

BLACKSMITH INSTITUTE INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

GINSBERGWEISS, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1 BLUE HILL PLAZA, P.O. BOX 1693
PEARL RIVER, NY 10965-8693

TEL (845) 620-1600 FAX (845) 620-1613

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors
Blacksmith Institute Inc.

We have audited the accompanying statement of financial position of Blacksmith Institute Inc. (the "Organization") as of December 31, 2005, and the related statement of activities 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 misstatements. 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 Organization'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 Blacksmith Institute Inc. at December 31, 2005, 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.



August 30, 2006

BLACKSMITH INSTITUTE INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2005

ASSETS

Current assets	
Cash	\$ 218,683
Contributions receivable	147,917
Prepaid expenses	927
Equipment at cost, net of accumulated depreciation of \$292	<u>1,461</u>
Total assets	<u>\$ 368,988</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 10,305
Grants payable	<u>89,357</u>
Total liabilities	99,662
Net assets	
Unrestricted fund balance	<u>269,326</u>
Total liabilities and net assets	<u>\$ 368,988</u>

See accountants' report and accompanying notes.

BLACKSMITH INSTITUTE INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

Revenues	
Donations - unrestricted	\$ 867,010
Donations - services and overhead costs	260,427
Interested income	<u>2,590</u>
Total unrestricted revenues	<u>1,130,027</u>
Expenses	
Program services	777,960
Management and general	100,890
Fundraising	<u>39,059</u>
Total expenses	<u>917,909</u>
Increase in net assets	212,118
Fund balance at beginning of year	<u>57,208</u>
Fund balance at end of year	<u>\$ 269,326</u>

See accountants' report and accompanying notes.

BLACKSMITH INSTITUTE INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

Cash flows from operating activities	
Increase in net assets	\$ 212,118
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation	292
Increase in contributions receivable	(147,917)
Increase in prepaid expenses	(927)
Increase in accounts payable and accrued expenses	10,305
Increase in grants payable	<u>26,791</u>
Net cash provided by operating activities	100,662
Cash flows from investing activities	
Purchase of equipment	<u>(1,753)</u>
Net increase in cash and cash equivalents	98,909
Cash and cash equivalents - beginning of year	<u>119,774</u>
Cash and cash equivalents - end of year	<u>\$ 218,683</u>

See accountants' report and accompanying notes.

BLACKSMITH INSTITUTE INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

Note 1. Organization

Blacksmith Institute Inc. (the "Organization") is a not-for-profit organization incorporated under the laws of the State of New York on July 29, 1999. The Organization's objective is to serve 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 is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Note 2. Summary of significant accounting policies

Method of accounting

Assets, liabilities, revenues and expenses are recognized on the accrual method of accounting for financial statement presentation, which requires that revenues be recorded when earned and expenses when incurred.

Net assets

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All of the Organization's net assets are unrestricted.

Use of estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all short-term investments with maturity of three months or less to be cash equivalents.

BLACKSMITH INSTITUTE INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

Note 2. Summary of significant accounting policies (continued)

Donated services

The Organization recorded a contribution and corresponding expense for donated space. The amount recorded is the estimated fair value of the donated space. During 2005, the Organization recorded a contribution for donated office space valued at \$54,386.

The Organization recorded a contribution and corresponding expense for donated office related expenses. The amount recorded is the estimated fair value of the donated expenses. During 2005, the Organization recorded a contribution for donated office expenses valued at \$18,516.

The Organization recorded a contribution and corresponding expense for donated services from volunteers who assist in fundraising and special projects. The amount recorded is the estimated fair value of the donated services. During 2005, the Organization recorded a contribution for donated services valued at \$187,525.

Depreciation

Equipment is recorded at cost and depreciated over its estimated useful life of three years using the straight-line method of depreciation.

Note 3. Public support and revenue

Contributions are generally available for unrestricted use, unless specifically restricted by the donor. Unconditional promises to give are recorded when the promise is received. The majority of promises to give are received from private foundations and corporations through fundraising organizations that the Company is registered with. The following contributors comprise a significant source of revenue to the Organization:

<u>Contributor</u>	<u>Amount</u>
The Sigrid Rausing Trust	\$ 269,430
Asia Development Bank	250,000
The Sigrid Rausing Trust 10 th Anniversary Special Award	174,450
Great Forest Management Services Inc.	100,454
Mailman Foundation	25,000

BLACKSMITH INSTITUTE INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2005

Note 4. Related parties

The Organization received cash contributions totaling \$100,454 during the year ended December 31, 2005 from a company owned by the Organization's chairman. Additionally, the Organization received donated services as more fully described in Note 2.

Note 5. Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Note 6. Concentration of credit risk

The Organization maintains several accounts at a financial institution. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC) up to \$100,000. Cash at this institution exceeded federally insured limits. The Organization's uninsured cash balance totaled \$116,991 as of December 31, 2005.

OTHER FINANCIAL INFORMATION

GINSBERGWEISS, LLP
CERTIFIED PUBLIC ACCOUNTANTS
1 BLUE HILL PLAZA, P.O. BOX 1693
PEARL RIVER, NY 10965-8693
TEL. (845) 620-1600 FAX (845) 620-1613

REPORT OF INDEPENDENT ACCOUNTANTS' ON
OTHER FINANCIAL INFORMATION

To the Board of Directors
Blacksmith Institute Inc.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The statement of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ginsberg Weiss LLP

August 30, 2006

BLACKSMITH INSTITUTE INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Program services</u>	<u>Management and general</u>	<u>Fund- raising</u>	<u>Total expenses</u>
Program Grants	<u>\$ 460,879</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 460,879</u>
Administrative				
Bank charges	-0-	5,021	-0-	5,021
Books and publications	-0-	741	-0-	741
Education	15,712	1,118	-0-	16,830
Insurance	-0-	1,145	-0-	1,145
Membership dues	-0-	900	-0-	900
Office expense	3,797	31,261	-0-	35,058
Payroll and processing	94,919	18,176	18,176	131,271
Professional fees	8,480	11,250	-0-	19,730
Services and overhead	163,358	27,226	18,850	209,434
Technical support	10,329	-0-	-0-	10,329
Marketing	-0-	2,034	2,033	4,067
Telephone	-0-	1,346	-0-	1,346
Travel	<u>20,486</u>	<u>672</u>	<u>-0-</u>	<u>21,158</u>
Total	<u>317,081</u>	<u>100,890</u>	<u>39,059</u>	<u>457,030</u>
Total expense	<u>\$ 777,960</u>	<u>\$ 100,890</u>	<u>\$ 39,059</u>	<u>\$ 917,909</u>