

**BLACKSMITH INSTITUTE, INC.  
(A NONPROFIT CORPORATION)  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2010**

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# ***P. BOYD CPA, PLLC***

*Certified Public Accountants & Consultants*

## **Independent Auditor's Report**

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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, 2010, 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, 2010, 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 10, 2011

**BLACKSMITH INSTITUTE INC.**  
**(A NONPROFIT CORPORATION)**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

<b><u>Assets</u></b>		
	<b><u>2010</u></b>	<b><u>2009</u></b>
Current assets		
Cash and cash equivalents	\$ 395,193	\$ 539,056
Grants receivable	732,457	46,618
Prepaid insurance	3,876	2,647
Total current assets	<b>1,131,526</b>	<b>588,321</b>
Fixed assets (Note 1)	209,898	146,459
Other assets	223	0
Total assets	<b>1,341,647</b>	<b>734,780</b>
<b><u>Liabilities and Fund Balances</u></b>		
Current liabilities		
Account and accrued expense payable	\$ 275	\$ 35,617
Grants payable	6,215	838,459
Total current liabilities	<b>6,490</b>	<b>874,076</b>
Long-term liabilities	-	-
Total liabilities	<b>6,490</b>	<b>874,076</b>
Net Assets		
Permanently restricted net assets		
Temporarily restricted net assets	509,412	(139,296)
Unrestricted net assets	825,745	-
Total net assets	<b>1,335,157</b>	<b>(139,296)</b>
Total liabilities and fund balances	<b>1,341,647</b>	<b>\$ 734,780</b>

*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, 2010**

	Unrestricted	Temporarily restricted	Permanently Restricted	Total
<b>Support and revenue</b>				
Grants		2,577,452		2,577,452
Contributions	388,826			388,826
Fundraising income (Schedule A)	33,865			33,865
In-kind contributions	1,190,140			1,190,140
Reimbursed expenses	-			-
Other income	2,386			2,386
Interest income	97			97
Net asset released from restriction	2,577,452	(2,577,452)		-
<b>Total support and revenue</b>	<b>4,192,766</b>	<b>-</b>	<b>-</b>	<b>4,192,766</b>
<b>Functional expenses</b>				
Administration	271,255			271,255
Programs	2,991,642			2,991,642
Fundraising	104,124			104,124
<b>Total functional expenses</b>	<b>3,367,021</b>			<b>3,367,021</b>
Excess (Deficiency) of support revenue over expenses	825,745			825,745
Net assets-January 1, 2009	(139,296)			(139,296)
<b>Other adjustment</b>	<b>648,708</b>			<b>648,708</b>
<b>Net asset-December 31, 2010</b>	<b>1,335,157</b>			<b>1,335,157</b>

*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
<b>Support and revenue</b>				
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)		-
<b>Total support and revenue</b>	<b>1,748,742</b>	<b>-</b>	<b>-</b>	<b>1,748,742</b>
<b>Functional expenses</b>				
Administration	208,948			208,948
Programs	2,149,980			2,149,980
Fundraising	29,939			29,939
<b>Total functional expenses</b>	<b>2,388,867</b>	<b>-</b>	<b>-</b>	<b>2,388,867</b>
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
<b>Net asset-December 31, 2009</b>	<b>\$ (510,247)</b>	<b>\$ 370,951</b>	<b>\$ -</b>	<b>\$ ( 139,296)</b>

*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, 2010**

	Administration	Programs	Fundraising	Total
Salaries	87,221	164,545	79,934	331,700
Payroll tax	12,907	24,351	11,829	49,087
Payroll service	5,764	-	-	5,764
Pollution related program expense		2,719,452	-	2,719,452
Office expense and supplies	5,119	71	-	5,190
Repair and maintenance	3,353	-	-	3,353
Rent expense	26,165	26,165	-	52,330
Depreciation expense	35,381	-	-	35,381
Telephone expense	5,866	-	-	5,866
Bank charges	9,967	-	-	9,967
Insurance	5,340	-	-	5,340
Marketing expense	3,698	-	2,600	6,298
Loss dues to currency exchange	10,545	-	-	10,545
Website expense	1,075	-	-	1,075
Professional fees	21,662	-	2,232	23,894
Travel and entertainment	19,112	57,058	278	76,448
Miscellaneous expense	17,597	-	7,251	24,848
Membership dues	483	-	-	483
	<b>271,255</b>	<b>2,991,642</b>	<b>104,124</b>	<b>3,367,021</b>

*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**

	<b>Administration</b>	<b>Programs</b>	<b>Fundraising</b>	<b>Total</b>
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
	<b>\$ 208,948</b>	<b>\$ 2,149,980</b>	<b>\$ 29,939</b>	<b>\$ 2,388,867</b>

