

**BLACKSMITH INSTITUTE, INC.,  
AND CONSOLIDATING ENTITIES  
D/B/A PURE EARTH**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORTS REQUIRED UNDER THE SINGLE AUDIT ACT**

**Years Ended December 31, 2017 and 2016**

# BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES

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## **INDEPENDENT AUDITOR'S REPORT**

To the Boards of Directors of  
Blacksmith Institute, Inc., and Consolidating Entities d/b/a Pure Earth

We have audited the accompanying consolidated financial statements of Blacksmith Institute, Inc., and Consolidating Entities (collectively the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blacksmith Institute, Inc., and Consolidating Entities as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Supplementary and Other Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position, activities, and functional expenses on pages 14 through 19 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards on page 20, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

The logo for UHY LLP, featuring the letters 'UHY' in a large, stylized, cursive font, followed by 'LLP' in a smaller, simpler font.

New York, New York  
March 4, 2019

**FINANCIAL STATEMENTS**

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**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 135,788	\$ 174,765
Grants receivable	4,186,639	6,417,116
Pledges receivable	285,708	453,208
Prepaid expenses and other current assets	<u>267,063</u>	<u>530,253</u>
Total current assets	4,875,198	7,575,342
PROPERTY AND EQUIPMENT, NET	593,851	678,371
SECURITY DEPOSIT	<u>25,000</u>	<u>25,000</u>
	<u>\$ 5,494,049</u>	<u>\$ 8,278,713</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 933,555	\$ 947,909
Accrued expenses	136,299	105,379
Line of credit	90,000	100,000
Long term debt, current portion	<u>166,375</u>	<u>157,869</u>
Total current liabilities	1,326,229	1,311,157
LONG TERM DEBT, net of current portion	<u>218,395</u>	<u>384,414</u>
Total liabilities	<u>1,544,624</u>	<u>1,695,571</u>
<b>NET ASSETS</b>		
Unrestricted net assets	445,789	327,817
Temporarily restricted net assets	<u>3,503,636</u>	<u>6,255,325</u>
Total net assets	<u>3,949,425</u>	<u>6,583,142</u>
	<u>\$ 5,494,049</u>	<u>\$ 8,278,713</u>

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

	Year Ended December 31, 2017			Year Ended December 31, 2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUE</b>						
Grants	\$ -	\$ 1,689,559	\$ 1,689,559	\$ -	\$ 6,867,525	\$ 6,867,525
Fundraising income	357,619	-	357,619	724,769	-	724,769
Contributions	322,198	-	322,198	210,906	-	210,906
In-kind contributions	4,494	-	4,494	82,502	-	82,502
Net assets released from restrictions	<u>4,441,248</u>	<u>(4,441,248)</u>	<u>-</u>	<u>4,036,214</u>	<u>(4,036,214)</u>	<u>-</u>
Total support and revenue	<u>5,125,559</u>	<u>(2,751,689)</u>	<u>2,373,870</u>	<u>5,054,391</u>	<u>2,831,311</u>	<u>7,885,702</u>
<b>FUNCTIONAL EXPENSES</b>						
Program	4,161,000	-	4,161,000	4,079,338	-	4,079,338
Administration	666,197	-	666,197	528,045	-	528,045
Fundraising	<u>436,819</u>	<u>-</u>	<u>436,819</u>	<u>416,526</u>	<u>-</u>	<u>416,526</u>
Total functional expenses	<u>5,264,016</u>	<u>-</u>	<u>5,264,016</u>	<u>5,023,909</u>	<u>-</u>	<u>5,023,909</u>
(Deficiency)Excess of support and revenue over functional expenses	(138,457)	(2,751,689)	(2,890,146)	30,482	2,831,311	2,861,793
Interest expense	(36,959)	-	(36,959)	(46,016)	-	(46,016)
Realized (loss) gain on investments	(334)	-	(334)	(931)	-	(931)
Foreign currency translation adjustment	<u>293,722</u>	<u>-</u>	<u>293,722</u>	<u>(19,224)</u>	<u>(23,303)</u>	<u>(42,527)</u>
<b>CHANGE IN NET ASSETS</b>	117,972	(2,751,689)	(2,633,717)	(35,689)	2,808,008	2,772,319
<b>NET ASSETS, Beginning</b>	<u>327,817</u>	<u>6,255,325</u>	<u>6,583,142</u>	<u>363,506</u>	<u>3,447,317</u>	<u>3,810,823</u>
<b>NET ASSETS, End</b>	<u>\$ 445,789</u>	<u>\$ 3,503,636</u>	<u>\$ 3,949,425</u>	<u>\$ 327,817</u>	<u>\$ 6,255,325</u>	<u>\$ 6,583,142</u>

