

*THE AMERICAN CHESTNUT FOUNDATION*

*FINANCIAL STATEMENTS*

*JUNE 30, 2011 AND 2010*

*THE AMERICAN CHESTNUT FOUNDATION*

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*JUNE 30, 2011 AND 2010*

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The American Chestnut Foundation  
Asheville, NC

We have audited the accompanying statements of financial position of The American Chestnut Foundation as of June 30, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 audits provide 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, 2011 and 2010, and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



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

Latham, New York

October 17, 2011

**THE AMERICAN CHESTNUT FOUNDATION**

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$ 394,676	\$ 1,314,968
Pledges receivable, current portion, net of allowance of \$15,000 and \$22,500, respectively	6,250	27,500
Grants receivable	343,791	119,717
Inventory	37,831	59,009
Prepaid expenses	<u>26,578</u>	<u>19,509</u>
Total Current Assets	<u>809,126</u>	<u>1,540,703</u>
Property and Equipment		
Property and equipment - cost	2,122,432	1,948,276
Accumulated depreciation	<u>(456,698)</u>	<u>(407,435)</u>
Total Property and Equipment, Net	<u>1,665,734</u>	<u>1,540,841</u>
Other Assets		
Investments	1,983,488	781,049
Investments - restricted endowment	19,772	-
Intangible assets, net	<u>16,864</u>	<u>17,320</u>
Total Other Assets	<u>2,020,124</u>	<u>798,369</u>
Total Assets	<u>\$ 4,494,984</u>	<u>\$ 3,879,913</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 166,846	\$ 147,292
Accrued expenses	30,217	45,689
Current portion, note payable	15,647	15,318
Deferred revenue	<u>-</u>	<u>48,918</u>
Total Current Liabilities	<u>212,710</u>	<u>257,217</u>
Non Current Liabilities		
Note payable, net of current portion	197,132	212,779
Deferred compensation liability	<u>274,276</u>	<u>255,759</u>
Total Non Current Liabilities	<u>471,408</u>	<u>468,538</u>
Total Liabilities	<u>684,118</u>	<u>725,755</u>
Net Assets		
Unrestricted	3,791,094	3,154,158
Permanently restricted	<u>19,772</u>	<u>-</u>
Total Net Assets	<u>3,810,866</u>	<u>3,154,158</u>
Total Liabilities and Net Assets	<u>\$ 4,494,984</u>	<u>\$ 3,879,913</u>

**THE AMERICAN CHESTNUT FOUNDATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public Support and Revenue			
Contributions and foundation grants	\$ 1,412,996	\$ 18,753	\$ 1,431,749
Federal grants	406,803	-	406,803
Membership dues	315,713	-	315,713
Investment return	347,112	1,019	348,131
Merchandise sales (net of cost of \$8,478)	37,457	-	37,457
Donated services	263,500	-	263,500
Other support and revenue	<u>2,399</u>	<u>-</u>	<u>2,399</u>
 Total Public Support and Revenue	 <u>2,785,980</u>	 <u>19,772</u>	 <u>2,805,752</u>
 Expenses			
Program services	1,688,434	-	1,688,434
Management and general	319,173	-	319,173
Fundraising	<u>141,437</u>	<u>-</u>	<u>141,437</u>
 Total Expenses	 <u>2,149,044</u>	 <u>-</u>	 <u>2,149,044</u>
 Change in Net Assets	 636,936	 19,772	 656,708
 Net Assets, beginning of year	 <u>3,154,158</u>	 <u>-</u>	 <u>3,154,158</u>
 Net Assets, end of year	 <u>\$ 3,791,094</u>	 <u>\$ 19,772</u>	 <u>\$ 3,810,866</u>

**THE AMERICAN CHESTNUT FOUNDATION**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2010**

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Contributions and foundation grants	\$ 982,116	\$ 75,000	\$ 1,057,116
Federal grants	475,452	-	475,452
Membership dues	307,692	-	307,692
Investment return	110,750	32,100	142,850
Merchandise sales (net of cost of \$13,436)	28,587	-	28,587
Donated services	263,500	-	263,500
Donated supplies	480	-	480
Advertising income	10,600	-	10,600
Other support and revenue	1,408	-	1,408
Net assets released from restrictions	<u>531,079</u>	<u>(531,079)</u>	<u>-</u>
 Total Public Support and Revenue	 <u>2,711,664</u>	 <u>(423,979)</u>	 <u>2,287,685</u>
 Expenses			
Program services	1,703,877	-	1,703,877
Management and general	383,866	-	383,866
Fundraising	<u>85,795</u>	<u>-</u>	<u>85,795</u>
 Total Expenses	 <u>2,173,538</u>	 <u>-</u>	 <u>2,173,538</u>
 Change in Net Assets	 538,126	 (423,979)	 114,147
 Net Assets, beginning of year	 <u>2,616,032</u>	 <u>423,979</u>	 <u>3,040,011</u>
 Net Assets, end of year	 <u>\$ 3,154,158</u>	 <u>\$ -</u>	 <u>\$ 3,154,158</u>

