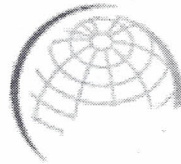


**BLACKSMITH INSTITUTE, INC.
(A NONPROFIT CORPORATION)
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2009**

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P. BOYD CPA, PLLC

Certified Public Accountants & Consultants

Independent Auditor's Report

To the Board of Directors
Blacksmith Institute, Inc.
New York, NY

We have audited the accompanying statement of financial condition of Blacksmith Institute Inc. (a not for profit corporation) as of December 31, 2009, and the related statement of activities and cash flow for the year then ended. These financial statements are the responsibility of the Company'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Blacksmith Institute Inc. as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

P. BOYD CPA, PLLC

Certified Public Accountants

July 20, 2010

BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Assets</u>	
	<u>2009</u>	<u>2008</u>
Current assets		
Cash and cash equivalents	\$ 539,056	\$ 708,706
Grants receivable	46,618	812,742
Prepaid insurance	2,647	827
Deferred asset	-	11,765
Total current assets	588,321	1,534,040
Fixed assets (Note 1)	146,459	170,374
Other assets		
Grant receivable long term	-	
Total other assets	-	170,374
Total assets	734,780	1,704,414
<u>Liabilities and Fund Balances</u>		
Current liabilities		
Account and accrued expense payable	\$ 35,617	\$ 11,865
Grants payable	838,459	831,513
Total current liabilities	874,076	843,378
Long-term liabilities	-	-
Total long-term liabilities	-	-
Total liabilities	874,076	843,378
Net Assets		
Permanently restricted net assets		
Temporarily restricted net assets	(139,296)	370,951
Unrestricted net assets		490,085
Total net assets	(139,296)	861,036
Total liabilities and fund balances	\$ 734,780	\$ 1,704,414

See auditor's report, the summary of significant accounting policies, and the notes to the financial statements.

BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue				
Grants	\$ -	\$ 904,624	\$ -	\$ 904,624
Contributions	200,286			200,286
Fundraising income (Schedule A)	35,200			35,200
In-kind contributions	604,107			604,107
Reimbursed expenses	2,287			2,287
Other income	932			932
Interest income	1,306			1,306
Net asset released from restriction	904,624	(904,624)		-
Total support and revenue	1,748,742	-	-	1,748,742
Functional expenses				
Administration	208,948			208,948
Programs	2,149,980			2,149,980
Fundraising	29,939			29,939
Total functional expenses	2,388,867	-	-	2,388,867
Excess (Deficiency) of support revenue over expenses	(640,125)			(640,125)
Other adjustments	(372,891)			(372,891)
Net assets-January 1, 2009	502,769	370,951		873,720
Net asset-December 31, 2009	\$ (510,247)	\$ 370,951	\$ -	\$ (139,296)

See auditor's report, the summary of significant accounting policies, and the notes to the financial statements.

**BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenue				
Grants	\$ 587,623	\$ 2,613,511	\$ -	\$ 3,201,134
Contributions	280,406			280,406
Fundraising income (schedule A)	21,380			21,380
In-kind contributions	423,251			423,251
Other income	7,263			7,263
Interest income	15,315			15,315
Net asset released from restriction	2,613,511	(2,613,511)		-
Total support and revenue	3,948,749	-	-	3,948,749
Functional expenses				
Administration	115,074			115,074
Programs	3,689,751			3,689,751
Fundraising	28,772			28,772
Total functional expenses	3,833,597	-	-	3,833,597
Excess (Deficiency) of support revenue over expenses	115,152			115,152
Net assets-January 1, 2008	374,933	370,951		745,884
Other adjustments				
Net asset-December 31, 2008	\$ 490,085	\$ 370,951	\$ -	\$ 861,036

See auditor's report, the summary of significant accounting policies, and the notes to the financial statements.

BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Administration	Programs	Fundraising	Total
Salaries	\$ 59,526	\$ 113,836	7,063	\$ 180,425
Payroll tax	4,924	9,417	584	14,925
Pollution related program expense		1,857,697		1,857,697
Office expense and supplies	23,560	45,056	2,796	71,412
Rent expense	16,212	31,004	1,924	49,140
Depreciation expense	28,546			28,546
Bank charges	3,766			3,766
Insurance	1,392			1,392
Marketing expense	48,988		6,972	55,960
In kind payroll	14,530	80,870	10,600	106,000
Website expense		12,100		12,100
Professional fees	6,250			6,250
Membership dues	1,254			1,254
	\$ 208,948	\$ 2,149,980	\$ 29,939	\$ 2,388,867

See auditor's report, the summary of significant accounting policies, and the notes to the financial statements.

**BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Administration	Programs	Fundraising	Total
Salaries	\$ 31,786	\$ 83,727	\$ 6,357	\$ 121,870
Pollution related program expense		3,192,569		3,192,569
Office expense	19,729	30,795	5,599	56,123
Rent expense	16,000	16,000		32,000
Depreciation expense	7,678	15,357	2,560	25,595
Bank charges	301	2,707		3,008
Insurance	3,172	7,401		10,573
Interest expense	1,831	2,747		4,578
Marketing expense	9,641	5,785	3,856	19,282
Donated equipment		6,500		6,500
In kind payroll	20,800	72,800	10,400	104,000
In kind program expense		237,800		237,800
Loss due to currency exchange		12,805		12,805
Professional fees	4,136	2,758		6,894
	\$ 115,074	\$ 3,689,751	\$ 28,772	\$ 3,833,597

See auditor's report, the summary of significant accounting policies, and the notes to the financial statements.

**BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase/(decrease) in Net Assets	\$(640,125)
Adjustments to reconcile change in Net Assets	
(Increase)/decrease in Current Assets:	
Changes in operating assets and liabilities:	
Depreciation	28,546
Decrease in contracts and grants receivable	398,522
(Increase) in prepaid expenses	(1,820)
Decrease in deferred asset	11,765
Increase in account payable and accrued expenses:	30,698
Net Cash flows Provided by Operating Activities	<u>(172,414)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Fixed asset purchases, net of disposal	(4,631)
Net Cash flows used by Investing Activities	<u>(4,631)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Net Cash flows provided/(used) by Financing Activities	<u>0</u>
NET CHANGE IN CASH AND EQUIVALENTS	
Net decrease in cash	<u>(177,045)</u>
Cash and Equivalents, Beginning of fiscal year	716,101
Cash and Equivalents, at End of fiscal year	<u>\$539,056</u>

See auditor's report, the summary of significant accounting policies, and the notes to the financial statements.

**BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Increase/(decrease) in Net Assets	\$115,152
Adjustments to reconcile change in Net Assets	
(Increase)/decrease in Current Assets:	
Changes in operating assets and liabilities:	
Depreciation	25,595
(Increase) in contracts and grants receivable	(633,846)
Decrease in prepaid expenses	113
Increase/(decrease) in account payable and accrued expenses:	692,857
Net Cash flows Provided by Operating Activities	<u>199,871</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Fixed asset purchases, net of disposals	<u>(1,099)</u>
Net Cash flows used by Investing Activities	<u>(1,099)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Net Cash flows provided/(used) by Financing Activities	<u>0</u>
NET CHANGE IN CASH AND EQUIVALENTS	
Net decrease in cash	<u>198,772</u>
Cash and Equivalents, Beginning of fiscal year	509,934
Cash and Equivalents, at End of fiscal year	<u>\$708,706</u>

See auditor's report, the summary of significant accounting policies, and the notes to the financial statements.

**BLACKSMITH INSTITUTE
(A NONPROFIT CORPORATION)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

Organization

Blacksmith Institute Inc. ("the Organization") was incorporated in the State of New York under the not for profit laws 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.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Income taxes

The Organization is exempt from federal income tax under Section 501© 3 of the Internal Revenue Code. The Corporation 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).

Revenue Recognition

The Organization's revenue relating to contributions received, including unconditional promises to give 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. Interest earned on loans is considered unrestricted and can be used for general operations.

See auditor's report and the notes to the financial statements

**BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

Fund Accounting

The accounts of the Organization are maintained in accordance with the principles of fund accounting. Under fund accounting, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. In accordance with SFAS No. 117, fund balances are classified on the Statement of Financial Position as unrestricted, temporarily restricted, or permanently restricted net assets based on the absence or existence and type of donor-imposed restrictions.