See notes to consolidated financial statements.

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>Years Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (2,633,717)	\$ 2,772,319
Adjustments to reconcile change in net assets to net cash provided (used in) by operating activities:		
Depreciation	97,705	96,384
In-kind contribution of investments	(50,317)	(61,973)
Realized loss (gain) on investments	334	931
Changes in:		
Grants receivable	2,230,477	(2,569,632)
Pledges receivable	167,500	(100,120)
Prepaid expenses and other current assets	263,190	(346,683)
Accounts payable	(14,354)	305,306
Accrued expense	30,920	10,150
Net cash provided by (used in) operating activities	<u>91,738</u>	<u>106,682</u>
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	49,983	61,042
Fixed asset purchases	(13,185)	(3,428)
Net cash provided by (used in) investing activities	<u>36,798</u>	<u>57,614</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from line of credit	90,000	125,000
Repayments on Line of credit	(100,000)	(75,000)
Repayments of long term debt	(157,513)	(149,078)
Net cash (used in) provided by financing activities	<u>(167,513)</u>	<u>(99,078)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(38,977)</b>	<b>65,218</b>
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<b>174,765</b>	<b>109,547</b>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<b>\$ 135,788</b>	<b>\$ 174,765</b>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	<u>\$ 36,959</u>	<u>\$ 46,016</u>

See notes to consolidated financial statements.



**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 1 — ORGANIZATION**

Blacksmith Institute, Inc. (the “Institute”) is a not-for-profit organization incorporated in the State of New York on July 29, 1999 under Section 501(c)(3) of the Internal Revenue Code, Blacksmith Initiative (“UK”) (the “Initiative”), is a private, limited charity incorporated in the United Kingdom, and Blacksmith Institute Armenia (“Armenia Institute”) is a private, limited charity incorporated in Armenia (collectively referred to as the “Organization”), which serves the global community by providing funding and services to support developing nations with pollution-related environmental issues in an attempt to ensure a clean and hospitable planet for future generations.

The Organization shares a common board of directors, their efforts in serving the global community are inextricably intertwined and funding is pursued on a collaborative basis. The Initiatives were established largely to expand the global footprint from which the Organization can pursue such funding. The operations have been consolidated because it is thought that such consolidation is meaningful.

Effective November 1, 2013, the Institute launched a new initiative – Pure Earth. Pure Earth is an outreach and awareness raising program for the general public. Blacksmith has registered Pure Earth as a trademark.

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the Organization’s significant accounting policies is as follows:

**Financial Statement Presentation**

The consolidated financial statements include the accounts of the Institute and the Initiative. The consolidated financial statements include all adjustments and reclassifications necessary to eliminate the effects of significant intercompany accounts and transactions.

The Organization presents its consolidated financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles.

**Use of Estimates**

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

The Organization considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents. The Organization places its cash with high credit quality institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance limit. There were no uninsured cash balances at December 31, 2017.

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Pledge Receivable**

The Organization's revenue related to pledges received is recognized as revenue in the period received at its fair value and the Organization distinguishes such contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on these amounts were computed using the prime rate applicable to the year in which contribution is made. Amortization of discount is included in contribution revenue.

