

The American Chestnut Foundation

Financial Statements

**For the Year Ended June 30, 2006 with Summarized
Financial Information for the Six Months Ended June 30, 2005**

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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, 2006, and the related statements of activities and changes in net assets, detail of expenses and statements of cash flows for the six 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 prior year summarized comparative information has been derived from The American Chestnut Foundation's June 30, 2005, financial statements and, in our report dated June 30, 2006, 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, 2006, and the results of 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.

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

Morgantown, West Virginia
October 12, 2006

The American Chestnut Foundation
Statements of Financial Position
June 30, 2006 and June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2006	Summarized Financial Information as of June 30, 2005
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 258,270.15	\$ 4,583.11	\$ 2,056.52	\$ 264,909.78	\$ 230,030.44
Accounts receivable	305,534.00	123,240.00	0.00	428,774.00	28,469.83
Interest and dividends receivable	252.46	0.00	0.00	252.46	960.56
Inventory	19,965.83	0.00	0.00	19,965.83	16,307.63
Prepays and deposits	25,868.50	0.00	0.00	25,868.50	9,106.17
Total Current Assets	609,890.94	127,823.11	2,056.52	739,770.57	284,874.63
Property and Equipment					
Property and equipment - cost	910,849.57	0.00	0.00	910,849.57	880,427.07
Accumulated depreciation	(289,149.25)	0.00	0.00	(289,149.25)	(254,879.46)
Total Property and Equipment	621,700.32	0.00	0.00	621,700.32	625,547.61
Other Assets					
Investments	784,050.60	180,212.45	113,324.50	1,077,587.55	825,184.32
Accounts receivable	0.00	180,245.73	0.00	180,245.73	0.00
Intangible assets, net	7,631.74	0.00	0.00	7,631.74	7,631.74
Total Other Assets	791,682.34	360,458.18	113,324.50	1,265,465.02	832,816.06
Total Assets	\$ 2,023,273.60	\$ 488,281.29	\$ 115,381.02	\$ 2,626,935.91	\$ 1,743,238.30
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable	\$ 165,961.69	\$ 0.00	\$ 0.00	\$ 165,961.69	\$ 23,016.21
Accrued expenses	5,873.34	0.00	0.00	5,873.34	2,805.31
Loan payable	49,217.43	0.00	0.00	49,217.43	0.00
Total Current Liabilities	221,052.46	0.00	0.00	221,052.46	25,821.52
Non Current Liabilities					
Deferred compensation agreement	170,338.78	0.00	0.00	170,338.78	158,839.00
Total Non Current Liabilities	170,338.78	0.00	0.00	170,338.78	158,839.00
Total Liabilities	391,391.24	0.00	0.00	391,391.24	184,660.52
Net Assets					
Unrestricted	1,631,882.36	0.00	0.00	1,631,882.36	1,444,978.93
Temporarily restricted	0.00	488,281.29	0.00	488,281.29	10,000.00
Permanently restricted	0.00	0.00	115,381.02	115,381.02	103,598.85
Total Net Assets	1,631,882.36	488,281.29	115,381.02	2,235,544.67	1,558,577.78
Total Liabilities and Net Assets	\$ 2,023,273.60	\$ 488,281.29	\$ 115,381.02	\$ 2,626,935.91	\$ 1,743,238.30

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 Year Ended June 30, 2006 and the Six Months Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2006	Summarized Financial Information for the Year Ended June 30, 2005
Public Support and Revenue					
Contributions	\$ 671,497.67	\$ 998,273.29	\$ 0.00	\$ 1,669,770.96	\$ 605,116.32
Membership dues	295,410.84	0.00	0.00	295,410.84	119,943.78
Investment return	110,648.26	11.62	11,782.17	122,442.05	24,606.33
Merchandise sales, net of cost of \$11,008.49 and \$5,243.36	21,830.19	0.00	0.00	21,830.19	1,818.86
Contributed services	243,800.00	0.00	0.00	243,800.00	85,050.00
Other support and revenue	89.00	0.00	0.00	89.00	0.00
Net assets released from restriction	520,003.62	(520,003.62)	0.00	0.00	0.00
Total Public Support and Revenue	<u>1,863,279.58</u>	<u>478,281.29</u>	<u>11,782.17</u>	<u>2,353,343.04</u>	<u>836,535.29</u>
Expenses					
Program services	1,362,446.41	0.00	0.00	1,362,446.41	575,524.23
Management and general	251,015.70	0.00	0.00	251,015.70	100,062.78
Fundraising	62,914.04	0.00	0.00	62,914.04	32,701.93
Total Expenses	<u>1,676,376.15</u>	<u>0.00</u>	<u>0.00</u>	<u>1,676,376.15</u>	<u>708,288.94</u>
Change in Net Assets	186,903.43	478,281.29	11,782.17	676,966.89	128,246.35
Transfers	0.00	0.00	0.00	0.00	0.00
Net Assets, beginning 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>
Net Assets, end of year	<u>\$ 1,631,882.36</u>	<u>\$ 488,281.29</u>	<u>\$ 115,381.02</u>	<u>\$ 2,235,544.67</u>	<u>\$ 1,558,577.78</u>

