

**Pencils of Promise Inc.**

Financial Statements

December 31, 2010 and 2009



O'Connor Davies Munns & Dobbins, llp  
ACCOUNTANTS AND CONSULTANTS

## Independent Auditor's Report

### **The Board of Directors Pencils of Promise Inc.**

We have audited the accompanying statement of financial position of Pencils of Promise Inc., ("the Organization") as of December 31, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Pencils of Promise Inc.'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, 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 Pencils of Promise 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.

The 2009 financial statements were reviewed by us, and our report thereon, dated September 8, 2010, stated that we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

*O'Connor Davies Munns & Dobbins, LLP*

Stamford, Connecticut  
May 5, 2011

**Pencils of Promise Inc.**  
**Statements of Financial Position**  
December 31,

	<u>2010</u> (Audited)	<u>2009</u> (Unaudited)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 344,893	\$ 75,211
Contributions receivable	457,313	-
Prepaid expenses	19,347	7,725
Security deposit	3,000	-
Property and equipment, net	<u>256,893</u>	<u>-</u>
	<u>\$ 1,081,446</u>	<u>\$ 82,936</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 13,174	\$ 4,000
Net Assets		
Unrestricted	618,011	78,936
Temporarily restricted	<u>450,261</u>	<u>-</u>
Total Net Assets	<u>1,068,272</u>	<u>78,936</u>
	<u>\$ 1,081,446</u>	<u>\$ 82,936</u>

See notes to financial statements

**Pencils of Promise Inc.**

Statements of Activities

Years Ended December 31,

	2010 (Audited)			2009
	Unrestricted	Temporarily Restricted	Total	(Unaudited) Total
<b>PUBLIC SUPPORT</b>				
Contributions	\$ 683,103	\$ 450,261	\$ 1,133,364	\$ 57,035
In-kind contributions	333,627	-	333,627	-
Special events, net of \$24,307 and \$36,489	45,584	-	45,584	27,780
Merchandise sales	1,620	-	1,620	-
Other income	12	-	12	50
<b>Total Revenue</b>	<u>1,063,946</u>	<u>450,261</u>	<u>1,514,207</u>	<u>84,865</u>
<b>EXPENSES</b>				
Program services	452,099	-	452,099	36,784
Management and general	25,749	-	25,749	5,492
Fundraising	47,023	-	47,023	-
<b>Total Expenses</b>	<u>524,871</u>	<u>-</u>	<u>524,871</u>	<u>42,276</u>
<b>Change in net assets</b>	539,075	450,261	989,336	42,589
<b>NET ASSETS</b>				
Beginning of the year	<u>78,936</u>	<u>-</u>	<u>78,936</u>	<u>36,347</u>
End of the year	<u>\$ 618,011</u>	<u>\$ 450,261</u>	<u>\$ 1,068,272</u>	<u>\$ 78,936</u>

See notes to financial statements

**Pencils of Promise Inc.**

Statements of Functional Expenses

Years Ended December 31,

	2010 (Audited)			2009 (Unaudited)			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Total
<b>EXPENSES</b>							
School construction and planning costs	\$ 173,820	\$ -	\$ -	\$ 173,820	\$ 28,330	\$ -	\$ 28,330
Salary and related expenses	87,612	7,483	18,878	113,973	-	-	-
Marketing	78,646	3,903	20,104	102,653	1,219	-	1,219
Occupancy	8,751	959	2,278	11,988	2,645	-	2,645
Travel and accommodation	24,897	943	332	26,172	3,629	-	3,629
Staff accommodations	6,058	-	-	6,058	-	-	-
Professional	9,327	9,750	-	19,077	-	4,000	4,000
Outreach	14,829	-	-	14,829	-	-	-
Office expense	8,071	690	1,739	10,500	382	1,000	1,382
Merchandise	1,327	-	332	1,659	-	-	-
Insurance	-	686	-	686	-	-	-
Depreciation	23,335	16	37	23,388	-	-	-
Miscellaneous	<u>15,426</u>	<u>1,319</u>	<u>3,323</u>	<u>20,068</u>	<u>579</u>	<u>492</u>	<u>1,071</u>
Total Expenses	<u>\$ 452,099</u>	<u>\$ 25,749</u>	<u>\$ 47,023</u>	<u>\$ 524,871</u>	<u>\$ 36,784</u>	<u>\$ 5,492</u>	<u>\$ 42,276</u>