**Property and Equipment**

Property and equipment is stated at cost less accumulated depreciation. Maintenance and repairs of a routine nature are charged to expense while those that extend the life of existing properties are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets generally from 3 to 10 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful lives of the assets or the term of the lease. The cost of property and equipment purchased in excess of \$1,000 is capitalized.

**Fair Value of Financial Instruments**

Fair Value Measurements and Disclosures, provides the framework for measuring fair value and provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Fair value is defined 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. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization measures certain financial assets and liabilities at fair value on a recurring basis in the consolidated financial statements. The hierarchy ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires financial assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

- Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset or liability's anticipated life.
- Level 3 Inputs are unobservable and cannot be corroborated by observable market data. Inputs generally reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the inputs of the model.

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Value of Financial Instruments (Continued)**

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that the 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 Organization 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 measurement in its entirety is based on the lowest level input that is significant to the fair value measurement in its entirety.

**Net Assets**

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization 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 that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that must be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. There are currently no permanently restricted net assets.

**Income Taxes**

The Institute has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (“IRC”). The Institute qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Initiative is a private charity that is limited and incorporated under the Companies Act 1985 of the Registrar of Companies for England and Wales.

The Organization follows guidance issued by the Financial Accounting Standards Board (“FASB”) regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Income Taxes** (Continued)

The income tax positions taken by the Organization for any years open under the various statutes of limitations are (1) that the Organization continues to be exempt from income taxes and (2) that the Organization does not have unrelated business income that would be subject to income taxes. Management believes these tax positions meet the more-likely-than-not threshold and, accordingly, the tax benefits of these income tax positions (no income tax expense or liability) have been recognized for the years ended on or before December 31, 2017.

The Organization believes that there are no tax positions taken or expected to be taken that would significantly increase or decrease unrecognized tax benefits within 12 months of the reporting date.

**Contributions and Grants**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**Donated Services**

The Organization records contributions and corresponding expense for donated space and equipment, salaries, pollution-related program expense, office expense and telephone. The amount recorded is the estimated fair value of the donated expense.

**Expense Allocation**

Directly identifiable expenses are charged to programs, supporting services and fundraising. Expenses related to more than one function are charged to programs, supporting services and fundraising on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provided for the overall support and direction of the Organization. The cost of providing program services and other activities have been summarized on a functional basis in the statement of activities.

**Foreign Currency Translation**

The Initiative's functional currency is Great British Pounds ("GBP"). Armenia Institute's functional currency is the Armenian Dram. The financial statements of the Initiative and the Armenian Institute have been translated into U.S. dollars upon consolidation with the Institute. All statements of financial position accounts have been translated using the exchange rate in effect at the statements of financial position dates. Statements of activities amounts have been translated using the monthly average exchange rates during the year and have been reported separately in the consolidated statements of activities.

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2017

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Subsequent Events**

For purposes of preparing this consolidated financial statement the Organization considered events through March 4, 2019, the date these consolidated financial statements are available for issuance.

**NOTE 3— PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at:

	December 31,	
	2017	2016
Leasehold improvements	760,006	756,996
Equipment	134,964	134,964
Furniture, fixtures and equipment	92,556	92,556
Software	<u>31,603</u>	<u>21,428</u>
	1,019,129	1,005,944
Less: accumulated depreciation	<u>425,278</u>	<u>327,573</u>
	<u>\$ 593,851</u>	<u>\$ 678,371</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$97,705 and \$96,384, respectively.

**NOTE 4 — LINE OF CREDIT**

On June 25, 2015, the Institute obtained a line of credit from a bank in the amount of \$100,000 which bears interest at a rate of prime + 2.00%. As of December 31, 2017, the rate was 6.5%. The line is secured by all business assets of the Institute and is personally guaranteed by the Institute's President. As of December 31, 2017, there was \$90,000 outstanding.

