

**Product Stewardship Institute, Inc.**  
Financial Statements  
and  
Independent Auditor's Report  
June 30, 2007

Product Stewardship Institute, Inc.

Financial Statements  
June 30, 2007

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Sambo Okolo  
&  
Company, LLC  
*a certified public accountant*

*Independent Auditor's Report*

To the Board of Directors  
**Product Stewardship Institute, Inc.**  
Boston, Massachusetts

We have audited the accompanying statement of financial position of Product Stewardship Institute, Inc. (PSI) (a nonprofit organization) as of June 30, 2007 and the related statements of activities, functional expenses 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 Product Stewardship Institute, Inc. as of June 30, 2007, 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 basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Sambo Okolo*  
*Company, LLC*  
*September 28, 2007*

Product Stewardship Institute, Inc.

Statement of Financial Position  
June 30, 2007

| <u>Assets</u>                  |                   |
|--------------------------------|-------------------|
| <i>Current Assets</i>          |                   |
| Cash and cash equivalents      | \$ 126,269        |
| Accounts receivable            | 71,437            |
| Security deposit               | <u>4,000</u>      |
| Total current assets           | <u>201,706</u>    |
| <i>Fixed Assets</i>            |                   |
| Equipment and furniture        | 10,918            |
| Less: Accumulated depreciation | <u>(7,576)</u>    |
| Net fixed assets               | <u>3,342</u>      |
| Total assets                   | <u>\$ 205,048</u> |

| <u>Liabilities and Net Assets</u> |                   |
|-----------------------------------|-------------------|
| <i>Current Liabilities</i>        |                   |
| Accounts payable                  | \$ 18,742         |
| Accrued expenses                  | <u>21,998</u>     |
| Total current liabilities         | <u>40,740</u>     |
| Total liabilities                 | <u>40,740</u>     |
| <i>Net Assets</i>                 |                   |
| Unrestricted                      | 62,475            |
| Temporarily restricted            | <u>101,832</u>    |
| Total liabilities and net assets  | <u>\$ 205,047</u> |

See accompanying notes to financial statements.

Product Stewardship Institute, Inc.

Statement of Activities  
For the Year Ended June 30, 2007

*Changes in unrestricted net assets:*

Revenues and gains:

|                        |           |
|------------------------|-----------|
| State and local grants | \$ 94,390 |
| Private grants         | 51,136    |
| Contributions          | 3,505     |
| Membership dues        | 157,030   |
| Sponsorships           | 12,500    |
| Service fees           | 174,960   |
| Interest income        | 3,573     |

Total unrestricted revenues and gains 497,094

Net assets released from restrictions:

Expiration of project restrictions 25,126

Total unrestricted revenues, gains and other support 522,220

Expenses

|                        |         |
|------------------------|---------|
| Program expenses       | 173,157 |
| Management and general | 318,546 |

Total expenses 491,703

Increase in unrestricted net asset 30,517

*Changes in temporarily restricted net assets*

Net assets released from restrictions (25,126)

Decrease in temporarily restricted net assets (25,126)

Increase in net assets 5,391

Net assets at beginning of year 158,917

Net assets at end of year \$ 164,308

*See accompanying notes to financial statements.*

**Product Stewardship Institute, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2007**

|                               | <i>Program<br/>Services</i> | <i>Management<br/>And<br/>General</i> | <i>Total</i>      |
|-------------------------------|-----------------------------|---------------------------------------|-------------------|
| Salaries and wages            | \$ 80,805                   | \$ 105,228                            | \$ 186,033        |
| Payroll taxes                 | 6,376                       | 8,168                                 | 14,544            |
| Health benefits               | 10,416                      | 15,823                                | 26,239            |
| Workers compensation          | 435                         | 788                                   | 1,223             |
| Life and disability insurance | 1,245                       | 2,259                                 | 3,504             |
| Temporary help                | -                           | 3,065                                 | 3,065             |
| Other professional services   | 11,122                      | 4,183                                 | 15,305            |
| Communications                | -                           | 100                                   | 100               |
| Strategic planning            | -                           | 2,036                                 | 2,036             |
| Intern                        | -                           | 2,212                                 | 2,212             |
| Accounting                    | 1,830                       | 26,785                                | 28,615            |
| Data processing               | 700                         | 12,550                                | 13,250            |
| Legal                         | -                           | 3,532                                 | 3,532             |
| Subcontractors                | 48,678                      | 526                                   | 49,204            |
| Website                       | -                           | 7,648                                 | 7,648             |
| Depreciation                  | -                           | 3,467                                 | 3,467             |
| Dues and subscription         | -                           | 337                                   | 337               |
| License and fees              | -                           | 1,261                                 | 1,261             |
| Insurance                     | -                           | 5,970                                 | 5,970             |
| Meetings                      | 4,644                       | 1,276                                 | 5,920             |
| Books and publications        | -                           | 776                                   | 776               |
| Forum expenses                | -                           | 39,754                                | 39,754            |
| Miscellaneous                 | -                           | 806                                   | 806               |
| Office supplies and expenses  | -                           | 6,078                                 | 6,078             |
| Postages and delivery         | 64                          | 525                                   | 589               |
| Printing                      | -                           | 2,893                                 | 2,893             |
| Rent                          | -                           | 36,246                                | 36,246            |
| Repairs and maintenance       | -                           | 155                                   | 155               |
| Telephone                     | -                           | 8,643                                 | 8,643             |
| Training                      | -                           | 449                                   | 449               |
| Travel                        | 6,842                       | 15,007                                | 21,849            |
|                               | <u>\$ 173,157</u>           | <u>\$ 318,546</u>                     | <u>\$ 491,703</u> |