**THE AMERICAN CIVIL JUSTICE FOUNDATION**

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2011

	<u>Program Service</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants to others	\$ 154,506	\$ -	\$ -	\$ 154,506
Direct program expenses	271,107	18,500	-	289,607
Salaries and wages	591,560	183,805	46,084	821,449
Retirement	4,007	2,510	-	6,517
Other employee benefits	53,098	28,363	7,624	89,085
Payroll taxes	52,326	13,245	2,746	68,317
Accounting and audit fees	-	19,749	-	19,749
Legal and other professional fees	67,001	2,746	2,771	72,518
Supplies	19,430	10,480	805	30,715
Telephone	19,132	3,378	2,319	24,829
Postage and shipping	19,494	4,397	11,939	35,830
Insurance	23,716	5,544	459	29,719
Vehicle expense	12,917	-	-	12,917
Occupancy	33,801	5,806	1,883	41,490
Equipment rental and maintenance	42,108	-	-	42,108
Printing and publications	70,037	-	48,855	118,892
Travel	33,029	4,847	10,170	48,046
Conferences, conventions and meetings	42,525	-	62	42,587
Interest expense	13,325	-	-	13,325
Depreciation	48,288	760	215	49,263
Amortization	456	-	-	456
State chapter dues	95,512	-	703	96,215
Contact labor	945	405	-	1,350
Deferred compensation	11,110	5,555	1,852	18,517
Other expense	9,004	9,083	2,950	21,037
Total Expenses	<u>\$ 1,688,434</u>	<u>\$ 319,173</u>	<u>\$ 141,437</u>	<u>\$ 2,149,044</u>

**THE AMERICAN CHILD TRENUT FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Program Service</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants to others	\$ 215,510	-	-	\$ 215,510
Direct program expenses	269,358	21,500	5,844	296,702
Salaries and wages	564,025	205,699	23,511	793,235
Retirement	3,808	2,287	-	6,095
Other employee benefits	56,093	19,070	4,702	79,865
Payroll taxes	62,736	16,132	1,100	79,968
Accounting and audit fees	-	21,040	-	21,040
Legal and other professional fees	18,667	3,842	2,500	25,009
Supplies	19,389	12,720	1,250	33,359
Telephone	17,187	4,478	919	22,584
Postage and shipping	21,039	9,235	6,598	36,872
Insurance	42,954	17,289	1,205	61,448
Vehicle expense	16,655	-	-	16,655
Occupancy	44,171	7,083	1,955	53,209
Equipment rental and maintenance	40,975	-	-	40,975
Printing and publications	49,641	-	19,347	68,988
Travel	32,292	6,177	12,743	51,212
Conferences, conventions and meetings	67,667	27	-	67,694
Interest expense	15,227	-	-	15,227
Depreciation	39,481	966	-	40,447
Amortization	456	-	-	456
State chapter dues	87,586	-	516	88,102
Contact labor	924	396	-	1,320
Deferred compensation	10,360	5,180	1,727	17,267
Bad debt expense	-	22,500	-	22,500
Other expense	<u>7,676</u>	<u>8,245</u>	<u>1,878</u>	<u>17,799</u>
Total Expenses	<u>\$ 1,703,877</u>	<u>\$ 383,866</u>	<u>\$ 85,795</u>	<u>\$ 2,173,538</u>

See accompanying notes and independent auditor's report.