**NOTE 5 — LONG TERM DEBT**

On June 3, 2014, the Institute obtained a \$500,000 construction loan to finance the renovation of its office. This loan is collateralized by all of the Institute's assets, and interest was payable monthly on the outstanding balance at an interest rate of 5.25%. On December 1, 2014, the available amount under the construction loan was increased to \$700,000. On February 20, 2015 the Institute's construction loan was converted to a long-term note payable with principal and interest payments monthly. The terms are payments of approximately \$13,000 per month for 60 months with an interest rate of 5.25%. The balance at December 31, 2017 and 2016 was \$326,483 and \$464,832, respectively.

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2017**

**NOTE 5 — LONG TERM DEBT** (Continued)

On September 1, 2015 the Institute obtained additional financing by way of a term loan from the same bank. The loan is personally guaranteed by the Institute's President. The terms are payments of approximately \$1,900 per month for 60 months with an interest rate of 5.25%. The balance at December 31, 2017 and 2016 was \$58,287 and \$77,451.

Maturities of long term debt are as follows:

<u>Years Ending December 31,</u>		
2018	\$	166,375
2019		175,339
2020		43,056
	\$	<u>384,770</u>

The loans contains administrative and financial covenants and requires the Organization to maintain a debt service coverage ratio of not less than 1.20 to 1.00 to which the Organization was in compliance at 2017. The Organization did not comply with the covenant to provide timely financial statements to its lender. During March 2018, the Organization refinanced its debt with its existing lender and the covenants were removed entirely.

**NOTE 6 — LEASE COMMITMENTS**

The Organization had a lease arrangement for an office facility. On September 22, 2014, the Organization amended the lease arrangement (with an original expiration date of October 2015) for a term of 10 years commencing on January 1, 2015. Annual rental for each year end will be an amount equal to the Organization's proportionate share based on square footage of the landlord's total costs of ownership.

Rent expense under the operating lease was \$171,136 and \$169,739 for the years ended December 31, 2017 and 2016, respectively.

**SUPPLEMENTARY AND OTHER INFORMATION**

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**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**CONSOLIDATING STATEMENTS OF FINANCIAL POSITION**

	December 31, 2017					
	Blacksmith Institute, Inc.	Blacksmith Initiative UK	Blacksmith Institute Armenia	Total	Eliminations	Consolidated
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 120,778	\$ 2,294	\$ 12,716	\$ 135,788	\$ -	\$ 135,788
Grants receivable	3,606,634	530,005	50,000	4,186,639	-	4,186,639
Pledges receivable, net	191,208	94,500	-	285,708	-	285,708
Due from affiliate		369,689	-	369,689	(369,689)	-
Prepaid expenses and other current assets	<u>305,766</u>	<u>(39,080)</u>	<u>377</u>	<u>267,063</u>	<u>-</u>	<u>267,063</u>
Total current assets	4,224,386	957,408	63,093	5,244,887	(369,689)	4,875,198
PROPERTY AND EQUIPMENT, NET	593,851	-	-	593,851	-	593,851
SECURITY DEPOSIT	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>
	<u>\$ 4,843,237</u>	<u>\$ 957,408</u>	<u>\$ 63,093</u>	<u>\$ 5,863,738</u>	<u>\$ (369,689)</u>	<u>\$ 5,494,049</u>
<b>LIABILITIES AND NET ASSETS</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ 932,225	\$ (2,824)	\$ 4,154	\$ 933,555	\$ -	\$ 933,555
Accrued expenses	130,835	5,464	-	136,299	-	136,299
Line of credit	90,000	-	-	90,000	-	90,000
Due to affiliate	362,786		6,903	369,689	(369,689)	-
Long term debt, current portion	<u>166,375</u>	<u>-</u>	<u>-</u>	<u>166,375</u>	<u>-</u>	<u>166,375</u>
Total current liabilities	<u>1,682,221</u>	<u>2,640</u>	<u>11,057</u>	<u>1,695,918</u>	<u>(369,689)</u>	<u>1,326,229</u>
LONG TERM DEBT, net of current portion	<u>218,395</u>	<u>-</u>	<u>-</u>	<u>218,395</u>	<u>-</u>	<u>218,395</u>
Total liabilities	<u>1,900,616</u>	<u>2,640</u>	<u>11,057</u>	<u>1,914,313</u>	<u>(369,689)</u>	<u>1,544,624</u>
<b>NET ASSETS</b>						
Unrestricted net assets	290,540	159,026	(3,777)	445,789	-	445,789
Temporarily restricted net assets	<u>2,652,081</u>	<u>795,742</u>	<u>55,813</u>	<u>3,503,636</u>	<u>-</u>	<u>3,503,636</u>
Total net assets	<u>2,942,621</u>	<u>954,768</u>	<u>52,036</u>	<u>3,949,425</u>	<u>-</u>	<u>3,949,425</u>
	<u>\$ 4,843,237</u>	<u>\$ 957,408</u>	<u>\$ 63,093</u>	<u>\$ 5,863,738</u>	<u>\$ (369,689)</u>	<u>\$ 5,494,049</u>



