

Pencils of Promise Inc.

Financial Statements
December 31, 2009



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

Accountants' Review Report

The Board of Directors Pencils of Promise Inc.

We have reviewed the accompanying statement of financial position of Pencils of Promise Inc., ("the Organization") as of December 31, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Pencils of Promise Inc.

A review consists principally of inquiries of the Organization's personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

O'Connor Davies Munns & Dobbins, LLP

Stamford, Connecticut
September 8, 2010

Pencils of Promise Inc.

Statement of Financial Position

December 31, 2009

ASSETS

Cash and cash equivalents	\$ 75,211
Prepaid expenses	<u>7,725</u>
	<u>\$ 82,936</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accrued expenses	\$ 4,000
Net Assets	
Unrestricted	<u>78,936</u>
	<u>\$ 82,936</u>

See accompanying notes and accountants' review report

Pencils of Promise Inc.

Statement of Activities

Year Ended December 31, 2009

PUBLIC SUPPORT

Contributions	\$ 57,035
Special events, net of expenses of \$36,489	27,780
Other income	<u>50</u>
Total Revenue	<u>84,865</u>

EXPENSES

Program	36,784
Management and general	<u>5,492</u>

Total Expenses 42,276

Change in net assets 42,589

NET ASSETS - UNRESTRICTED

Beginning of the year	<u>36,347</u>
End of the year	<u><u>\$ 78,936</u></u>

See accompanying notes and accountants' review report

Pencils of Promise Inc.

Statement of Functional Expenses

Year Ended December 31, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Total Functional Expenses</u>
EXPENSES			
Grants for school construction	\$ 28,330	\$ -	\$ 28,330
Program travel and accomodation	4,011	-	4,011
Professional	-	4,000	4,000
General and administrative	<u>4,443</u>	<u>1,492</u>	<u>5,935</u>
Total Expenses	<u>\$ 36,784</u>	<u>\$ 5,492</u>	<u>\$ 42,276</u>

See accompanying notes and accountants' review report

Pencils of Promise Inc.

Statement of Cash Flows

Year Ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 42,589
Changes in operating assets and liabilities	
Prepaid expenses	(7,725)
Accrued expenses and taxes	<u>1,000</u>
Net Cash from Operating Activities	35,864

CASH AND CASH EQUIVALENTS

Beginning of year	<u>39,347</u>
End of year	<u><u>\$ 75,211</u></u>

See accompanying notes and accountants' review report

Pencils of Promise Inc.

Notes to Financial Statements

1. The Organization

The Pencils of Promise Inc. (“the Organization”) was formed in 2008, and is a non-profit organization dedicated to raising money to build primary schools in areas of poverty within developing nations.

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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

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. The Organization only has unrestricted net assets at December 31, 2009.

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.

Pencils of Promise Inc.

Notes to Financial Statements

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

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 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 September 8, 2010.

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 accounts receivable. Management believes that the Organization is not exposed to any significant credit risk.

4. Program Activities

During 2009, Pencils of Promise contributed funding to two not-for-profit organizations that were building three sustainable schools in Laos. These three schools, one in Pha Teung and two in Phayong, were completed during the year ended December 31, 2009. Classes for the school in Pha Teung began in September 2009 and the schools in Phayong in January 2010.