

**BLACKSMITH INSTITUTE, INC.
AND
BLACKSMITH INITIATIVE (UK)
AUDITED CONSOLIDATED FINANCIAL
STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2012

BLACKSMITH INSTITUTE, INC. AND BLACKSMITH INITIATIVE (UK)

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INDEPENDENT AUDITOR'S REPORT

To the Boards of Directors
Blacksmith Institute, Inc. and Blacksmith Initiative (UK)

We have audited the accompanying consolidated financial statements of Blacksmith Institute, Inc. and Blacksmith Initiative, UK (collectively the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities, and cash flows for the year 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 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 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 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 Blacksmith Initiative, UK as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the consolidating statements of financial position and consolidating statements of activities is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. The schedule of functional expenses is presented for purposes of additional analysis and is 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 consolidating information and supplementary 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.

UHY LLP

New York, New York
September 10, 2013

FINANCIAL STATEMENTS

BLACKSMITH INSTITUTE, INC AND BLACKSMITH INITIATIVE (UK)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 661,347
Grants receivable	5,971,356
Pledges receivable	70,642
Prepaid expenses and other current assets	<u>48,103</u>
Total current assets	<u>6,751,448</u>

PROPERTY AND EQUIPMENT, NET
INVESTMENTS

73,710
<u>12,888</u>
<u>\$ 6,838,046</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 4,516
Accrued expenses	<u>177,554</u>
Total current liabilities	<u>182,070</u>

NET ASSETS

Unrestricted net assets	71,042
Temporarily restricted net assets	<u>6,584,934</u>
Total net assets	<u>6,655,976</u>
	<u>\$ 6,838,046</u>

See notes to financial statements.

BLACKSMITH INSTITUTE, INC AND BLACKSMITH INITIATIVE (UK)
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
	<u> </u>	<u> </u>	<u> </u>
SUPPORT AND REVENUE			
Grants	\$ -	\$ 8,099,704	\$ 8,099,704
Contributions	236,709	-	236,709
Fundraising income	155,175	-	155,175
In-kind contributions	111,007	-	111,007
Other income	18,076	-	18,076
Net assets released from restrictions	2,723,724	(2,723,724)	-
Total support and revenue	<u>3,244,691</u>	<u>5,375,980</u>	<u>8,620,671</u>
 FUNCTIONAL EXPENSES			
Program	2,787,985	-	2,787,985
Administration	307,331	-	307,331
Fundraising	232,430	-	232,430
Total functional expenses	<u>3,327,746</u>	-	<u>3,327,746</u>
 (Deficiency) Excess of support and revenue over functional expenses	<u>(83,055)</u>	<u>5,375,980</u>	<u>5,292,925</u>
 Interest income	215		215
Unrealized loss on investments	(27)	-	(27)
Foreign currency translation adjustment	72,048	-	72,048
 CHANGE IN NET ASSETS	 (10,819)	 5,375,980	 5,365,161
 NET ASSETS, Beginning	 <u>81,861</u>	 <u>1,208,954</u>	 <u>1,290,815</u>
NET ASSETS, End	<u>\$ 71,042</u>	<u>\$ 6,584,934</u>	<u>\$ 6,655,976</u>

See notes to financial statements.

BLACKSMITH INSTITUTE, INC AND BLACKSMITH INITIATIVE (UK)
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

OPERATING ACTIVITIES

Change in net assets	\$ 5,365,161
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	26,564
In-kind contribution of investments	(12,915)
Unrealized loss on investments	27
Changes in:	
Grant receivable	(5,454,873)
Pledges receivable	(70,642)
Prepaid expenses	(21,094)
Accounts payable	(20,658)
Accrued expense	147,813
Net cash used in operating activities	<u>(40,617)</u>

INVESTING ACTIVITIES

Proceeds from sale of investments	9,848
Fixed asset purchases	<u>(4,084)</u>
Cash provided by investing activities	<u>5,764</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (34,853)

CASH AND CASH EQUIVALENTS, Beginning 696,200

CASH AND CASH EQUIVALENTS, Ending \$ 661,347

BLACKSMITH INSTITUTE, INC. AND BLACKSMITH INITIATIVE (UK)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

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 and Blacksmith Initiative, UK (the “Initiative”), a private, limited charity incorporated in the United Kingdom, (collectively referred to as the “Organization”), 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 Institute and the Initiative share a common board of directors, their efforts in serving the global community are inextricably intertwined and funding is pursued on a collaborative basis. The Initiative was 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.