**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**CONSOLIDATING STATEMENTS OF FINANCIAL POSITION**

	December 31, 2016				
	Blacksmith Institute, Inc.	Blacksmith Initiative UK	Total	Eliminations	Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 96,678	\$ 78,087	\$ 174,765	\$ -	\$ 174,765
Grants receivable	6,342,665	74,451	6,417,116	-	6,417,116
Pledges receivable, net	315,382	137,826	453,208	-	453,208
Due from affiliate	79,573	-	79,573	(79,573)	-
Prepaid expenses and other current assets	530,253	-	530,253	-	530,253
Total current assets	<u>7,364,551</u>	<u>290,364</u>	<u>7,654,915</u>	<u>(79,573)</u>	<u>7,575,342</u>
PROPERTY AND EQUIPMENT, NET	678,371	-	678,371	-	678,371
SECURITY DEPOSIT	25,000	-	25,000	-	25,000
	<u>\$ 8,067,922</u>	<u>\$ 290,364</u>	<u>\$ 8,358,286</u>	<u>\$ (79,573)</u>	<u>\$ 8,278,713</u>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 948,674	\$ (765)	\$ 947,909	\$ -	\$ 947,909
Accrued expenses	100,625	4,754	105,379	-	105,379
Line of Credit	100,000	-	100,000	-	100,000
Due to affiliate	-	79,573	79,573	(79,573)	-
Long-term Debt Current Portion	157,869	-	157,869	-	157,869.00
Total current liabilities	<u>1,307,168</u>	<u>83,562</u>	<u>1,390,730</u>	<u>(79,573)</u>	<u>1,311,157</u>
LONG TERM DEBT, net of current portion	384,414	-	384,414	-	384,414
Total liabilities	<u>1,691,582</u>	<u>83,562</u>	<u>1,775,144</u>	<u>(79,573)</u>	<u>1,695,571</u>
<b>NET ASSETS</b>					
Unrestricted net assets	243,040	84,777	327,817	-	327,817
Temporarily restricted net assets	6,133,300	122,025	6,255,325	-	6,255,325
Total net assets	<u>6,376,340</u>	<u>206,802</u>	<u>6,583,142</u>	<u>-</u>	<u>6,583,142</u>
	<u>\$ 8,067,922</u>	<u>\$ 290,364</u>	<u>\$ 8,358,286</u>	<u>\$ (79,573)</u>	<u>\$ 8,278,713</u>

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**CONSOLIDATING STATEMENTS OF ACTIVITIES**

