THE EDIBLE SCHOOLYARD PROJECT

Financial Statements
with Independent Auditor's Report

Year Ended June 30, 2012

THE EDIBLE SCHOOLYARD PROJECT

Year Ended June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Edible Schoolyard Project
Berkeley, California

We have audited the accompanying statement of financial position of The Edible Schoolyard Project, a California nonprofit corporation (the Organization), as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Edible Schoolyard Project as of June 30, 2012, 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.

Bong Hillberg Lewis Fischesser LLP

Walnut Creek, California
September 12, 2012

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THE EDIBLE SCHOOLYARD PROJECT

Statement of Financial Position
June 30, 2012

ASSETS

CURRENT ASSETS	
Cash	$ 387,525
Investments	2,646,431
Inventory	14,816
Prepaid expenses	14,059
Note receivable	300,000
Total current assets	3,362,831
Property and equipment, net	62,261
Total assets	$ 3,425,092

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 61,125
Deferred revenue	4,075
Accrued liabilities	35,708
Total liabilities	100,908
NET ASSETS - UNRESTRICTED	3,324,184
Total liabilities and net assets	$ 3,425,092

See notes to financial statements.

THE EDIBLE SCHOOLYARD PROJECT

Statement of Activities
Year Ended June 30, 2012

REVENUES, GAINS AND OTHER SUPPORT	
Grants and contributions	
Corporate donations	$ 652,729
Foundation grants	418,354
Individual donations	282,806
Special events	650,377
Total grants and contributions	2,004,266
Other income	
Program revenue	19,962
Participation and tuition fees	41,150
Publication sales	10,326
Dividend and interest income	75,926
Other income	22,428
Unrealized and realized loss on investments	(101,225)
Total other income	68,567
Total revenues, gains and other support	2,072,833
EXPENSES	
Program services	1,325,573
Supporting services	
Management and general	208,670
Fundraising	436,230
Total expenses	1,970,473
Change in net assets	102,360
NET ASSETS - UNRESTRICTED	
Beginning of year - restated	3,221,824
End of year	$ 3,324,184

See notes to financial statements.

THE EDIBLE SCHOOLYARD PROJECT

Statement of Functional Expenses
Year Ended June 30, 2012

	Program Services	Management and general	Fundraising	Total
Salaries	$ 438,140	$ 75,446	$ 64,400	$ 577,986
Professional services	422,322	23,591	64,326	510,239
Events	2,784	120	264,089	266,993
Employee benefits	85,935	28,692	1,090	115,717
Rent	52,171	7,625	2,578	62,374
Grants and contracts to others	58,200	-	3,138	61,338
Dues and publications	47,071	1,880	6,083	55,034
Payroll taxes	40,435	4,656	2,969	48,060
Printing and postage	24,791	4,035	14,033	42,859
Travel	37,076	2,317	2,916	42,309
Program supplies	32,724	-	2,984	35,708
Food	31,083	-	-	31,083
Bank charges	-	16,309	5,527	21,836
Accounting	-	20,825	-	20,825
Depreciation	11,021	6,453	-	17,474
Equipment rental	15,652	-	-	15,652
Office	5,877	4,169	1,898	11,944
Loss on disposal of asset	-	9,967	-	9,967
Equipment and furnishings	6,330	2,073	-	8,403
Telephone	6,414	312	199	6,925
Repairs and maintenance	4,791	200	-	4,991
Consultants	2,756	-	-	2,756
Total expenses	$ 1,325,573	$ 208,670	$ 436,230	$ 1,970,473

See notes to financial statements.

THE EDIBLE SCHOOLYARD PROJECT

Statement of Cash Flows
Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 102,360
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized and realized loss on investments	283,100
Change in net assets	9,967
Depreciation	17,474
(Increase) decrease in assets:	
Inventory	5,812
Prepaid expenses	(9,515)
Note receivable	(300,000)
Increase (decrease) in liabilities:	
Accounts payable	(5,673)
Accrued liabilities	3,686
Deferred revenue	4,075
Net cash provided by (used in) operating activities	111,286
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(1,386,009)
Proceeds from sale or maturity of investments	1,429,543
Purchases of property and equipment	(3,817)
Net cash provided by investing activities	39,717
NET CHANGE IN CASH AND EQUIVALENTS	151,003
CASH AND EQUIVALENTS	
Beginning of year	236,522
End of year	$ 387,525
SUPPLEMENTAL CASH FLOW INFORMATION	
Stock certificates donated	$ 4,590

See notes to financial statements.

1. NATURE OF OPERATIONS

The Edible Schoolyard Project (Organization) is a nonprofit public benefit corporation incorporated in California in 1996. The purpose of the Organization is to build and share a food curriculum for all schools that will become part of the core curriculum of every school in the country.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The financial statements of the Organization have been prepared using the accrual basis of accounting and accordingly reflect all significant receivables, payables, prepayments and similar accruals. Financial statement presentation follows financial accounting standards applicable to not-for-profit organizations. Under such standards, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Actual results could differ from such estimates.

Cash and equivalents – For purposes of the statement of cash flows, the Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents unless otherwise restricted or designated. The Organization places its cash and temporary cash investments with high credit quality institutions. Periodically, such deposits may be in excess of federally insured limits.

Investments - The Organization has reported its investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Investments received by gift are recorded at market value at the date of the donation. Unrealized gains and losses are included in the change in net assets.