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 financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles.

Net Assets

Net assets and revenues, expenses, gains, and losses, 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 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 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.

BLACKSMITH INSTITUTE, INC. AND BLACKSMITH INITIATIVE (UK)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

For purposes of preparing this financial statement the Organization considered events through September 10, 2013, the date these financial statements are available for issuance.

Cash and Cash Equivalents

For purposes of the statement of cash flows, 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. However, at December 31, 2012 the Organization had no uninsured cash balances.

Use of Estimates

The preparation of 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 5 to 7 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.

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.

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.

BLACKSMITH INSTITUTE, INC. AND BLACKSMITH INITIATIVE (UK)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

The Organization measures certain financial assets and liabilities at fair value on a recurring basis in the 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.

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.

Investments

Investments are reported at fair value. Investment income, which consists of interest and dividend income earned, realized gains or losses and unrealized appreciation (depreciation) on those investments, is included in the statement of changes in net assets.

Investment securities consist of donated stocks of publicly traded companies valued at closing price reported on the active market on which the securities are traded.

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.

BLACKSMITH INSTITUTE, INC. AND BLACKSMITH INITIATIVE (UK)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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.

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, 2012.

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.

None of the Organization’s federal or state information returns is currently under examination by the Internal Revenue Service (“IRS”) or state authorities. However, fiscal years 2009 and later remain subject to examination by the IRS and respective states.

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.

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 Statement of Activities as net assets released from restrictions. Restricted contributions whose restrictions are met in the same reporting period are recorded as unrestricted contributions.

BLACKSMITH INSTITUTE, INC. AND BLACKSMITH INITIATIVE (UK)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. During 2012, the Organization recorded contributions received in kind totaling \$111,007.

Foreign Currency Translation

The Initiative's functional currency is in Great British Pounds ("GBP"). The financial statements of the Initiative have been translated into U.S. dollars upon combination with the Institute. All statement of financial position accounts have been translated using the exchange rate in effect at the statement of financial position dates. Statements of activities amounts have been translated using the average exchange rate for the year. Foreign currency translation adjustments resulted in gains of \$72,048 in 2012 and have been reported separately in the consolidated statements of activities. Accumulated net translation adjustments have been reported as part of unrestricted net assets in the consolidated statements of financial position.

NOTE 3— PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2012:

Equipment	\$	124,041
Furniture, fixtures and equipment		<u>23,533</u>
		147,574
Less: accumulated depreciation		<u>73,864</u>
	\$	<u>73,710</u>

Depreciation expense for the year ended December 31, 2012 was \$26,564.

NOTE 4 — TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$6,584,934 at December 31, 2012 were restricted for specific research and development projects.

BLACKSMITH INSTITUTE, INC. AND BLACKSMITH INITIATIVE (UK)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

NOTE 5 — LEASE COMMITMENTS

The Organization has a lease arrangement for an office facility which expires in September 2014.

Future minimum rental payments, exclusive of real estate taxes under the operating lease, are as follows:

<u>Years Ending</u>		
2013	\$	91,480
2014		<u>68,616</u>
	\$	<u><u>160,096</u></u>

Rent expense under the operating lease was \$90,585 for the year ended December 31, 2012.

SUPPLEMENTARY INFORMATION

BLACKSMITH INSTITUTE, INC. AND BLACKSMITH INITIATIVE (UK)
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
December 31, 2012

	December 31, 2012				
	Blacksmith Institute, Inc.	Blacksmith Initiative (UK)	Total	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 620,576	\$ 40,771	\$ 661,347	\$ -	\$ 661,347
Grants receivable	423,999	5,548,217	5,972,216	(860)	5,971,356
Pledges receivable	70,642	-	70,642	-	70,642
Prepaid expenses and other current assets	20,554	27,549	48,103	-	48,103
Total current assets	<u>1,135,771</u>	<u>5,616,537</u>	<u>6,752,308</u>	<u>(860)</u>	<u>6,751,448</u>
PROPERTY AND EQUIPMENT, NET	73,710	-	73,710	-	73,710
INVESTMENTS	<u>12,888</u>	<u>-</u>	<u>12,888</u>	<u>-</u>	<u>12,888</u>
	<u>\$ 1,222,369</u>	<u>\$ 5,616,537</u>	<u>\$ 6,838,906</u>	<u>\$ (860)</u>	<u>\$ 6,838,046</u>
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ 4,516	\$ -	\$ 4,516	\$ -	\$ 4,516
Accrued expenses	170,446	7,968	178,414	(860)	177,554
Total current liabilities	<u>174,962</u>	<u>7,968</u>	<u>182,930</u>	<u>(860)</u>	<u>182,070</u>
NET ASSETS					
Unrestricted net assets	(3,572)	74,614	71,042	-	71,042
Temporarily restricted net assets	1,050,979	5,533,955	6,584,934	-	6,584,934
Total net assets	<u>1,047,407</u>	<u>5,608,569</u>	<u>6,655,976</u>	<u>-</u>	<u>6,655,976</u>
	<u>\$ 1,222,369</u>	<u>\$ 5,616,537</u>	<u>\$ 6,838,906</u>	<u>\$ (860)</u>	<u>\$ 6,838,046</u>

