (loss)	(4,656.66)	0.00	0.00	(11,725.43)
Unrealized gain (loss)	44,028.94	12,088.00	36,650.00	72,941.97
Total	<u>\$ 51,768.75</u>	<u>\$ 8,951.26</u>	<u>\$ 36,650.00</u>	<u>\$ 89,146.18</u>

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2005 and December 31, 2004 consisted of the following:

	<u>June 30, 2005</u>	<u>December 31, 2004</u>
Land	\$ 467,766.22	\$ 467,766.22
Land improvements	122,980.77	122,980.77
Leasehold improvements	13,779.24	13,779.24
Farm equipment	221,489.22	207,993.22
Office equipment	68,100.46	54,411.22
	880,427.07	866,930.67
Accumulated depreciation	<u>(254,879.46)</u>	<u>(244,758.47)</u>
Net Property and Equipment	<u>\$ 625,547.61</u>	<u>\$ 622,172.20</u>

Depreciation expense was \$35,752.23 and \$44,322.72 for six months ended June 30, 2005 and for the year ended December 31, 2004 respectively.

See independent auditors' report.

The American Chestnut Foundation
Notes to Financial Statements
June 30, 2005 and December 31, 2004

NOTE 6- NOTES PAYABLE

The Company has long term debt as of June 30, 2005 and December 31, 2004 as follows:

	June 30, <u>2005</u>	December 31, <u>2004</u>
Note payable at 6.50% payable in annual payments of \$20,700.00 principal and interest with a balloon payment on April, 2005, collateralized by real estate.	\$ 0.00	\$161,415.00

NOTE 7 – CONCENTRATIONS

At times, TACF maintains deposits in excess of the FDIC and SIPC insured limits. Deposits exceeded FDIC/SIPC limits by \$33,406.83 and \$11,339.55 as of June 30, 2005 and December 31, 2004 respectively.

The Foundation received 99% of its contributions from ten contributors in the six month period ended June 30, 2005. For the year 2004, TACF received 93% of its contributions from eleven donors.

NOTE 8 – 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 rental of \$3,600.00. 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 1998, the Foundation entered into a five-year lease agreement for its Bennington, Vermont office. The lease requires monthly rent of \$1,000.00. The lease is now on a month to month basis at a rent of \$1,000.00.

In 2000, the Foundation entered into a ten-year lease agreement for land in West Salem, Wisconsin. The lease requires a yearly rent payment of \$5,000.00.

In 2001, the Foundation entered into a nine-year lease agreement for additional land in West Salem, Wisconsin. The lease requires a yearly rent payment of \$3,520.00.

In 2003, the Foundation entered into a three year lease agreement for its Asheville office through May 31, 2005. The lease provides for a monthly rental of \$1,061.00. The lease may be extended for another three year term should the organization desire.

See independent auditors' report.

The American Chestnut Foundation
Notes to Financial Statements
June 30, 2005 and December 31, 2004

NOTE 8 – LEASE AGREEMENTS-Continued

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

June 30, 2006	\$ 8,520.00
June 30, 2007	8,520.00
June 30, 2008	8,520.00
June 30, 2009	8,520.00
June 30, 2010	<u>8,520.00</u>
Total	\$ 42,600.00

NOTE 9 – RETIREMENT PLAN

In 2003, the Foundation entered into a defined contribution plan that operates under Section 403 (b) of the Internal Revenue Code (IRC). This is a non-matching plan, therefore, TACF does not incur any costs with this plan.

NOTE 10 – CONTRIBUTIONS RECEIVABLE

The Foundation has the following in contribution receivable:

	June 30, <u>2005</u>	December 31, <u>2004</u>
Promises to be received in less than one year	\$ 28,469.83	\$ 134,720.41

The Foundation does not require or have access to the collateral to support these receivables.

See independent auditors' report.