

American Council on Science and Health

Financial Statements

June 30, 2012 and 2011

Independent Auditors' Report**The Board of Trustees
American Council on Science and Health**

We have audited the accompanying statements of financial position of American Council on Science and Health (the "Council") as of June 30, 2012 and 2011 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Council'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 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 American Council on Science and Health as of June 30, 2012 and 2011 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

O'Connor Davies, LLP

New York, New York
March 13, 2013

American Council on Science and Health

Statements of Financial Position

	June 30,	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 342,499	\$ 447,003
Investments	2,493,154	2,739,807
Pledges receivable, net	-	38,750
Prepaid expenses and other current assets	23,163	22,176
Security deposit	68,484	68,484
Property and equipment, net	31,750	45,484
	\$ 2,959,050	\$ 3,361,704
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 100,165	\$ 81,930
Deferred rent liability	105,631	121,410
Total Liabilities	205,796	203,340
Net Assets		
Unrestricted	2,654,794	3,138,167
Temporarily restricted	98,460	20,197
Total Net Assets	2,753,254	3,158,364
	\$ 2,959,050	\$ 3,361,704

See notes to financial statements

American Council on Science and Health

Statements of Activities

	Year Ended June 30, 2012			Year Ended June 30, 2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE						
Contributions	\$ 1,308,801	\$ 91,989	\$ 1,400,790	\$ 1,240,608	\$ 34,119	\$ 1,274,727
Publications revenue	29,321	-	29,321	16,889	-	16,889
Investment income, net	18,687	-	18,687	467,224	-	467,224
Other	271	-	271	546	-	546
Net assets released from restriction	13,726	(13,726)	-	18,645	(18,645)	-
Total Public Support and Revenue	<u>1,370,806</u>	<u>78,263</u>	<u>1,449,069</u>	<u>1,743,912</u>	<u>15,474</u>	<u>1,759,386</u>
EXPENSES						
Scientific and educational	1,266,659	-	1,266,659	1,171,251	-	1,171,251
Management and general	222,299	-	222,299	149,989	-	149,989
Fundraising expenses	365,221	-	365,221	286,510	-	286,510
Total Expenses	<u>1,854,179</u>	<u>-</u>	<u>1,854,179</u>	<u>1,607,750</u>	<u>-</u>	<u>1,607,750</u>
Change in Net Assets	(483,373)	78,263	(405,110)	136,162	15,474	151,636
NET ASSETS						
Beginning of year	<u>3,138,167</u>	<u>20,197</u>	<u>3,158,364</u>	<u>3,002,005</u>	<u>4,723</u>	<u>3,006,728</u>
End of year	<u>\$ 2,654,794</u>	<u>\$ 98,460</u>	<u>\$ 2,753,254</u>	<u>\$ 3,138,167</u>	<u>\$ 20,197</u>	<u>\$ 3,158,364</u>