BLACKSMITH INSTITUTE, INC. AND BLACKSMITH INITIATIVE (UK)
CONSOLIDATING STATEMENTS OF ACTIVITIES
Year Ended December 31, 2012

	Year Ended December 31, 2012				
	Blacksmith Institute, Inc.	Blacksmith Initiative (UK)	Total	Eliminations	Consolidated
SUPPORT AND REVENUE					
Grants	\$ 1,172,008	\$ 6,927,696	\$ 8,099,704	\$ -	\$ 8,099,704
Contributions	236,709	-	236,709	-	236,709
Fundraising income	155,175	-	155,175	-	155,175
In-kind contributions	111,007	-	111,007	-	111,007
Other income	18,076	-	18,076	-	18,076
Total support and revenue	<u>1,692,975</u>	<u>6,927,696</u>	<u>8,620,671</u>	<u>-</u>	<u>8,620,671</u>
FUNCTIONAL EXPENSES					
Program	1,450,554	1,337,431	2,787,985	-	2,787,985
Administration	184,388	122,943	307,331	-	307,331
Fundraising	<u>221,341</u>	<u>11,089</u>	<u>232,430</u>	<u>-</u>	<u>232,430</u>
Total functional expenses	1,856,283	1,471,463	3,327,746	-	3,327,746
(Deficiency) Excess of support and revenue over functional expenses	(163,308)	5,456,233	5,292,925	-	5,292,925
Interest income	215	-	215	-	215
Unrealized loss on investments	(27)	-	(27)	-	(27)
Foreign currency translation adjustment	<u>-</u>	<u>72,048</u>	<u>72,048</u>	<u>-</u>	<u>72,048</u>
CHANGE IN NET ASSETS	(163,120)	5,528,281	5,365,161	-	5,365,161
NET ASSETS, Beginning	<u>1,210,527</u>	<u>80,288</u>	<u>1,290,815</u>	<u>-</u>	<u>1,290,815</u>
NET ASSETS, End	<u>\$ 1,047,407</u>	<u>\$ 5,608,569</u>	<u>\$ 6,655,976</u>	<u>\$ -</u>	<u>\$ 6,655,976</u>

BLACKSMITH INSTITUTE, INC. AND BLACKSMITH INITIATIVE (UK)
SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended December 31, 2012

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Partner Organization Expense	\$ 175,740	\$ -	\$ -	\$ 175,740
Personnel	1,249,338	171,031	82,602	1,502,971
Professional Fees	465,689	68,618	44,371	578,678
In-Kind Professional Fees	84,483	-	-	84,483
Travel	435,701	97	11,409	447,207
Events & Conferences	127,726	-	71,567	199,293
Rent & Utilities	65,478	12,933	12,933	91,344
Equipment	2,247	565	-	2,812
Depreciation Expense	-	26,564	-	26,564
Supplies	34,754	402	718	35,874
Lab Fees	58,728	-	-	58,728
Communications	26,618	2,072	2,994	31,684
Printed Material	8,396	-	450	8,846
Insurance	693	17,112	-	17,805
Professional Development	3,969	2,160	-	6,129
Books, Subscriptions, References	3,571	-	234	3,805
Bank Fees	15,094	3,624	4,383	23,101
Payroll Services Fees	1,204	258	258	1,720
Repair & Maintenance	80	-	-	80
Misc. Expense	28,476	1,895	511	30,882
	<u>\$ 2,787,985</u>	<u>\$ 307,331</u>	<u>\$ 232,430</u>	<u>\$ 3,327,746</u>

