BLACKSMITH INSTITUTE, INC.

AUDITED FINANCIAL STATEMENTS
AND
OTHER INFORMATION

Year Ended December 31, 2011

BLACKSMITH INSTITUTE, INC.

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UHY LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S 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, 2011, and the related statements 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 misstatement. 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 the Organization as of December 31, 2011, 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

UHY LLP

New York, New York
September 13, 2012

FINANCIAL STATEMENTS

BLACKSMITH INSTITUTE, INC
STATEMENT OF FINANCIAL POSITION
December 31, 2011

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	620,879
Grants receivable		508,673
Due from related party		876
Prepaid expenses		27,008
Total current assets		1,157,436
PROPERTY AND EQUIPMENT, NET		96,190
INVESTMENTS		9,848
	$	1,263,474

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	23,206
Accrued expenses		29,741
Total current liabilities		52,947
NET ASSETS		
Temporarily restricted net assets		1,155,525
Unrestricted net assets		55,002
Total net assets		1,210,527
	$	1,263,474

See notes to financial statements.

BLACKSMITH INSTITUTE, INC
STATEMENT OF ACTIVITIES
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants	$ -	$ 1,592,342	$ 1,592,342
Contributions	397,702	-	397,702
Fundraising income	84,620	-	84,620
In-kind contributions	264,464	21,500	285,964
Interest income	5	-	5
Net assets released from restrictions	1,405,009	(1,405,009)	-
Total support and revenue	2,151,800	208,833	2,360,633
FUNCTIONAL EXPENSES			
Program	2,018,725	-	2,018,725
Administration	312,320	-	312,320
Fundraising	232,679	-	232,679
Total functional expenses	2,563,724	-	2,563,724
(Deficiency) Excess of support and revenue over functional expenses	(411,924)	208,833	(203,091)
NET ASSETS, Beginning	466,926	946,692	1,413,618
NET ASSETS, End	$ 55,002	$ 1,155,525	$ 1,210,527

See notes to financial statements.

BLACKSMITH INSTITUTE, INC
STATEMENT OF CASH FLOWS
Year Ended December 31, 2011

OPERATING ACTIVITIES		
Change in net assets	$	(203,091)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on disposal of fixed assets		117,398
Depreciation		25,403
In-kind contribution of investments		(9,848)
Changes in:		
Grant receivable		278,618
Due from related party		16,535
Prepaid expenses		(23,132)
Accounts payable		23,206
Accrued expense		29,690
Net cash provided by operating activities		254,779
INVESTING ACTIVITIES		
Fixed asset purchases		(29,093)
Cash used in investing activities		(29,093)
NET INCREASE IN CASH AND CASH EQUIVALENTS		225,686
CASH AND CASH EQUIVALENTS, Beginning		395,193
CASH AND CASH EQUIVALENTS, Ending	$	620,879

See notes to financial statements.

NOTE 1 — ORGANIZATION

Blacksmith Institute, Inc. (the "Organization") 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. 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.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Organization's significant accounting policies is as follows:

Financial Statement Presentation

The Organization presents its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. 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.

Subsequent Events

For purposes of preparing this financial statement the Organization considered events through September 13, 2012, 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, 2011 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Revenue Recognition

The Organization's revenue related 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.

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.

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.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments (Continued)

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 of 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 certificates of deposits which are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer. Certificates of deposits are considered to be Level 2 investments.

The following schedule summarizes the investment returns as of December 31, 2011:

Net unrealized gains	$	174
	$	174

Income Taxes

The Organization 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 Organization 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 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.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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, 2011.

The adoption of this guidance did not impact the Organization's financial position or results of operations.

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 2008 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

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.

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 2011, the Organization recorded contributions as follows:

Salaries	$	264,464
Donated furniture		21,500
	$	285,964

NOTE 3— PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2011:

Equipment	$	119,956
Furniture, fixtures and equipment		23,533
		143,489
Less: accumulated depreciation		47,299
	$	96,190

Depreciation expense for the years ended December 31, 2011 was $25,403.

NOTE 4 — TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of $1,157,385 at December 31, 2011 were restricted for specific research and development projects.

NOTE 5 — LEASE COMMITMENTS

The Organization has a one year lease arrangement for an office facility which expires in September 2012.

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

Years Ending		
2012	$	73,035
	$	73,035

Rent expense under the operating lease was $48,469 for the year ended December 31, 2011.

OTHER INFORMATION

BLACKSMITH INSTITUTE, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended December 31, 2011

	Program	Administration	Fundraising	Total
Partner organization expense	$ 301,687	$ -	$ -	$ 301,687
Personnel	867,423	102,060	123,134	1,092,617
Professional fees	158,018	23,832	33,102	214,952
In-kind professional fees	90,131	-	-	90,131
Travel	369,912	1,458	2,573	373,943
Events and conferences	45,909	-	51,050	96,959
Rent and utilities	49,885	8,558	8,558	67,001
Abandonment of leasehold	-	117,398	-	117,398
Equipment	24,271	-	-	24,271
Depreciation expense	-	25,403	-	25,403
Supplies	20,397	1,284	1,284	22,965
Lab fees	16,043	-	-	16,043
Communications	28,376	1,917	4,932	35,225
Printed material	1,199	3,992	-	5,191
Insurance	-	9,615	-	9,615
Professional development	1,322	-	-	1,322
Books, subscriptions, references	-	3,950	-	3,950
Bank fees	17,619	1,831	2,674	22,124
Payroll services fees	1,208	259	259	1,726
Repair and maintenance	1,912	(275)	-	1,637
Moving and expansion	13,793	2,956	2,956	19,705
Miscellaneous expense	12,087	8,082	2,157	22,326
Currency gain	(2,467)	-	-	(2,467)
	$ 2,018,725	$ 312,320	$ 232,679	$ 2,563,724