See notes to financial statements

American Council on Science and Health

Statements of Functional Expenses

	Year Ended June 30, 2012				Year Ended June 30, 2011			
	Scientific and Educational	Management and General	Fundraising	Total Expenses	Scientific and Educational	Management and General	Fundraising	Total Expenses
PERSONNEL								
Salaries and wages	\$ 735,435	\$ 117,688	\$ 86,129	\$ 939,252	\$ 725,392	\$ 97,199	\$ 77,399	\$ 899,990
Payroll taxes	51,246	8,201	6,002	65,449	48,312	6,474	5,155	59,941
Employee benefits	55,717	8,916	6,525	71,158	55,541	7,442	5,926	68,909
Pension	<u>70,470</u>	<u>11,277</u>	<u>8,253</u>	<u>90,000</u>	-	-	-	-
Total Personnel	<u>912,868</u>	<u>146,082</u>	<u>106,909</u>	<u>1,165,859</u>	<u>829,245</u>	<u>111,115</u>	<u>88,480</u>	<u>1,028,840</u>
OTHER THAN PERSONNEL COSTS								
Direct mail expenses	8,058	-	154,358	162,416	4,894	-	114,601	119,495
Fundraising	-	-	-	-	-	-	60	60
Insurance	8,783	1,405	1,029	11,217	8,948	1,199	955	11,102
Media outreach program	-	-	-	-	387	52	41	480
Merchant processing fees	1,723	276	202	2,201	2,243	301	239	2,783
Miscellaneous	4,039	646	473	5,158	5,746	770	613	7,129
Network and computer expenses	29,397	4,704	3,443	37,544	12,253	1,642	1,307	15,202
State registration fees	-	-	9,312	9,312	-	-	-	-
Postage, storage, and freight	2,411	386	282	3,079	3,356	449	358	4,163
Printing and reproduction costs	23,466	-	-	23,466	16,322	-	-	16,322
Professional fees	20,000	36,030	65,230	121,260	59,197	5,812	57,043	122,052
Rent and utilities	172,958	27,678	20,256	220,892	175,375	23,499	18,712	217,586
Research	51,132	-	-	51,132	14,846	-	-	14,846
Stationery and office supplies	2,107	337	247	2,691	4,078	546	435	5,059
Telephone	8,574	1,372	1,004	10,950	8,989	1,204	959	11,152
Travel, meetings and conventions	<u>6,900</u>	<u>1,104</u>	<u>808</u>	<u>8,812</u>	<u>12,334</u>	<u>1,653</u>	<u>1,316</u>	<u>15,303</u>
Total Other Than Personnel Costs	<u>339,548</u>	<u>73,938</u>	<u>256,644</u>	<u>670,130</u>	<u>328,968</u>	<u>37,127</u>	<u>196,639</u>	<u>562,734</u>
Depreciation	<u>14,243</u>	<u>2,279</u>	<u>1,668</u>	<u>18,190</u>	<u>13,038</u>	<u>1,747</u>	<u>1,391</u>	<u>16,176</u>
Total Expenses	<u>\$ 1,266,659</u>	<u>\$ 222,299</u>	<u>\$ 365,221</u>	<u>\$ 1,854,179</u>	<u>\$ 1,171,251</u>	<u>\$ 149,989</u>	<u>\$ 286,510</u>	<u>\$ 1,607,750</u>

See notes to financial statements

American Council on Science and Health

Statements of Cash Flows

	Year Ended June 30	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (405,110)	\$ 151,636
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized gains on investments	42,265	(408,135)
Donation of marketable securities	(20,112)	-
Depreciation	18,190	16,176
Changes in operating assets and liabilities		
Pledges receivable, net	38,750	66,183
Prepaid expenses and other current assets	(987)	3,178
Accounts payable and accrued expenses	18,235	(76,998)
Deferred rent liability	(15,779)	199
Net Cash from Operating Activities	<u>(324,548)</u>	<u>(247,761)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(4,456)	(3,786)
Proceeds from sale of investments	376,151	438,319
Purchase of investments	<u>(151,651)</u>	<u>(396,278)</u>
Net Cash from Investing Activities	<u>220,044</u>	<u>38,255</u>
Net Change in Cash and Cash Equivalents	(104,504)	(209,506)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>447,003</u>	<u>656,509</u>
End of year	<u>\$ 342,499</u>	<u>\$ 447,003</u>

See notes to financial statements

American Council on Science and Health

Notes to Financial Statements
June 30, 2012 and 2011

1. Organization and Tax Status

American Council on Science and Health (the "Council") is a nonprofit consumer education consortium concerned with issues related to food, nutrition, chemicals, pharmaceuticals, lifestyle, the environment and health. The Council was organized on January 1, 1977 as an unincorporated association.

The Council is exempt from Federal income tax under Section 501(c)(3) of the United States Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Council's net assets are classified as permanently restricted, temporarily restricted or unrestricted.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Council considers all highly liquid debt instruments with a maturity of three months or less, at the time of purchase, to be cash equivalents.

Allowance for Doubtful Pledges

The Council has considered a number of factors in estimating its allowance for doubtful pledges, including the uncertainty of the current economy, ongoing circumstances surrounding contributors' continuing ability to meet their pledge obligations, and pledge payment history. If any of these factors were to change, it could have a material effect on the need for or amount of the estimated allowance.