**THE AMERICAN CHESTNUT FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 656,708	\$ 114,147
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	49,263	40,447
Amortization	456	456
Bad debt expense	-	22,500
Deferred compensation	18,517	17,266
Donated stock	(28,965)	(5,961)
Unrealized and realized gain on investments	(305,644)	(133,686)
(Increase) decrease in:		
Pledges receivable	21,250	(2,513)
Grants receivable	(224,074)	208,713
Inventory	21,178	14,875
Prepaid expenses	(7,069)	(10,209)
Increase (decrease) in:		
Accounts payable	19,554	85,046
Accrued expenses	(15,472)	24,572
Deferred revenue	(48,918)	48,918
Net Cash Provided by Operating Activities	<u>156,784</u>	<u>424,571</u>
Cash Flows from Investment Activities:		
Proceeds from sale of investments	1,255,602	1,111,675
Purchase of investments	(2,143,204)	(656,674)
Purchase of property and equipment	<u>(174,156)</u>	<u>(538,312)</u>
Net Cash Used in Investing Activities	<u>(1,061,758)</u>	<u>(83,311)</u>
Cash Flows from Financing Activities:		
Repayment of debt instruments	<u>(15,318)</u>	<u>(15,009)</u>
Net Cash Used in Financing Activities	<u>(15,318)</u>	<u>(15,009)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(920,292)	326,251
Cash and Cash Equivalents, beginning of year	<u>1,314,968</u>	<u>988,717</u>
Cash and Cash Equivalents, end of year	<u>\$ 394,676</u>	<u>\$ 1,314,968</u>
Supplemental Cash Flow Information:		
Interest expense	<u>\$ 13,325</u>	<u>\$ 15,227</u>
Supplemental Non-Cash Information:		
Donated services	<u>\$ 263,500</u>	<u>\$ 263,500</u>

**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 Asheville, North Carolina. 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 as well as 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 as prescribed by FASB ASC 958.

*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.

*Grants Receivable*

Grants receivable are stated at the amount management expects to collect from outstanding balances. Management estimates all amounts to be fully collectible.

*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.

*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
Building and 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.

*Net Assets*

Net assets of the Foundation, and changes therein, are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.

Permanently restricted net assets - Net assets that are restricted by donors for specific purposes. The principal amount cannot be expended, however any investment income earned from these assets can be expended.

*Revenue Recognition*

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets unless made in accordance with donor-imposed restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Any limitations placed on a contribution that are no more specific than the board limits of the Foundation's purpose or mission are reported as unrestricted.

*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.

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

*Contributions (Continued)*

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, and has been designated a publicly supported organization which is not a private foundation under Section 509 (a) of the Code. Accordingly, no provision for income taxes has been made in this statement.

*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.

*Reclassifications*

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

*Fair Value Measurement - Definition and Hierarchy*

The Foundation adopted the provisions of FASB ASC 820-10, (formerly SFAS No. 157), *Fair Value Measurements*. FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Foundation uses various valuation techniques in determining fair value. FASB ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Foundation. Unobservable inputs are inputs that reflect the Foundation's assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

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

*Fair Value Measurement - Definition and Hierarchy (Continued)*

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

The Foundation's cash and cash equivalents and investments are primarily valued utilizing Level 1 inputs.

- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

The Foundation's inventories are primarily valued utilizing Level 2 inputs.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Foundation's trademark is measured using Level 3 inputs.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Foundation in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

*Accounting for Uncertainty in Income Taxes*

The Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes ("FIN 48")*. FIN 48, now referred to as FASB ASC 740-10, requires entities to disclose in their financial statements the nature of any uncertainty in their tax position. The Foundation implemented this policy and its current accounting policy for evaluating uncertain tax positions is in accordance with generally accepted accounting principles. The Foundation has not recognized any benefits from uncertain tax positions in 2011 or 2010 and believes it has no uncertain tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the balance sheet date of June 30, 2011.

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

*Accounting for Uncertainty in Income Taxes (Continued)*

Generally, federal, state and local authorities may examine the Foundation's tax returns for three years from the date of filing; consequently, income tax returns for years prior to 2008 are no longer subject to examination by tax authorities.

*Subsequent Events*

Management has evaluated subsequent events or transactions occurring through October 17, 2011, the date the financial statements were available to be issued.

**2. PLEDGES RECEIVABLE**

Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. No discounts on pledges receivable are computed, as all pledges are considered current in these financial statements. As of June 30, 2011 and 2010, the foundation held pledges with maturities of less than one year of \$6,250 and \$27,500 (net of allowances of \$15,000 and \$22,500), respectively.