	Year Ended December 31, 2017					
	Blacksmith Institute, Inc.	Blacksmith Initiative UK	Blacksmith Institute Armenia	Total	Eliminations	Consolidated
<b>SUPPORT AND REVENUE</b>						
Grants	\$ 820,270	\$ 769,289	\$ 100,000	\$ 1,689,559	\$ -	\$ 1,689,559
Contributions	322,198	-	-	322,198	-	322,198
Fundraising income	357,619	-	-	357,619	-	357,619
In-kind contributions	4,494	-	-	4,494	-	4,494
Total support and revenue	<u>1,504,581</u>	<u>769,289</u>	<u>100,000</u>	<u>2,373,870</u>	<u>-</u>	<u>2,373,870</u>
<b>FUNCTIONAL EXPENSES</b>						
Program	4,101,349	20,198	39,453	4,161,000	-	4,161,000
Administration	653,451	5,248	7,498	666,197	-	666,197
Fundraising	436,819	-	-	436,819	-	436,819
Total functional expenses	<u>5,191,619</u>	<u>25,446</u>	<u>46,951</u>	<u>5,264,016</u>	<u>-</u>	<u>5,264,016</u>
Excess (deficiency) of support and revenue over functional expenses	(3,687,038)	743,843	53,049	(2,890,146)	-	(2,890,146)
Interest expense	(36,959)	-	-	(36,959)	-	(36,959)
Realized loss on investments	(334)	-	-	(334)	-	(334)
Foreign currency translation adjustment	290,612	4,123	(1,013)	293,722	-	293,722
<b>CHANGE IN NET ASSETS</b>	(3,433,719)	747,966	52,036	(2,633,717)	-	(2,633,717)
<b>NET ASSETS, Beginning</b>	<u>6,376,340</u>	<u>206,802</u>	<u>-</u>	<u>6,583,142</u>	<u>-</u>	<u>6,583,142</u>
<b>NET ASSETS, End</b>	<u>\$ 2,942,621</u>	<u>\$ 954,768</u>	<u>\$ 52,036</u>	<u>\$ 3,949,425</u>	<u>\$ -</u>	<u>\$ 3,949,425</u>

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**CONSOLIDATING STATEMENTS OF ACTIVITIES**

	Year Ended December 31, 2016				
	Blacksmith Institute, Inc.	Blacksmith Initiative UK	Total	Eliminations	Consolidated
<b>SUPPORT AND REVENUE</b>					
Grants	\$ 6,873,363	\$ (5,838)	\$ 6,867,525	\$ -	\$ 6,867,525
Contributions	210,906	-	210,906	-	210,906
Fundraising income	724,769	-	724,769	-	724,769
In-kind contributions	82,502	-	82,502	-	82,502
Total support and revenue	<u>7,891,540</u>	<u>(5,838)</u>	<u>7,885,702</u>	<u>-</u>	<u>7,885,702</u>
<b>FUNCTIONAL EXPENSES</b>					
Program	3,972,552	106,786	4,079,338	-	4,079,338
Administration	516,895	11,150	528,045	-	528,045
Fundraising	416,526	-	416,526	-	416,526
Total functional expenses	<u>4,905,973</u>	<u>117,936</u>	<u>5,023,909</u>	<u>-</u>	<u>5,023,909</u>
Deficiency of support and revenue over functional expenses	2,985,567	(123,774)	2,861,793	-	2,861,793
Interest income	(46,016)	-	(46,016)	-	(46,016)
Unrealized loss on investments	(931)	-	(931)	-	(931)
Foreign currency translation adjustment	21,310	(63,837)	(42,527)	-	(42,527)
<b>CHANGE IN NET ASSETS</b>	2,959,930	(187,611)	2,772,319	-	2,772,319
<b>NET ASSETS, Beginning</b>	<u>3,416,410</u>	<u>394,413</u>	<u>3,810,823</u>	<u>-</u>	<u>3,810,823</u>
<b>NET ASSETS, End</b>	<u>\$ 6,376,340</u>	<u>\$ 206,802</u>	<u>\$ 6,583,142</u>	<u>\$ -</u>	<u>\$ 6,583,142</u>