*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, 2010**

	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Increase/(decrease) in Net Assets	\$825,745
Adjustments to reconcile change in Net Assets	648,708
(Increase)/decrease in Current Assets:	
Changes in operating assets and liabilities:	
Depreciation	35,381
Increase in contracts and grants receivable	(685,839)
(Increase) in prepaid expenses	(1,229)
Increase in due from affiliates	(17,633)
Decrease in account payable and accrued expenses:	(850,176)
Net Cash flows Provided by Operating Activities	<u>(45,043)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Fixed asset purchases, net of disposal	(98,820)
Net Cash flows used by Investing Activities	<u>(98,820)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Net Cash flows provided/(used) by Financing Activities	<u>0</u>
<b>NET CHANGE IN CASH AND EQUIVALENTS</b>	
Net decrease in cash	<u>(143,863)</u>
Cash and Equivalents, Beginning of fiscal year	539,056
Cash and Equivalents, at End of fiscal year	<u>\$395,193</u>

*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>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
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>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Fixed asset purchases, net of disposal	<u>(4,631)</u>
Net Cash flows used by Investing Activities	<u>(4,631)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Net Cash flows provided/(used) by Financing Activities	<u>0</u>
<b>NET CHANGE IN CASH AND EQUIVALENTS</b>	
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  
(A NONPROFIT CORPORATION)  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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*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(c)(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.

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*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, 2010**

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*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.

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*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, 2010**

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*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 2010, the Organization recorded a contribution as follows:

Salaries	\$ 204,000
Pollution related program expenses	<u>986,140</u>
<b>Total</b>	<b><u>\$ 1,190,140</u></b>

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



**BLACKSMITH INSTITUTE INC.**  
**(A NONPROFIT CORPORATION)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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*NOTE 1 - FIXED ASSETS*

Leasehold improvements	\$ 234,794
Equipment	112,996
Furniture & fixture	1,400
	<u>349,190</u>
Less accumulated depreciation	139,292
<b>Total</b>	<b><u>\$209,898</u></b>

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*NOTE 2- RELATED PARTY TRANSACTIONS*

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

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*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 governments, private foundations and corporations through fundraising efforts that the Company undertakes. The following contributions comprise a significant source of revenue for the Organization:

UNICEF/CERF	994,312
Asian Development Bank	890,915
Green Cross Switzerland	173,037
Estate of Marian Naumberg	125,000
CLSA	92,000
Queen Anne Gate Foundation	90,000
Founders Network	39,545
Great Forest	35,797
Vista Hermosa	25,000
Conservation, Food and Health	25,000

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*See auditors' report and the summary of significant accounting policies*



**BLACKSMITH INSTITUTE INC.**  
**(A NONPROFIT CORPORATION)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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*NOTE 3- PUBLIC SUPPORT AND REVENUE (Continued)*

Paul Brooke	25,000
Sheldon Kasowitz	20,000
Silicon Valley Community Foundation	20,000
Katherine Bruce Mechner	10,000
John Storey	10,000
Conrad Meyer	10,000
ERM Group Foundation	10,000
	<u>\$2,595,606</u>

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*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.

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*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 \$87,353.

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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, 2010**

**Blacksmith Institute-US**

**Blacksmith Institute-UK**

	Administration	Programs	Fundraising	Total	Administration	Programs	Fundraising	Total	Consolidated Total
Salaries	\$ 87,221	\$ 164,545	\$ 79,934	\$ 331,700	\$ -	\$ -	\$ -	\$ -	\$ 331,700
Payroll tax	12,907	24,351	11,829	49,087					49,087
Payroll service	5,764	-	-	5,764					5,764
Pollution related program expense	-	2,495,748	-	2,495,748	-	223,704	-	223,704	2,719,452
Office expense	5,015	71	-	5,086	104	-	-	104	5,190
Rent expense	26,165	26,165	-	52,330					52,330
Depreciation expense	35,381			35,381					35,381
Bank charges	3,847			3,847	6,120	-	-	6,120	9,967
Insurance	5,340			5,340					5,340
Telephone	5,866			5,866					5,866
Marketing expense	3,698	-	2,600	6,298					6,298
Miscellaneous expense	15,015	-	7,251	22,266	2,582			2,582	24,848
Repairs & maintenance	3,353			3,353					3,353
Website expense	1,075			1,075					1,075
Loss due to currency exchange	812			812	9,733	-	-	9,733	10,545
Professional fees	20,108	-	2,232	22,340	1,554	-	-	1,554	23,894
Travel and entertainment	19,112	57,058	278	76,448					76,448
Membership dues	483	-	-	483					483
	<b>\$ 251,162</b>	<b>\$ 2,767,938</b>	<b>\$ 104,124</b>	<b>\$ 3,123,224</b>	<b>\$ 20,093</b>	<b>\$ 223,704</b>	<b>\$ -</b>	<b>\$ 243,797</b>	<b>\$ 3,367,021</b>

**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
	<b>\$ 276,258</b>	<b>\$1,681,125</b>	<b>\$ 25,485</b>	<b>\$1,982,868</b>	<b>\$ -</b>	<b>\$ 405,999</b>	<b>\$ -</b>	<b>\$405,999</b>	<b>\$2,388,867</b>