Cash and cash equivalents

For the purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

Investments represent certificates of deposit with maturity dates in excess of three months that are recorded at cost.

Fixed assets

The Organization records its acquisitions of fixed assets at cost. Depreciation is provided over the estimated useful lives of the respective fixed assets.

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 provide for the overall support and direction of the Organization.

See auditor's report and the notes to the financial statements.

BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
FOR THE YEAR ENDED DECEMBER 31, 2009

Contributions

Under SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Donated services

The Organization recorded a contribution and corresponding expense for donated space and equipments, salaries, pollution-related program expense, office expense and telephone. The amount recorded is the estimated fair value of the donated expenses. During 2009, the Organization recorded a contribution as follows:

Salaries	\$ 106,000
Pollution related program expenses	253,800
Rent	35,640
Office expenses	61,502
Total	<u>\$ 456,942</u>

See auditor's report and the notes to the financial statements.

BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 - FIXED ASSETS

Leasehold improvements	\$ 234,793
Equipment	15,576
	<u>250,369</u>
Less accumulated depreciation	103,910
Total	<u>\$ 146,459</u>

NOTE 2- RELATED PARTY TRANSACTIONS

Great Forest Inc, a company owned by the Organization's chairman, donated services including rent, salaries, and office expenses as fully described in "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES".

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 contributions comprise a significant source of revenue for the Organization:

United Nations Industrial development organization (UNIDO)	\$ 405,999
Green Cross Switzerland	272,625
Rockefeller Philanthropy Associates	125,000
Rockefeller Brothers Fund	100,000
Estate of Marion Naumberg	50,000
Joshua Mailman Foundation Grant	25,000
Indus Capital Partners, LLC	25,000
Conrad Meyer	17,731
Sheldon Kasowitz	15,000
Ron Reede	11,220
Northeast Lamp and Recycling	10,451
Total	<u>\$ 1,058,026</u>

See auditors' report and the summary of significant accounting policies

BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 4 – FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 5 – 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 \$250,000. Cash at this institution exceeded federally insured limits. The Organization's uninsured cash balance totaled \$167,930.

See auditors' report and the summary of significant accounting policies

**BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
SCHEDULE FOR THE GOLF TOURNAMENT OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009
SCHEDULE A**

Income:

Revenue	\$ 41,647
Total income	<u>41,647</u>

Disbursements:

Club rental	4,423
Catering fee	880
Insurance	171
Advertising	222
Equipments	31
Miscellaneous	720
Total disbursements	<u>6,447</u>

Gain (loss) from Golf tournament operations	<u><u>\$ 35,200</u></u>
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See auditors' report and the summary of significant accounting policies

**BLACKSMITH INSTITUTE INC.
(A NONPROFIT CORPORATION)
SCHEDULES OF FUNCTIONAL EXPENSES OF
BLACKSMITH-UNITED STATES AND BLACKSMITH-UNITED KINGDOM
FOR THE YEAR ENDED DECEMBER 31, 2009**

Blacksmith Institute-US

Blacksmith Institute-UK

	Administration	Programs	Fundraising	Total	Administration	Programs	Fundraising	Total	Consolidated Total
Salaries	\$ 59,526	\$ 113,836	\$ 7,063	\$ 180,425	\$ -	\$ -	\$ -	\$ -	\$ 180,425
Payroll tax	4,924	9,417	584	14,925					14,925
Pollution related program expense		1,451,698		1,451,698		405,999		405,999	1,857,697
Office expense	70,412	734	266	71,412				-	71,412
Rent expense	24,570	24,570		49,140				-	49,140
Depreciation expense	28,546			28,546				-	28,546
Bank charges	3,766			3,766				-	3,766
Insurance	1,392			1,392				-	1,392
Marketing expense	48,988		6,972	55,960				-	55,960
In kind payroll	14,530	80,870	10,600	106,000				-	106,000
Website expense	12,100			12,100					12,100
Professional fees	6,250			6,250					6,250
Membership dues	1,254			1,254				-	1,254
	\$ 276,258	\$1,681,125	\$ 25,485	\$1,982,870	\$ -	\$ 405,999	\$ -	\$405,999	\$2,388,867