

**BLACKSMITH INSTITUTE, INC.  
(A NONPROFIT CORPORATION)  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2006**

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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 nonprofit corporation) as of December 31, 2006, 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, 2006, 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

August 22, 2007

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**BLACKSMITH INSTITUTE  
(A NONPROFIT CORPORATION)  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2006**

<b>Assets</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$ 129,723
Grants receivable	286,862
Prepaid insurance	996
<b>Total current assets</b>	<b>417,581</b>
<b>Fixed assets (net of accumulated depreciation of \$24,356) (Note 1)</b>	<b>212,191</b>
<b>Other assets</b>	
Grants receivable- long term	22,000
<b>Total other assets</b>	<b>22,000</b>
<b>Total assets</b>	<b>\$ 651,772</b>
<b>Liabilities and Fund Balances</b>	
<b>Current liabilities</b>	
Accounts and accrued expenses payable	\$ 1,848
Deferred income	22,000
Grants payable	113,923
<b>Total current liabilities</b>	<b>137,771</b>
<b>Long-term liabilities</b>	
<b>Total long-term liabilities</b>	<b>0</b>
<b>Total liabilities</b>	<b>0</b>
<b>Net assets</b>	
Permanently restricted net assets	0
Temporarily restricted net assets	22,000
Unrestricted net assets	492,001
<b>Total net assets</b>	<b>514,001</b>
<b>Total liabilities and fund balances</b>	<b>\$ 651,772</b>

*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, 2006**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue</b>				
Grants	\$ 438,718	\$168,000	\$ 0	\$ 606,718
Contributions	85,062			85,062
In-kind contributions	575,145			575,145
Interest income	5,203			5,203
Net assets released from Restrictions	146,000	(146,000)		
<b>Total support and revenue</b>	<b>1,250,128</b>	<b>22,000</b>	<b>0</b>	<b>1,272,128</b>
<b>Functional expenses</b>				
Administration	177,796			177,796
Programs	803,583			803,583
Fundraising	26,176			26,176
<b>Total functional expenses</b>	<b>1,007,555</b>		<b>0</b>	<b>1,007,555</b>
<b>Excess (Deficiency) of support revenue over expenses</b>	<b>242,573</b>	<b>22,000</b>	<b>0</b>	<b>264,573</b>
Net Assets – January 1, 2005	269,326			269,326
Other adjustments	( 19,898)			( 19,898)
<b>Net assets – December 31, 2006</b>	<b>\$ 492,001</b>	<b>\$ 22,000</b>	<b>\$ 0</b>	<b>\$ 514,001</b>

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**BLACKSMITH INSTITUTE INC.**  
**(A NONPROFIT CORPORATION)**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	Administration	Programs	Fund Raising	Total
Salaries	\$ 67,210	\$ 112,426	\$25,603	\$ 205,239
Pollution related program expense	0	633,217	0	633,217
Repairs	38,273	38,273		76,546
Office expenses	27,937	0		27,937
Rent expense	13,614	13,614		27,228
Depreciation expense	24,064	0		24,064
Telephone	3,245	3,818	573	7,636
Bank charges	320	2,235		2,555
Insurance	1,943	0		1,943
Membership dues	660	0		660
Professional fees	500	0		500
Books and publications	30	0		30
	<b>\$ 177,796</b>	<b>\$ 803,583</b>	<b>\$26,176</b>	<b>\$1,007,555</b>

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**BLACKSMITH INSTITUTE INC.  
(A NONPROFIT CORPORATION)  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

<b>Cash flows from operating activities</b>	
<b>Reconciliation of net income to net cash provided by operating activities:</b>	
Change in net assets	\$ 264,573
Other adjustments	( 19,898)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation	24,064
(Increase)Decrease in operating assets	
Grants receivable	( 160,944)
Prepaid insurance	( 69)
Increase (decrease) in operating liabilities	
Accounts and accrued expenses payable	( 8,457)
Grant payable	24,566
Deferred revenue	22,000
<b>Net cash provided by operating activities</b>	<b>145,835</b>
<b>Cash from investing activities</b>	
Leasehold improvements	234,794
<b>Net cash used for investing activities</b>	<b>( 234,794)</b>
<b>Cash used for financing activities</b>	
<b>Net cash for financing activities</b>	<b>0</b>
<b>Net decrease in cash</b>	<b>( 88,959)</b>
Cash, beginning of the year	218,683
<b>Cash, end of the year</b>	<b>\$ 129,723</b>

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**BLACKSMITH INSTITUTE  
(A NONPROFIT CORPORATION)  
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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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© 3 of the Internal Revenue Code. However, income from certain activities not directly related to the Corporation's tax-exempt status is subject to taxation as unrelated business income. In addition, 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 values 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**

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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.

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

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, salaries, pollution-related program expense, office expense and telephone. The amount recorded is the estimated fair value of the donated expenses. During 2006, the Organization recorded a contribution as follows:

Salaries	\$ 144,383
Pollution-related program expenses	112,418
Rent	54,531
Office expenses	22,953
Telephone	<u>6,069</u>
<b>Total</b>	<b><u><u>\$ 340,354</u></u></b>

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

*NOTE 1 - FIXED ASSETS*

Leasehold improvements	\$	234,794
Equipment		1,753
		<hr/>
		236,547
Less: accumulated depreciation		24,356
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<b>TOTAL</b>	<b>\$</b>	<b>212,191</b>

*NOTE 2- RELATED PARTY TRANSACTIONS*

The Organization received contribution by way of leasehold improvements to its space of \$234,794 and cash donations of \$5,100 during the year ended December 31, 2006 from a company owned by the Organization's chairman. Additionally, the Organization received donated services as fully described in Note 2.

*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:

SIGRID RAUSING TRUST	\$ 237,575
ASIA DEVELOPMENT BANK	92,198
WORLD BANK	60,000
MAILMAN FOUNDATION INC.	50,000
THOMSON SCIENTIFIC INSTRUMENTS	25,000
SHELDON KASOWITZ	15,000
ERM GROUP FOUNDATION INC.	14,539
ARGONNE NATIONAL LABORATORY	8,000

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

**BLACKSMITH INSTITUTE INC.  
(A NONPROFIT CORPORATION)  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006**

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*NOTE 4 – FUNCTIONAL ALLOCATION OF EXPENSES*

The cost 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 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 \$100,000. Cash at this institution exceeded federally insured limits. The Organization's uninsured cash balance totaled \$26,084.

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