*See accompanying notes to financial statements.*

Product Stewardship Institute, Inc.

Statement of Cash Flows  
For the Year Ended June 30, 2007

|   |                          |
|---|--------------------------|
| <i>Cash flows from operating activities:</i>  |                          |
| Change in net assets  | \$ 5,391                 |
| Adjustment to reconcile change in net assets<br>to net cash used in operating activities: |                          |
| Depreciation  | 3,467                    |
| Increase in accounts receivable   | (11,319)                 |
| Decrease in prepaid rent  | 2,000                    |
| Decrease in accounts payable  | <u>(12,853)</u>          |
| Net cash used in operating activities   | <u>(13,314)</u>          |
| <i>Cash flows from investing activities:</i>  |                          |
| Acquisition of equipment  | <u>(1,550)</u>           |
| Net cash used in investing activities   | <u>(1,550)</u>           |
| Net decrease in cash and cash equivalents   | (14,864)                 |
| Cash and cash equivalents, beginning of year  | <u>141,133</u>           |
| Cash and cash equivalents, end of year  | <u><u>\$ 126,269</u></u> |
| <i>Supplemental disclosures:</i>  |                          |
| None  |                          |

*See accompanying notes to financial statements.*

**Product Stewardship Institute, Inc.**  
Notes to Financial Statements  
June 30, 2007

**1. Type of Organization**

Product Stewardship Institute, Inc. (PSI or the Institute) was incorporated on December 28, 2004 under the laws of the Commonwealth of Massachusetts as a nonprofit organization dedicated to protecting and improving the environment, health, and welfare of the general public by focusing on reducing the negative health and environmental impacts of consumer products. Activities and programs organized and promoted by PSI include discussion forums, background research, pilot project for the removal of waste products and evolving of strategies with manufacturers for the elimination of waste products. Although the Institute was officially incorporated on December 28, 2004, it had been providing these services as an unincorporated association since December 6, 2000 under the stewardship of the University of Massachusetts.

*Summary of Significant Accounting Policies*

*Basis of Presentation*

Financial statements presentation follows the recommendation of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, PSI is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

PSI also adopted Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received or pledged are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

*Revenue and Expenses*

Contributions received or receivable are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

**Product Stewardship Institute, Inc.**

Notes to Financial Statements - *Continued*

June 30, 2007

1. *Type of Organization - continued*

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. 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 of 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. Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

*Cash and Cash Equivalents*

For purposes of the financial statement presentation, PSI considers all highly liquid investments with maturity of three months or less to be cash equivalents.

*Functional Expenses*

Functional expenses have been allocated between Program Services and Supporting Services based on direct charge, and analysis of personnel time and space utilized for the related activities.

*Income Taxes*

PSI is exempt from income taxes under Section 501(c)(3) of the United States Internal Revenue Code; in addition PSI has been determined to be an organization which is not a private foundation.

*Bad Debt Expenses*

Debts deemed uncollectible are written off by direct charge to accounts. No account has been written off for bad debts for the current year. Management believes receivable balances at June 30, 2007 will be fully collected.

*Concentration of Credit*

The Institute operates a significant part of its programs under contracts with the United States Environmental Protection Agency (USEPA), and other government and private agencies. Financial instruments which potentially subject the organization to concentration of credit risk consist principally of accounts receivable. Credit risk with receivables is concentrated among these government agencies and public companies.