Fair Value of Financial Instruments

The Council follows U.S. GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

American Council on Science and Health

Notes to Financial Statements
June 30, 2012 and 2011

2. Summary of Significant Accounting Policies *(continued)*

Investment Valuation

Investments are carried at fair value.

Property and Equipment

Property and equipment are recorded at cost at date of acquisition or, if received through donation, at estimated fair market value on the date received. Major improvements and repairs are capitalized, with minor maintenance and repairs of property expensed as incurred.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets which range from three to five years.

Accounting for Uncertainty in Income Taxes

The Council recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management is not aware of any exposure to uncertain tax positions that require financial statement recognition or disclosure. The Internal Revenue Service ("IRS") conducted an examination of the Council's form 990 for the year ended June 30, 2010. The IRS finished its examination on October 17, 2012 and accepted the return as filed. The Council is no longer subject to examinations by the Federal government for periods prior to July 1, 2010. The Council is no longer subject to examinations by the applicable state taxing jurisdictions for periods prior to July 1, 2009.

Contributions

Contributions are recorded in the statement of activities when an unconditional promise is received. Contributions that are restricted by the donor are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires or is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets. Pledges receivable due in more than one year are discounted using a risk adjusted rate of interest. The discount is amortized to contribution income over the expected collection period.

Contributions of assets other than cash are recorded at the estimated fair value on the date of donation.

Advertising

Advertising cost is expensed as incurred.

Compensated Absences

The Council allows employees to receive compensation for vacation, personal and sick leave, with certain limitations. The accompanying financial statements include an accrual for unused vacation and personal leave. While unused sick leave may be accumulated indefinitely, it can only be used for actual sick leave and is not payable upon separation of employment. Since the amount of accrued sick leave that will ultimately be taken cannot be reasonably estimated, it is the Council's policy to record the cost when actually paid to employees. As of June 30, 2012 and 2011, the total unused sick leave that could be taken amounts to approximately \$50,000 and \$49,000, respectively.

American Council on Science and Health

Notes to Financial Statements
June 30, 2012 and 2011

2. Summary of Significant Accounting Policies *(continued)*

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is March 13, 2013.

3. Concentration of Credit Risk

Financial instruments that potentially subject the Council to significant concentrations of credit risk consist principally of cash and cash equivalents and marketable securities. At times balances held at financial institutions may be in excess of federally insured limits. The Council has not experienced any losses on its holdings at financial institutions.

4. Investments and Investment Returns

The following are the major categories of investments measured at fair value and categorized by the fair value hierarchy at June 30:

Description	2012		Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	
Investments			
Equity securities			
Equity securities, domestic	\$ 1,218,069	\$ -	\$ 1,218,069
Equity securities, foreign	112,571	-	112,571
Exchange traded funds			
Exchange traded funds, domestic	239,250	-	239,250
Exchange traded funds, foreign	168,887	-	168,887
U.S. government agency obligations	-	169,233	169,233
Municipal bonds - taxable	-	113,227	113,227
Corporate bonds	-	471,917	471,917
	<u>\$ 1,738,777</u>	<u>\$ 754,377</u>	<u>\$ 2,493,154</u>
Cash Equivalents			
Money market funds	<u>\$ 80,576</u>	<u>\$ -</u>	<u>\$ 80,576</u>

American Council on Science and Health

Notes to Financial Statements
June 30, 2012 and 2011

4. Investments and Investment Return *(continued)*

Description	2011		Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	
Investments			
Equity securities			
Equity securities, domestic	\$ 1,454,336	\$ -	\$ 1,454,336
Equity securities, foreign	101,105	-	101,105
Exchange traded funds			
Exchange traded funds, domestic	248,415	-	248,415
Exchange traded funds, foreign	199,797	-	199,797
U.S. government agency obligations	-	347,762	347,762
Corporate bonds	-	388,392	388,392
	<u>\$ 2,003,653</u>	<u>\$ 736,154</u>	<u>\$ 2,739,807</u>
Cash Equivalents			
Money market funds	<u>\$ 113,929</u>	<u>\$ -</u>	<u>\$ 113,929</u>

Money market funds are included in the cash and cash equivalents on the statements of financial position.