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

The American Chestnut Foundation
Detail of Expenses
For the Year Ended June 30, 2006 and Six Months Ended June 30, 2005

	Program Service	Management and General	Fundraising	June 30, 2006	Summarized Financial Information for the six months ended June 30, 2005
Grants to others	\$ 72,893.48	\$ 0.00	\$ 0.00	\$ 72,893.48	\$ 54,217.67
Direct program expenses	231,963.97	0.00	0.00	231,963.97	95,553.93
Other salaries and wages	383,615.24	146,232.49	37,499.98	567,347.71	226,953.35
Educational research project	158,226.37	0.00	0.00	158,226.37	56,518.09
Fuel	17,808.15	0.00	0.00	17,808.15	4,195.52
Other employee benefits	56,725.24	12,026.23	2,871.91	71,623.38	24,855.26
Payroll taxes	47,155.15	5,098.21	1,086.90	53,340.26	22,814.98
Professional fundraising fees	0.00	0.00	18,454.18	18,454.18	11,544.35
Accounting fees	0.00	42,501.34	0.00	42,501.34	12,768.85
Legal fees	18,000.00	2,000.00	0.00	20,000.00	6,000.00
Supplies	19,335.42	4,688.33	1,827.35	25,851.10	7,516.94
Telephone	11,313.52	4,848.76	0.00	16,162.28	5,372.47
Postage and shipping	35,633.16	1,368.74	0.00	37,001.90	28,331.84
Occupancy	40,250.14	13,973.92	0.00	54,224.06	25,425.06
Equipment rental and maintenance	25,921.91	0.00	0.00	25,921.91	11,498.33
Printing and publications	52,417.61	0.00	0.00	52,417.61	25,724.23
Travel	10,268.59	3,424.53	0.00	13,693.12	6,913.31
Conferences, conventions, and meetings	59,685.75	0.00	0.00	59,685.75	11,300.51
Depreciation	33,357.12	912.67	0.00	34,269.79	16,124.59
State chapter dues	61,249.30	0.00	0.00	61,249.30	31,242.56
Contract labor	1,289.25	429.75	0.00	1,719.00	1,565.00
Interest Expense	1,146.43	0.00	0.00	1,146.43	2,961.01
Deferred compensation	6,899.87	3,449.94	1,149.97	11,499.78	5,455.38
Other expenses	17,290.74	10,060.79	23.75	27,375.28	13,435.71
Total Expenses	\$ 1,362,446.41	\$ 251,015.70	\$ 62,914.04	\$ 1,676,376.15	\$ 708,288.94

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

The American Chestnut Foundation
 Statements of Cash Flows
 For the Year Ended June 30, 2006 and the Six Months Ended June 30, 2005

	June 30, 2006	June 30, 2005
Cash Flows From Operating Activities		
Change in net assets	\$ 676,966.89	\$ 128,246.35
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	34,269.79	16,124.59
Donated property and equipment	0.00	0.00
Unrealized loss (gain) on investments	(79,586.46)	(8,035.88)
Gain on disposal of asset	0.00	(5,962.68)
(Increase) decrease in:		
Accounts receivable	(580,549.90)	106,250.58
Interest and dividends receivable	708.10	4,119.19
Inventory	(3,658.20)	1,078.04
Prepays and deposits	(16,762.33)	36,846.13
Increase (decrease) in:		
Accounts payable	142,945.48	(26,645.48)
Accrued expenses	3,068.03	(6,852.01)
Deferred compensation	11,499.78	5,455.38
	<u>188,901.18</u>	<u>250,624.21</u>
Net Cash Provided (Used) by Operating Activities		
 Cash Flows From Investing Activities		
Proceeds from sale of investments	293,261.82	250,666.08
Purchase of investments	(466,078.59)	(319,451.16)
Purchase of property and equipment	(30,422.50)	(19,500.00)
	<u>(203,239.27)</u>	<u>(88,285.08)</u>
Net Cash Provided (Used) by Investing Activities		
 Cash Flows From Financing Activities		
Repayment of debt instruments	0.00	(161,415.00)
Proceeds from increase in debt instruments	49,217.43	0.00
	<u>49,217.43</u>	<u>(161,415.00)</u>
Net Cash Provided (Used) by Financing Activities		
 Net Increase (decrease) in Cash and Cash Equivalents	34,879.34	924.13
Cash and Cash Equivalents, beginning of year	230,030.44	229,106.31
Cash and Cash Equivalents, end of year	<u>\$ 264,909.78</u>	<u>\$ 230,030.44</u>

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

The American Chestnut Foundation
Notes to Financial Statements
June 30, 2006 and June 30, 2005

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.