**Product Stewardship Institute, Inc.**  
Notes to Financial Statements - *Continued*  
June 30, 2007

1. *Type of Organization - continued*

*Estimates and Assumptions*

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Fixed Assets and Depreciation*

Fixed assets are stated at cost when purchased. Donations of fixed assets are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, PSI reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Depreciation is calculated by straight line method over their estimated useful lives. Maintenance and repairs are charged to operations when incurred. Significant betterments and renewals are capitalized. It is PSI's policy to capitalize all furniture and equipment purchases, property betterments and property renewals valued over \$500.

2. *Fixed Assets*

Office equipment consists of the following:

|                                     |                 |
|-------------------------------------|-----------------|
| Computer and other office equipment | \$ 10,918       |
| Less accumulated depreciation       | <u>(7,576)</u>  |
| Net equipment                       | <u>\$ 3,342</u> |

Depreciation expense for the period ended June 30, 2007 was \$3,467.

**Product Stewardship Institute, Inc.**  
Notes to Financial Statements - *Continued*  
June 30, 2007

**3. Cash and Cash Equivalents**

PSI maintains cash and short-term investment accounts with a financial institution with a total balance of \$129,269 at June 30, 2007. The deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. As of June 30, 2007, PSI's deposit exceeded the FDIC limit by \$3,610.

**4. Operating Leases**

PSI leases an office space at 137 Newbury Street in Boston as a subtenant for a four-year period. The lease agreement commenced on April 1, 2006 and calls for a monthly payment of \$2,000. In October 2006, the lease agreement was amended to include additional space and the monthly payment increased to \$2,950. Future minimum payments on the lease at June 30, 2007 are as follows:

|               |                 |
|---------------|-----------------|
| June 30, 2008 | \$35,400        |
| 2009          | <u>26,550</u>   |
| Total         | <u>\$61,950</u> |

Rental expenses for the year ended June 30, 2007 was \$36,246

**5. Contributions**

As discussed in Note 1 above, although the Institute was officially incorporated on December 28, 2004, it had been operating for several years as an unincorporated association under the umbrella of the University of Massachusetts Lowell (Umass). During this period it had been supported in part by contributions from State and local memberships, government and private grants and contracts, and funding from the Massachusetts Executive Office of Environmental Affairs. The Board of Directors of PSI voted to accept the assets of the unincorporated association consisting of cash and equipment valued at \$51,898 and \$6,500, respectively as of the date of incorporation, as unrestricted contributions during fiscal year 2005. During the year ended June 30, 2006 Umass transferred as final payment the sum of \$32,201 arising from contributions to projects.

**Product Stewardship Institute, Inc.**  
Notes to Financial Statements - *Continued*  
June 30, 2007

7. *Net Assets*

Temporarily restricted net assets of \$101,832 as of June 30, 2007 consist of contributions, and grants that are restricted to programs for future years. There were no permanently restricted net assets as of June 30, 2007.

Supplementary Information

SCHEDULE I

**Product Stewardship Institute, Inc.**  
**Schedule of Program Expenses**  
**For the Year Ended June 30, 2007**

|                               | <i>Program Expenses</i>                  |                   |                   |
|-------------------------------|--|-------------------|-------------------|
|                               | <i>Direct Staff and Contractor Costs</i> |                   |                   |
|                               | <i>US</i>                                |                   |                   |
|                               | <i>EPA</i>                               | <i>Other</i>      | <i>Total</i>      |
| Direct program costs:         |  |                   |                   |
| <b>Staff Costs-Projects</b>   |  |                   |                   |
| Wages                         | \$ 40,212                                | \$ 40,593         | \$ 80,805         |
| Payroll Taxes                 | 3,173                                    | 3,203             | 6,376             |
| Fringe Benefits               | 5,183                                    | 5,233             | 10,416            |
| Workers Comp                  | 216                                      | 219               | 435               |
| <b>Total Staff Costs</b>      | <b>48,784</b>                            | <b>49,248</b>     | <b>98,032</b>     |
| Subcontractors- Projects      | 31,018                                   | 28,782            | 59,800            |
| Travel                        | 3,405                                    | 3,437             | 6,842             |
| Life and disability insurance | 620                                      | 625               | 1,245             |
| Accounting                    | -  | 1,830             | 1,830             |
| Data processing               | -  | 700               | 700               |
| Meetings                      | 2,311                                    | 2,333             | 4,644             |
| Telephone                     | 32                                       | 32                | 64                |
| Total direct costs            | <u>86,170</u>                            | <u>86,987</u>     | <u>173,157</u>    |
| Indirect costs allocation     | <u>141,256</u>                           | <u>142,596</u>    | <u>283,852</u>    |
| Total program expenses        | <u>\$ 227,426</u>                        | <u>\$ 229,583</u> | <u>\$ 457,009</u> |