**3. INVESTMENTS**

Investments are stated at fair value and are summarized as follows as of June 30, 2011 and 2010:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><u>June 30, 2011</u></b>			
Cost	\$ 1,886,493	\$ 18,753	\$ 1,905,246
Fair value	\$ 1,983,488	\$ 19,772	\$ 2,003,260
Carrying value	\$ 1,983,488	\$ 19,772	\$ 2,003,260
<b><u>June 30, 2010</u></b>			
Cost	\$ 980,644	\$ -	\$ 980,644
Fair value	\$ 781,049	\$ -	\$ 781,049
Carrying value	\$ 781,049	\$ -	\$ 781,049

**THE AMERICAN CHESTNUT FOUNDATION**  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2011 AND 2010

**3. INVESTMENTS (CONTINUED)**

The following is a summary of the nature and carrying amounts of the Foundation's groups of investments as of June 30, 2011 and 2010:

<b><u>June 30, 2011</u></b>	<b><u>Cost</u></b>	<b><u>Fair Value</u></b>	<b><u>Carrying Value</u></b>
Merrill Lynch			
Equities	\$ 619,971	\$ 671,060	\$ 671,060
Mutual funds - equity based	<u>1,266,522</u>	<u>1,312,428</u>	<u>1,312,428</u>
Total Merrill Lynch	<u>1,886,493</u>	<u>1,983,488</u>	<u>1,983,488</u>
Duke Energy Investment Account - Equities	<u>18,753</u>	<u>19,772</u>	<u>19,772</u>
Total Investments	<u>\$ 1,905,246</u>	<u>\$ 2,003,260</u>	<u>\$ 2,003,260</u>
<b><u>June 30, 2010</u></b>	<b><u>Cost</u></b>	<b><u>Fair Value</u></b>	<b><u>Carrying Value</u></b>
Merrill Lynch			
Equities	\$ 17,742	\$ 14,163	\$ 14,163
Mutual funds - equity based	<u>332,832</u>	<u>235,405</u>	<u>235,405</u>
Total Merrill Lynch	<u>350,574</u>	<u>249,568</u>	<u>249,568</u>
Pershing Account			
Equities	73,440	52,297	52,297
Mutual funds - equity based	<u>64,270</u>	<u>121,680</u>	<u>121,680</u>
Total Pershing	<u>137,710</u>	<u>173,977</u>	<u>173,977</u>
Vanguard Investment Account - Equities	<u>492,360</u>	<u>357,504</u>	<u>357,504</u>
Total Investments	<u>\$ 980,644</u>	<u>\$ 781,049</u>	<u>\$ 781,049</u>

**THE AMERICAN CHESTNUT FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**

**3. INVESTMENTS (CONTINUED)**

The following schedule summarizes investment return and its classification in the Statement of Activities for the year ended June 30, 2011 and 2010.

<u>June 30, 2011</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Bank Account Interest	\$ 193	\$ -	\$ 193
Dividends	42,294	-	42,294
Net realized gain	13,671	-	13,671
Net unrealized gain	<u>290,954</u>	<u>1,019</u>	<u>291,973</u>
Total	<u>\$ 347,112</u>	<u>\$ 1,019</u>	<u>\$ 348,131</u>

<u>June 30, 2010</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Bank Account Interest	\$ 652	\$ -	\$ 652
Dividends	6,670	1,841	8,511
Net realized gain (loss)	110	(72,967)	(72,857)
Net unrealized gain	<u>103,318</u>	<u>103,226</u>	<u>206,544</u>
Total	<u>\$ 110,750</u>	<u>\$ 32,100</u>	<u>\$ 142,850</u>

**4. 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, 2011 consistent with the fair value hierarchy provisions of SFAS No. 157:

**Assets at Fair Value as of June 30, 2011**

	<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	\$ 1,312,428	\$ -	\$ -	\$ 1,312,428
Equities	690,832	-	-	690,832
Inventory	-	37,831	-	37,831
Trademarks, net	-	-	16,864	16,864
Total	<u>\$ 2,003,260</u>	<u>\$ 37,831</u>	<u>\$ 16,864</u>	<u>\$ 2,057,955</u>

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

At June 30, 2011, the Foundation's inventory was measured at fair value on a recurring basis using significant other observable inputs (Level 2) and its trademark was measured using 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 and mutual fund equities:* Valued at the closing price reported on the active market in which the individual securities are traded.

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.

**5. PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 839,854	\$ 839,854
Land improvements	122,980	122,980
Leasehold improvements	13,779	13,779
Building	616,928	-
Farm equipment	441,575	351,659
Office equipment	87,316	64,390
Construction in progress	-	555,614
	2,122,432	1,948,276
Accumulated depreciation	(456,698)	(407,435)
Net Property and Equipment	<u>\$ 1,665,734</u>	<u>\$ 1,540,841</u>

Depreciation expense was \$49,263 and \$40,447 for the years ended June 30, 2011 and 2010, 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.