Basis of Accounting

The financial statements of the Corporation have been prepared on the accrual basis of accounting 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 Receivable

Accounts 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

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, 2006 and June 30, 2005

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.

Expenses

The Corporation separates expenses between functional classifications, which are program, general and administrative, and fund raising.

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.

Prior Year Financial Information

Prior year financial information is not a complete presentation in conformity with generally accepted accounting principles.

NOTE 2 – ACCOUNTS RECEIVABLE

The Foundation has the following in accounts receivable:

	June 30, <u>2006</u>	June 30, <u>2005</u>
Promises to be received in less than one year	\$ 441,534.00	\$ 28,469.83
Promise to be received in one to five years	<u>188,000.00</u>	<u>0.00</u>
	\$ 629,534.00	\$ 28,469.83
Less unamortized discount	<u>20,514.27</u>	<u>0.00</u>
Net accounts receivable	\$ <u>609,019.73</u>	\$ <u>28,469.83</u>

The Foundation does not require or have access to the collateral to support these receivables. The promise to be received in one to five years is discounted at 4.875%.

See independent auditors' report.

The American Chestnut Foundation
Notes to Financial Statements
June 30, 2006 and June 30, 2005

NOTE 3 – INVESTMENTS

Investments are stated at fair value and are summarized as follows as of June 30, 2006 and June 30, 2005.

<u>June 30, 2006</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cost	\$ 711,458.76	\$ 185,000.00	\$ 101,584.33	\$ 998,001.09
Fair Value	\$ 784,050.60	\$ 180,212.45	\$ 113,324.50	\$1,077,587.55
Carrying Value	\$ 723,152.24	\$ 180,212.45	\$ 113,324.50	\$1,077,587.55

June 30, 2005

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

The following is a summary of the nature and carrying amounts of the Foundation's groups of investments as of June 30, 2006:

<u>Unrestricted Investments</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Merrill Lynch – Operating Account Equities	\$ <u>311,152.32</u>	\$ <u>327,699.71</u>	\$ <u>327,699.71</u>
Pershing Account Equities	69,047.33	85,426.92	85,426.92
Mutual Funds	78,514.90	110,232.14	110,232.14
Treasury Bills	<u>87,731.60</u>	<u>86,604.32</u>	<u>86,604.32</u>
Total Pershing	\$ <u>235,293.83</u>	\$ <u>282,263.38</u>	\$ <u>282,263.38</u>
Merrill Lynch – Deferred Compensation Mutual Funds	\$ <u>152,427.80</u>	\$ <u>161,502.70</u>	\$ <u>161,502.70</u>
Merrill Lynch – Price Account	\$ <u>12,584.81</u>	\$ <u>12,584.81</u>	\$ <u>12,584.81</u>
Total Unrestricted Investments	\$ <u>711,458.76</u>	\$ <u>784,050.60</u>	\$ <u>784,050.60</u>
<u>Temporarily Restricted Investments</u>			
Merrill Lynch – Price Account Equities	\$ <u>185,000.00</u>	\$ <u>180,212.45</u>	\$ <u>180,212.45</u>
<u>Permanently Restricted Investments</u>			
Merrill Lynch – Price Account Equities	\$ <u>101,542.33</u>	\$ <u>113,324.50</u>	\$ <u>113,324.50</u>
Total all Investments	\$ <u>998,001.09</u>	\$ <u>1,077,587.55</u>	\$ <u>1,077,587.55</u>

See independent auditors' report.