See notes to financial statements

**Pencils of Promise Inc.**

Statements of Cash Flows

Years Ended December 31,

	<u>2010</u> (Audited)	<u>2009</u> (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 989,336	\$ 42,589
Adjustments to reconcile change in net assets to net cash from operating activities		
Donated property and equipment	(263,928)	-
Depreciation	23,388	-
Changes in operating assets and liabilities		
Contributions receivable	(457,313)	-
Prepaid expenses	(11,622)	(7,725)
Security deposit	(3,000)	-
Accounts payable and accrued expenses	<u>9,174</u>	<u>1,000</u>
Net Cash from Operating Activities	286,035	35,864
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<u>(16,353)</u>	<u>-</u>
Net Change in Cash and Cash Equivalents	269,682	35,864
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>75,211</u>	<u>39,347</u>
End of year	<u>\$ 344,893</u>	<u>\$ 75,211</u>

See notes to financial statements

# **Pencils of Promise Inc.**

## Notes to Financial Statements

### **1. The Organization**

Pencils of Promise Inc. (“the Organization”) was formed in 2008, and is a non-profit organization dedicated to building schools in the developing world and training youth to take action at home and abroad.

Pursuant to a determination letter received from the Internal Revenue Service, the Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

### **2. Summary of Significant Accounting Policies**

A summary of the significant accounting policies is as follows:

#### ***Basis of Presentation***

Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the Organization's net assets are classified as permanently restricted, temporarily restricted or unrestricted.

#### ***Use of Estimates***

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and the 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.

#### ***Cash and Cash Equivalents***

The Organization considers all highly liquid debt instruments with a maturity of three months or less at the time of purchase to be cash equivalents.

#### ***Property, Equipment and Depreciation***

Property and equipment are recorded at cost, or if received by donation, at estimated fair value at the time such items are received. Depreciation is provided using the straight-line method over estimated useful lives of the assets which range from three to seven years.

## **Pencils of Promise Inc.**

### Notes to Financial Statements

#### **2. Summary of Significant Accounting Policies *(continued)***

##### ***Contributions***

Contributions are recognized when the donor makes an unconditional promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

##### ***Contributed Services***

For the year ended December 31, 2010, donated services totaled \$333,627. There were no donated services in the year ended December 31, 2009. Such services are included in the financial statements as in-kind donations along with the corresponding asset or expense. Donated services consisted of rent, legal and web development. In addition, a substantial number of volunteers have contributed their time to the Organization's program and supporting services, none of which meet the requirements for financial statement recognition. For the year ended December 31, 2010, there were also donated auction items in the amount of \$11,297 and \$50,000 of donated advertising that did not meet the requirements for financial statement recognition.

##### ***Functional Expenses***

The Organization allocates its expenses on a functional basis among its program and supporting services. Expenses that can be specifically identified with a program or support service are allocated directly according to their natural classifications. Other expenses that are common to several functions are allocated based on estimates made by management.

##### ***Accounting for Uncertainty in Income Taxes***

The Organization recognizes the effect of tax positions when they are more likely than not of being sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition. Tax returns since the organization's inception in 2008 remain subject to audits by applicable taxing jurisdictions.

##### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is May 5, 2011.

## Pencils of Promise Inc.

### Notes to Financial Statements

#### 3. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and contributions receivable. Management believes that the Organization is not exposed to any significant credit risk.

#### 4. Property and Equipment

At December 31, 2010 property and equipment and related accumulated depreciation consisted of the following:

Website	\$ 263,928
Vehicle	7,735
Computer equipment	4,413
Furniture and fixtures	<u>4,205</u>
	280,281
Less accumulated depreciation	<u>(23,388)</u>
	<u>\$ 256,893</u>

At December 31, 2009 there was no property and equipment.

#### 5. Restrictions and Designation of Net Assets

Temporarily restricted net assets as of December 31, 2010, were available for the subsequent year of \$450,261. There were no temporarily restricted net assets as of December 31, 2009.

#### 6. Program Activities

The first part of the Organization's mission is to build schools in the developing world. In 2010, the Organization continued its work in Laos by identifying several new communities in need of new and improved educational facilities while continuing to provide support to already existing schools. Additionally, the Organization established its presence in Nicaragua by working alongside another not-for-profit and began to lay the groundwork for its own independent operations in Guatemala. Finally, the Organization developed, piloted and continues to refine S.H.I.N.E., its program that teaches school communities the importance of health, nutrition and the environment. Across the three countries, 20 new sustainable schools were completed in 2010. To date, the Organization has provided over 800,000 hours of education to over 1,000 students.

The second part of the Organization's mission focuses on training young leaders to take action at home and abroad by empowering them to spread social good. Together with the

## **Pencils of Promise Inc.**

### Notes to Financial Statements

#### **6. Program Activities *(continued)***

Organization's guidance, these individuals believe that the ripple effect of individual efforts can start a movement that will lead to lasting impact and sustainable global change. Through a successful year round internship program involving 50 different students, the launch of more than 250 student-led initiatives, a newly initiated Classroom Passport program that pairs US schools with our schools in Laos for a virtual classroom cultural exchange, special events hosted at locations across the world, and by effectively utilizing all spheres of the social media space, this movement of supporters has grown to nearly 200,000 dedicated followers and members.