Inventory - Inventory is carried at the lower of cost or market and consists of printed publication materials. Inventory is valued using the average cost method.

Property and equipment - The Organization capitalizes expenditures in excess of $1,500 for property and equipment at cost, and records donated equipment at the estimated fair market value at the date of donation. Property and equipment are depreciated over their estimated useful lives. Routine repairs and maintenance are expensed as incurred.

Restrictions on net assets - The Organization has no temporarily restricted or permanently restricted net assets.

Contributions - 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. Gains and losses on assets and liabilities are reported as increase or decreases in unrestricted net assets unless their use is restricted by explicit donor restriction or by law. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the period in which the contributions are recognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed services - No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. The Organization received approximately 3,000 volunteer hours during the year.

Functional allocation of expenses - Expenses by function have been allocated among program and supporting services classifications on the basis of estimates made by the Organization's management.

3. INVESTMENTS

Investments consist of the following at year end:

Cash and equivalents	$ 52,437
Certificates of deposit	422,178
Exchange traded funds	182,945
Corporate stock	16,830
Mutual funds	1,367,609
Fixed income securities	604,432
	$ 2,646,431

Investment fees were $5,925 for the year and are included in management and general expenses.

4. NOTE RECEIVABLE

The Organization made an unsecured loan of $300,000 in June 2012 to The Edible Schoolyard New York City (ESY NYC), a related party. The note is payable on June 30, 2013, and does not bear interest. No allowance for doubtful accounts has been recorded as management believes the loan is fully collectible.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at year end:

Office equipment and improvements	$ 77,302
Equipment	51,036
Edible Schoolyard garden	34,029
	162,367
Less: Accumulated depreciation	(100,106)
	$ 62,261

6. FAIR VALUE MEASUREMENTS

The Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012:

Fixed income securities: Certain corporate and government bonds are valued at the closing price reported in the active market in which the bond is traded.

Common stocks: Certain common stocks are valued at the closing price reported in the active market in which the individual securities are traded. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices.

Mutual funds: Valued at the net asset value (NAV) of shares, based on quoted market prices, held by the Organization at year-end.

Exchange traded funds: Valued at the NAV of shares, based on quoted market prices, held by the Organization at year-end.

Certificates of deposit: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

6. FAIR VALUE MEASUREMENTS (CONTINUED)

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

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value at year end:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Certificates of deposit	$ -	$ 422,178	$ -	$ 422,178
Exchange traded funds	182,945	-	-	182,945
Corporate stock	16,830	-	-	16,830
Mutual funds	1,367,609	-	-	1,367,609
Fixed income securities	604,432	-	-	604,432
	$ 2,171,816	$ 422,178	$ -	$ 2,593,994

7. INCOME TAXES

The Organization is exempt from federal taxes on income under Internal Revenue Code Section 501(c)(3) and is classified by the Internal Revenue Service as other than a private foundation. The Organization is exempt from state taxes under Section 23701(d) of the California Revenue and Taxation Code and therefore no provision for income taxes has been recorded.

The Organization has analyzed tax positions taken for filings with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization’s financial position, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2012.

As of June 30, 2012, periods subsequent to 2008 are subject to audit by various taxing authorities; however, there are currently no audits for any tax periods in progress.

The Organization’s policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively. The Organization has not recognized any interest and penalties in the year.

8. RELATED PARTY TRANSACTIONS

The Organization is party to the following transactions with Chez Panisse Restaurant (Restaurant), which is owned by the Organization's President.

For events and fundraisers, the Organization makes supplies orders through the Restaurant. Total orders made totaled $74,376 for the year.

The Restaurant receives royalties for its branded dinnerware sold by the outside manufacturer. The Restaurant donates these royalties to the Organization, which have been included in corporate donations. Total royalties donated were $9,930 for the year ended June 30, 2012.

The Organization's President receives honorariums for speaking and publishing engagements, which are then donated to the Organization. Total honorariums received by the Organization was $1,000 for the year, and has been reported in individual donations.

The Organization made an unsecured loan to ESY NYC in June 2012 as described in Note 4. One of the Organization's Board members is also a board member of ESY NYC.

9. RETIREMENT PLAN

The Organization's employees participate in a 403(b) defined contribution plan (Plan). The Plan is open to all employees for salary deferrals immediately. The Organization makes discretionary contributions to the Plan, which employees are eligible for after one year and 1,000 hours of service for the Organization. The Organization's contributions to the plan amounted to $17,639 for the year.

10. COMMITMENTS

The Organization leases two corporate offices in Berkeley under operating leases which both expire in December 2013. The leases require monthly rental payments of $3,581. Total rent expense was $42,972 for the year. Minimum future lease commitments under the operating leases are as follows:

2013	$ 42,972
2014	21,486
Total	$ 64,458

11. PRIOR PERIOD ADJUSTMENTS

Certain assets and liabilities related to prior periods were misstated. The following restatements were made to the net assets as of July 1, 2011:

	Unrestricted
Net assets, beginning of year as previously stated	$ 3,241,177
Understatement of prior period depreciation expense	(22,934)
Overstatement of prior period rent expense	3,581
Net assets, beginning of year as restated	$ 3,221,824

12. SUBSEQUENT EVENTS

The Organization's management has reviewed the results of activities for the period of time from its year ended June 30, 2012 through September 12, 2012, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor subsequent events have occurred, the nature of which would require disclosure.