## SCHEDULE II

**Product Stewardship Institute, Inc.**  
**Schedule of Indirect Costs**  
**For the Year Ended June 30, 2007**

|                               | <i>Total Indirect<br/>Costs</i> | <i>Unallowable<br/>Costs</i> | <i>Allowable<br/>Indirect Costs</i> |
|-------------------------------|---------------------------------|------------------------------|-------------------------------------|
| <b>Staff Costs-Projects</b>   |                                 |                              |                                     |
| Wages                         | \$ 105,228                      | \$ -                         | \$ 105,228                          |
| Payroll Taxes                 | 8,168                           | -                            | 8,168                               |
| Fringe Benefits               | 15,823                          | -                            | 15,823                              |
| Workers Comp                  | 788                             | -                            | 788                                 |
| <b>Total Staff Costs</b>      | <b>130,007</b>                  | <b>-</b>                     | <b>130,007</b>                      |
| <br>                          |                                 |                              |                                     |
| Travel                        | 15,007                          | 6,157                        | 8,850                               |
| Life and disability insurance | 2,259                           | 2,259                        | -                                   |
| Fundraising                   | 4,183                           | 4,183                        | -                                   |
| Strategic planning            | 2,036                           | -                            | 2,036                               |
| Communications                | 100                             | -                            | 100                                 |
| Temporary help                | 3,065                           | -                            | 3,065                               |
| Intern                        | 2,212                           | -                            | 2,212                               |
| Accounting                    | 26,785                          | -                            | 26,785                              |
| Data processing               | 12,550                          | -                            | 12,550                              |
| Legal                         | 3,532                           | -                            | 3,532                               |
| Subcontractors                | 526                             | -                            | 526                                 |
| Website                       | 7,648                           | -                            | 7,648                               |
| Depreciation                  | 3,467                           | -                            | 3,467                               |
| Dues and subscription         | 337                             | -                            | 337                                 |
| License and fees              | 1,261                           | -                            | 1,261                               |
| Insurance                     | 5,970                           | -                            | 5,970                               |
| Meetings                      | 1,276                           | -                            | 1,276                               |
| Books and publications        | 776                             | -                            | 776                                 |
| Forum Expenses                | 39,754                          | 22,095                       | 17,659                              |
| Miscellaneous                 | 806                             | -                            | 806                                 |
| Office supplies               | 6,078                           | -                            | 6,078                               |
| Postage and delivery          | 525                             | -                            | 525                                 |
| Printing                      | 2,893                           | -                            | 2,893                               |
| Rent                          | 36,246                          | -                            | 36,246                              |
| Repairs and maintenance       | 155                             | -                            | 155                                 |
| Telephone & Internet          | 8,643                           | -                            | 8,643                               |
| Training                      | 449                             | -                            | 449                                 |
|                               | <hr/>                           | <hr/>                        | <hr/>                               |
| Total indirect costs          | \$ 318,546                      | \$ 34,694                    | \$ 283,852                          |

**Product Stewardship Institute, Inc.  
 Schedule of Proposed Indirect Cost Rate Calculation  
 For the Year Ending June 30, 2008**

|  |  |            |
|--|--|------------|
| Total allowable indirect costs                               | <u>\$ 283,852</u>                                      |            |
| Total indirect costs pool used for<br>rate calculation       | <u>\$ 283,852</u>                                      |            |
| Total direct costs   | \$ 173,157   |            |
| Net direct program costs                                     | <u>173,157</u>   |            |
| Total direct program costs base used<br>for rate calculation | <u>\$ 173,157</u>                                      |            |
| Indirect costs   | <table border="1"><tr><td>\$ 283,852</td></tr></table> | \$ 283,852 |
| \$ 283,852   |  |            |
| Direct program costs base                                    | <table border="1"><tr><td>\$ 173,157</td></tr></table> | \$ 173,157 |
| \$ 173,157   |  |            |
| Calculated Actual Indirect Cost Rate for FY 2007             | <u>163.93%</u>   |            |
| EPA Negotiated Provisional Indirect Cost Rate for FY 2008    | <u>163.93%</u>   |            |