**6. DEFERRED COMPENSATION LIABILITY**

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 June 2013 through and including May 2017. The amount reported in the financial statements represents the present value of the \$90,000 annual obligation for four years discounted using a 7% interest rate. The Foundation has set aside investments to satisfy this obligation.

**7. NOTES PAYABLE**

The Foundation has the following notes payable:

Note payable to a private party in annual installments of \$8,660 including interest at 6.0% through January 2019, collateralized by land.	\$ 52,779
Note payable to a bank in annual principal installments of \$10,000 plus interest at 6.25%, with a balloon payment due November 2013, collateralized by land.	<u>160,000</u>
Total	212,779
Less: current portion	<u>15,647</u>
Long-Term Portion	<u><u>\$ 197,132</u></u>

Five year principal maturity is a follows:

Year ending June 30, 2012	\$ 15,647
Year ending June 30, 2013	155,995
Year ending June 30, 2014	6,364
Year ending June 30, 2015	6,756
Year ending June 30, 2016	7,174
Thereafter	<u>20,843</u>
Total	<u><u>\$ 212,779</u></u>

**8. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets are restricted for the following purposes:

	<u>2011</u>	<u>2010</u>
Endowment	\$ <u>19,772</u>	\$ <u>-</u>

Permanently restricted net assets represent amounts received and restricted by donors for specific purposes. The principal amount comprising the original donation and unrealized gain or loss cannot be expended, however any investment income earned from these assets can be expended.

**9. 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 by \$106,867 and \$379,540 as of June 30, 2011 and 2010, respectively.

The Foundation received 57% of its contributions and grants from three contributors/grantors in the year ended June 30, 2011. For the year ended June 30, 2010, the Foundation received 73% of its contributions and grants from twelve contributors/grantors.

The Foundation received funding from various 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 return the money to these organizations. The Foundation has reviewed the current status of this funding and believes the amounts due back to the organizations, if any, are immaterial to the financial statements.

**10. LEASE AGREEMENTS**

In February 2010, the Foundation entered into a one-year lease agreement for one of its research farms in Meadowview, Virginia. The lease provides for an annual rent payment of \$1,200 and renews annually.

In January 2010, the Foundation entered into a five-year lease agreement for land in West Salem, Wisconsin. The lease requires an annual rent payment of \$5,000.

In January 2010, the Foundation entered into a five-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.

**10. LEASE AGREEMENTS (CONTINUED)**

In February 2011, the Foundation entered into a six-month lease for office space in State College, Pennsylvania. The lease provides for a monthly rent payment of \$185 and renews every six months.

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

June 30, 2012	\$ 29,311
June 30, 2013	28,042
June 30, 2014	28,267
June 30, 2015	24,352
June 30, 2016	10,764
Thereafter	<u>1,200</u>
Total	<u>\$ 121,936</u>

Rent expense for the years ended June 30, 2011, and 2010 was \$31,766 and \$47,802, respectively, and is included in occupancy expense in the Statement of Functional Expenses.

**11. 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. After eight years of service the Foundation contributes the maximum amount allowable under current law. The Foundation incurred costs of \$6,517 and \$6,095 for the years ended June 30, 2011 and 2010, respectively.

**12. DONATED SERVICES**

The Foundation received donated services in the amount of \$263,500 for each of the years ended June 30, 2011 and 2010 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 (\$237,500), legal expenses (\$20,000) and printing and publication expenses (\$6,000) for the years ended June 30, 2011 and 2010.

**13. 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>2011</u>	<u>2010</u>
Grants for research	\$ <u>130,456</u>	\$ <u>117,934</u>

**14. JOINT COST ALLOCATION**

The Foundation publishes a journal six times a year 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:

	<u>2011</u>	<u>2010</u>
Salaries and wages	\$ 3,034	\$ 2,980
Payroll taxes	232	228
Printing and publication	4,423	3,408
Postage	<u>814</u>	<u>786</u>
Total	<u>\$ 8,503</u>	<u>\$ 7,402</u>

**15. INTANGIBLE ASSETS**

Intangible assets are comprised of:

	<u>2011</u>	<u>2010</u>
Trademark	\$ 18,232	\$ 18,232
Less: Accumulated amortization	<u>(1,368)</u>	<u>(912)</u>
	<u>\$ 16,864</u>	<u>\$ 17,320</u>