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2017

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 1,769,608	\$ 231,046	\$ 141,755	\$ 2,142,409
Professional Fees	984,086	244,175	81,465	1,309,726
Travel	534,275	13,364	22,317	569,956
Events & Conferences	288,410	900	146,194	435,503
Equipment	188,921	8,220	-	197,141
Rent & Utilities	122,261	24,510	24,510	171,281
Supplies	96,587	2,074	5,537	104,198
Depreciation Expense	-	97,705	-	97,705
Communications	45,241	4,626	7,386	57,253
Lab Fees	53,524	-	-	53,524
Printed Material	38,437	102	1,842	40,381
Bank Fees	15,930	8,633	6,059	30,623
Insurance	-	22,617	-	22,617
In-Kind Professional Fees	20,193	139	83	20,415
Misc. Expense	3,757	3,880	(844)	6,793
Payroll Services Fees	2,401	515	515	3,431
Repair & Maintenance	(2,631)	3,691	-	1,060
	<u>\$ 4,161,000</u>	<u>\$ 666,197</u>	<u>\$ 436,819</u>	<u>\$ 5,264,016</u>

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2016

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 1,748,242	\$ 123,508	\$ 132,874	\$ 2,004,624
Professional Fees	896,284	197,994	66,163	1,160,441
Travel	544,860	24,457	21,841	591,158
Events & Conferences	159,505	-	153,776	313,281
Equipment	287,598	6,257	2,004	295,859
Rent & Utilities	139,272	15,867	15,867	171,006
Depreciation Expense	-	96,384	-	96,384
In-Kind Professional Fees	58,302	24,200	-	82,502
Supplies	67,856	2,094	2,731	72,681
Communications	46,483	3,783	7,993	58,259
Lab Fees	52,545	-	-	52,545
Misc. Expense	25,733	5,003	2,130	32,866
Bank Fees	20,801	-	9,086	29,887
Printed Material	26,479	-	1,668	28,147
Insurance	634	24,329	-	24,963
Repair & Maintenance	2,909	3,776	-	6,685
Payroll Services Fees	1,835	393	393	2,621
	<u>\$ 4,079,338</u>	<u>\$ 528,045</u>	<u>\$ 416,526</u>	<u>\$ 5,023,909</u>

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
December 31, 2017

Program	Federal CFDA Number	Grant/ Contract Number	Federal Expenditures	Expenditures to Subrecipients
<b><u>U.S. AID</u></b>				
Cooperative Agreement				
Reducing the Threats of Toxic Chemical Pollution to Human Health in Low- and Middle-Income Countries	98.001	AID-OAA-A- 16-00019	\$ 1,138,519	\$ -
<b>Total - U.S. AID</b>			<u>1,138,519</u>	<u>-</u>
<b><u>U.S. DEPARTMENT OF STATE</u></b>				
Cooperative Agreement				
Community-driven Artisanal and Small-Scale Gold Mining (ASGM) Remediation Planning in Peru	17.278	S-LMAQM-14- CA-1154	176,762	-
<b>Total - Department of State</b>			<u>176,762</u>	<u>-</u>
<b>Total Federal Assistance</b>			<u>\$ 1,315,281</u>	<u>\$ -</u>

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**December 31, 2017**

**NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") was prepared on the accrual basis of accounting. Grant awards are recorded as revenue when the criteria for earning the revenue is met, generally when the expenditure of grant funds is made. Grant expenditures are recorded when the liability is incurred. The information in this schedule is presented in accordance with the requirements of the Code of Federal Regulations Title 2, *Grants and Agreements*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F, *Audit Requirements*, Section 200.502, *Basis for Determining Federal Awards Expended*.

Administrative costs are included in the reported expenditures to the extent such costs are included in the federal financial reports used as the source for the data presented. The Organization has elected to utilize the 10% de minimis indirect cost rate in Part 200.514 of the Uniform Guidance.