The American Chestnut Foundation
Notes to Financial Statements
June 30, 2006 and June 30, 2005

NOTE 3 – INVESTMENTS (Continued)

The following schedule summarizes investment return and its classification in the Statement of Activities year ended June 30, 2006 and for the six months ended June 30, 2005.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>June 30, 2006</u>				
Interest	\$ 6,278.28	\$ 110.69	\$ 0.00	\$ 6,388.97
Dividends	18,907.82	4,688.48	0.00	23,596.30
Realized gain (loss)	12,870.32	0.00	0.00	12,870.32
Unrealized gain (loss)	<u>72,591.84</u>	<u>(4,787.55)</u>	<u>11,782.17</u>	<u>79,586.46</u>
Total	<u>\$ 110,648.26</u>	<u>\$ 11.62</u>	<u>\$ 11,782.17</u>	<u>\$122,442.05</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)	<u>(668.57)</u>	<u>0.00</u>	<u>8,704.45</u>	<u>8,035.88</u>
Total	<u>\$ 11,191.67</u>	<u>\$ 4,710.21</u>	<u>\$ 8,704.45</u>	<u>\$ 24,606.33</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2006 and June 30, 2005 consisted of the following:

	<u>June 30, 2006</u>	<u>June 30, 2005</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	232,250.04	221,489.62
Office equipment	<u>74,073.30</u>	<u>54,411.22</u>
	910,849.57	880,427.07
Accumulated depreciation	<u>(289,149.25)</u>	<u>(254,879.46)</u>
Net Property and Equipment	<u>\$ 621,700.32</u>	<u>\$ 625,547.61</u>

Depreciation expense was \$34,269.79 and \$16,124.59 for the year ended June 30, 2006 and for six months ended June 30, 2005 respectively.

NOTE 5- LOAN PAYABLE

The Foundation has a margin loan collateralized by unrestricted investments. The Foundation uses the margin loan to provide short term liquidity in its operating accounts until investments can be liquidated to repay the margin loan.

See independent auditors' report.

The American Chestnut Foundation
Notes to Financial Statements
June 30, 2006 and June 30, 2005

NOTE 6 – DEFERRED COMPENSATION

The Foundation entered into a deferred compensation agreement with its Executive Director in July 2003. The Executive Director will receive non-forfeitable compensation of \$70,000 per year for the years 2008 through and including 2010. The amount reported in the financial statements represents the present value of the \$70,000 for three years discounted using a 7% interest rate. The Foundation has set aside investments to satisfy this obligation.

NOTE 7 – TEMPORARILY RESTRICTED ASSETS

Temporarily restricted net assets are available for the following purposes:

	June 30, <u>2006</u>	June 30, <u>2005</u>
Audio Visual Equipment	\$ 567.69	\$ 10,000.00
Multi-purpose building on Meadowview Farm	180,656.84	0.00
New England Regional Science Coordinator & Meadowview Farm Technician	<u>307,056.76</u>	<u>0.00</u>
Total	<u>\$ 488,281.29</u>	<u>\$ 10,000.00</u>

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are available for the following purposes:

	June 30, <u>2006</u>	June 30, <u>2005</u>
Operation of the Meadowview, Virginia research farm	<u>\$ 115,381.02</u>	<u>\$ 103,598.85</u>

NOTE 9 – CONCENTRATIONS

At times, TACF maintains deposits in excess of the FDIC and SIPC insured limits. Deposits exceeded FDIC/SIPC limits by \$81,244.10 and \$33,406.83 as of June 30, 2006 and June 30, 2005 respectively.

The Foundation received 80% of its contributions from nine contributors in the year ended June 30, 2006. For the six months ended June 30, 2005, TACF received 99% of its contributions from ten donors.

See independent auditors' report.

The American Chestnut Foundation
Notes to Financial Statements
June 30, 2006 and June 30, 2005

NOTE 10 – 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 2005, the Foundation entered into a two-year lease agreement for its Bennington, Vermont office. The lease requires monthly rent of \$1,200.00.

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 2005, the Foundation exercised its option to renew its lease agreement for the Asheville office through May 31, 2008. Affective June 1, 2006, the lease provides for a monthly rental payment of \$1,125.51. The lease payments increase at an annual rate of 3%.

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

June 30, 2007	\$ 47,349.96
June 30, 2008	28,875.31
June 30, 2009	13,988.28
June 30, 2010	9,728.28
June 30, 2011	4,067.07
Thereafter	<u>28,800.00</u>
Total	<u>\$ 132,808.90</u>

Rent expense for the year ended June 30, 2006, and the six months end June 30, 2005 were \$49,231.12 and \$28,469.83, respectively.

NOTE 11 – RETIREMENT PLAN

In 2003, the Foundation entered into a defined contribution plan that operates under Section 403 (b) of the Internal Revenue Code (IRC). TACF incurred costs of \$10,000.00 for the year ended June 30, 2006. No costs were incurred for the six months ended June 30, 2005.

NOTE 12 – CONTRIBUTED SERVICES

The Foundation received contributed services in the amount of \$243,800.00 to further the professional and scientific research of the Foundation.

See independent auditors' report.