Net investment return, including interest on cash and cash equivalents, consists of the following for the years ended June 30:

	2012	2011
Interest and dividends	\$ 78,412	\$ 77,291
Realized gain (loss)	12,877	(17,492)
Unrealized gain (loss)	<u>(55,142)</u>	<u>425,627</u>
Investment Income, Gross	36,147	485,426
Less investment fees	<u>(17,460)</u>	<u>(18,202)</u>
Investment Income, Net	<u>\$ 18,687</u>	<u>\$ 467,224</u>

5. Pledges Receivable

Pledges receivable of \$38,750 at June 30, 2011 represent promises to give to fund operations that were paid in full prior to June 30, 2012. No further pledges were made.

American Council on Science and Health

Notes to Financial Statements
June 30, 2012 and 2011

6. Property and Equipment

The following is a summary of property and equipment at June 30:

	<u>2012</u>	<u>2011</u>
Office furniture and equipment	\$ 86,911	\$ 86,911
Computers	<u>132,341</u>	<u>127,885</u>
	219,252	214,796
Less accumulated depreciation	<u>(187,502)</u>	<u>(169,312)</u>
	<u>\$ 31,750</u>	<u>\$ 45,484</u>

7. Pension Plan

The Council maintains a defined contribution plan (the "Plan") qualified under Section 403(b) of the Internal Revenue Code covering all of its eligible employees. Contributions to the Plan are at the discretion of the Council and are computed as a percentage of each employee's basic compensation for all enrolled members who have completed one year of service. Eligible employees may make voluntary contributions to the Plan. Employer contributions charged to expense amounted to \$90,000 for the year ended June 30, 2012. The employer did not make any contributions for the year ended June 30, 2011.

8. Operating Lease

The Council has entered into a lease agreement through April 2016 for its office space in New York City. The lease agreement contains provisions for future rent increases and free rent periods. The total amount of rental payments due over the lease term is being charged to rent expense on a straight-line basis over the term of the lease. The cumulative rent expense accrued in excess of the amounts paid is reflected as deferred rent liability in the statement of financial position. Rent expense for 2012 and 2011, including utilities and escalations, totaled \$220,892 and \$217,586, respectively.

Future minimum rental payments under all operating leases at June 30, 2012 are payable as follows:

Year Ending June 30,	<u>Amount</u>
2013	\$ 218,550
2014	223,468
2015	228,496
2016	<u>193,970</u>
	<u>\$ 864,484</u>

American Council on Science and Health

Notes to Financial Statements
June 30, 2012 and 2011

9. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of June 30:

	<u>2012</u>	<u>2011</u>
Young scientist in America	\$ 54,108	\$ 18,119
Computer and equipment fund	-	636
Hydraulic fracturing study	40,000	-
Holiday menu fund	4,352	1,442
	<u>\$ 98,460</u>	<u>\$ 20,197</u>

Net assets released from temporary restrictions at June 30 by incurring expenses that satisfy the restricted purposes or by the occurrence of other events specified by donors were as follows for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Computer and equipment fund	\$ 636	\$ 2,567
Holiday menu fund	13,090	16,078
	<u>\$ 13,726</u>	<u>\$ 18,645</u>

10. Contingent Liability

The Council has been put on notice about potential litigation relating to alleged wrongful termination of a senior employee in 2010. The former employee threatened a potential suit for damages which may include lost wages, pain and suffering, punitive damages and attorney and court fees. The former employee is seeking an estimated settlement of between \$100,000 and \$215,000. However, if the case proceeds to court, additional damages could be sought. Management intends to vigorously defend these allegations. The Council has notified their directors' and officers' insurance policy provider (the "Provider") about the matter. The Provider has assigned an attorney to handle the Council's defense. Neither the Council nor the Council's defense has received any communications from the former employee since early 2012. It is unclear if the former employee has abandoned the lawsuit or still intends to move forward. Based on the available information as of March 13, 2013, the Provider has indicated that the case meets its coverage criteria. However, if any facts in the matter become known that cause coverage exclusion, the Provider may not cover part or all of the potential loss incurred by the Council. Management believes there is no coverage exclusion connected with this matter. Accordingly, the Council has not recorded a provision for this matter.