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Boards of Directors of  
Blacksmith Institute, Inc., and Consolidating Entities d/b/a Pure Earth

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Blacksmith Institute, Inc., and Consolidating Entities (collectively the “Organization”), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated March 4, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be significant deficiencies, described in Appendix A of the accompanying schedule of findings and questioned costs



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in Appendix A of the accompanying schedule of findings and questioned costs.

## **Blacksmith Institute, Inc., and Consolidating Entities' Response to Findings**

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The logo for UHY LLP, featuring the letters 'UHY' in a large, stylized, cursive font, with 'LLP' in a smaller, simpler font to the right.

New York, New York  
March 4, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Boards of Directors of  
Blacksmith Institute, Inc., and Consolidating Entities d/b/a Pure Earth

**Report on Compliance for Each Major Federal Program**

We have audited Blacksmith Institute, Inc., and Consolidating Entities (collectively the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal programs for the year ended December 31, 2017. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the Organization's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Blacksmith Institute, Inc., and Consolidating Entities complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material impact on its major federal programs for the year ended December 31, 2017.

## Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The logo for UHY LLP, featuring the letters 'UHY' in a large, stylized, cursive font, with 'LLP' in a smaller, simpler font to the right.

New York, New York  
March 4, 2019

**BLACKSMITH INSTITUTE, INC., AND CONSOLIDATING ENTITIES**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended December 31, 2017

**Section I - Summary of Auditor's Results**

**FINANCIAL STATEMENTS**

A. Type of auditor's report issued:	Unmodified
B. Internal Control Over Financial Reporting	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	Yes
C. Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

A. Internal Control Over Major Programs		
Material weakness(es) identified?		No
Significant deficiency(ies) identified?		Yes
B. Type of auditor's report issued on compliance for major programs:		Unmodified
C. Audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a):		No
D. Major programs	<u>CFDA Number</u>	
Reducing the Threats of Toxic Chemical Pollution to Human Health in Low- and Middle-Income Countries	98.001	
E. Dollar threshold used to determine between Type A and Type B programs:		\$750,000
F. Auditee qualified as low-risk auditee:		No

**Section II - Findings - Financial Statement Audit**

There are no findings to report in the current year.

**Section III - Findings and Questioned Costs - Major Federal Award Program Audit**

A. Certain deficiencies in internal control were identified.	Appendix A
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**Section IV - Summary Schedule of Prior Audit Findings**

No matters were reported.

## **APPENDIX A**

### **SIGNIFICANT DEFICIENCIES**

- Our audit procedures revealed that there were instances where reports required to be filed under the grant agreement were filed after the due date. We strongly recommend that the Organization institute policies and procedures that stipulate that the required reports must be filed by their respective due dates. It is critically important that timely and accurate reports be produced to ensure that the goals and purposes of the grant have been achieved and accounted for properly.
- While conducting our audit, we noted that a complete and accurate final general ledger and trial balance were not available on a timely basis and supporting schedules for balances in the general ledger. All of the above factors contributed to the significant delays in the ability to finalize the year-end financial statements. The process for the year-end closing of the books for any business organization can be a difficult and trying procedure. However, a logical and organized methodology is of significant benefit and the process should become easier over time. We suggest the Organization develop such a formal year-end closing schedule that indicates specific personnel responsibilities and corresponding time requirements. Strict adherence to this schedule should be required because this will allow for the year-end work and audit preparation to be a much less time-consuming and arduous process.
- During our audit, we noted that the Organization did not perform periodic reconciliations on various major accounts (i.e., receivables, property and equipment, accounts payable, intercompany receivables and payables, net assets, revenue, and functional expenses accounts). It is important to reconcile subsidiary ledgers or supporting schedules to the general ledger to ensure the accuracy of financial information and minimize the risk of misstatement or misappropriation. We strongly recommend that a policy be implemented, whereby all subsidiary ledgers and/or supporting schedules are reconciled to the general ledger or on a monthly basis. We also recommend that appropriate management-level personnel review the reconciliations for accuracy and document evidence of their review for audit purposes.