



Audited Financial Statements

September 30, 2015



Independent Auditors' Report

To the Board of Directors of
Pencil, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Pencil, Inc. which comprise the statement of financial position as of September 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

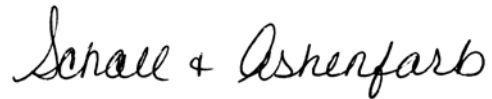
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 organization's preparation and fair presentation of the 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 organization'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Pencil, Inc. as of September 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Schall & Ashenfarb
Certified Public Accountants, LLC

December 14, 2015

PENCIL, INC.
STATEMENT OF FINANCIAL POSITION
AT SEPTEMBER 30, 2015

	9/30/15
Assets	
Cash and cash equivalents	\$192,459
Pledges receivable (Note 3)	1,334,786
Investments (Note 4)	1,397,306
Prepaid expenses and other assets	5,807
Security deposit	42,971
Fixed assets, net (Note 5)	167,535
 Total assets	 \$3,140,864
 Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	\$212,069
Advances	31,609
Deferred rent	122,011
Deferred service fee income	2,500
Total liabilities	368,189
Net assets:	
Unrestricted	2,168,800
Temporarily restricted (Note 6)	603,875
Total net assets	2,772,675
 Total liabilities and net assets	 \$3,140,864

The attached notes and auditors' report are an integral part of these financial statements.

PENCIL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 9/30/15</u>
Public support and revenue:			
Contributions	\$1,480,974	\$557,000	\$2,037,974
Special events (net of expenses with direct benefit to donors) (Note 7)	1,573,234		1,573,234
Fee income			0
In-kind contributions (Note 8)	47,563		47,563
Interest and other income	42,761		42,761
Loss on uncollectable pledges			0
Net assets released from restrictions	584,767	(584,767)	0
Total public support and revenue	<u>3,729,299</u>	<u>(27,767)</u>	<u>3,701,532</u>
Expenses:			
Program services	2,618,699		2,618,699
Supporting services:			
Management and general	528,281		528,281
Fundraising	811,597		811,597
Total supporting services	<u>1,339,878</u>	<u>0</u>	<u>1,339,878</u>
Total expenses	<u>3,958,577</u>	<u>0</u>	<u>3,958,577</u>
Change in net assets from operating activities	<u>(229,278)</u>	<u>(27,767)</u>	<u>(257,045)</u>
Non-operating activities:			
Investment losses (Note 4)	(4,378)		(4,378)
Total non-operating activities	<u>(4,378)</u>	<u>0</u>	<u>(4,378)</u>
Change in net assets	(233,656)	(27,767)	(261,423)
Net assets - beginning of period	<u>2,402,456</u>	<u>631,642</u>	<u>3,034,098</u>
Net assets - end of period	<u>\$2,168,800</u>	<u>\$603,875</u>	<u>\$2,772,675</u>

The attached notes and auditors' report are an integral part of these financial statements.

PENCIL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses 9/30/15
Salaries	\$1,574,238	\$237,608	\$389,830	\$627,438	\$2,201,676
Payroll taxes and benefits	372,883	56,282	92,337	148,619	521,502
Occupancy	235,538	29,857	66,349	96,206	331,744
Advertising and outreach				0	0
Program supplies and material	2,330			0	2,330
Office supplies and postage	70,575	8,946	19,880	28,826	99,401
Travel and entertainment	5,950	21,889	8,918	30,807	36,757
Telephone	11,067	1,403	3,117	4,520	15,587
Equipment	9,283	1,177	2,615	3,792	13,075
Depreciation	50,041	6,343	14,096	20,439	70,480
Professional fees (including in-kind) (Note 8)		25,838		25,838	25,838
Consulting	257,308	30,649	118,401	149,050	406,358
Staff recruiting		47,378		47,378	47,378
Insurance	26,202	3,321	7,381	10,702	36,904
Bank charges and admin fees		12,213		12,213	12,213
Indirect special events			87,747	87,747	87,747
Miscellaneous	3,284	45,377	926	46,303	49,587
Total expenses	\$2,618,699	\$528,281	\$811,597	\$1,339,878	\$3,958,577

The attached notes and auditors' report are an integral part of these financial statements.

PENCIL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2015

	<u>9/30/15</u>
Cash flows from operating activities:	
Change in net assets	(\$261,423)
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Realized and unrealized losses on investments	4,378
Depreciation	70,480
Changes in assets and liabilities:	
Grants and pledges receivable	(239,225)
Prepaid expenses and other assets	20,125
Accounts payable and accrued expenses	35,626
Advances	(31,989)
Deferred rent	<u>(20,700)</u>
Net cash flows used for operating activities	<u>(422,728)</u>
 Cash flows from investing activities:	
Donated stock	18,912
Proceeds from the sale of investments	751,160
Transfers into investment account	(1,479,908)
Transfers from investment account	1,245,000
Purchases of fixed assets	<u>(4,440)</u>
Net cash flows provided by investing activities	<u>530,724</u>
 Net increase in cash and cash equivalents	107,996
 Cash and cash equivalents - beginning of year	<u>84,463</u>
 Cash and cash equivalents - end of year	<u><u>\$192,459</u></u>
 Interest and taxes paid	<u><u>\$0</u></u>

The attached notes and auditors' report are an integral part of these financial statements.

PENCIL, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015

Note 1 - Organization

Pencil, Inc. ("Pencil") was founded in 1995 to develop and coordinate meaningful corporate and community involvement in New York City public education. These financial statements do not reflect programs created by Pencil, Inc. or the contributions raised for those programs as they are run directly by the New York City schools. Pencil, Inc. derives its revenue from soliciting contributions from the general public in New York City, and from the annual fundraising event.

Pencil was incorporated in the State of New York and is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Pencil has been designated as an organization which is not a private foundation.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting which is the process of recording revenue and expenses when earned or incurred, rather than when received or paid.

b. Basis of Presentation and Revenue Recognition Principles

Pencil reports information regarding their financial position and activities in the following classes of net assets:

- *Unrestricted* – represents all activity without donor imposed restrictions as well as activity with donor imposed restrictions, which expire within the same period.
- *Temporarily restricted* – relates to contributions of cash and other assets with donor stipulations that make clear the assets restriction, either due to a program nature or by passage of time.

Donor-restricted support is reported as an increase in unrestricted net assets, unless it contains a restriction by the donor for a specific program or time period. However, if a restriction is satisfied in the period the contribution has been made, it is recorded as unrestricted. 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.

c. Cash and Cash Equivalents

Cash and cash equivalents include cash held in checking accounts and money market funds, but exclude cash held as part of the investment portfolio.

d. Concentration of Credit Risk

Financial instruments which potentially subject Pencil to concentration of credit risk consist of cash, money market accounts and investment securities which are placed with financial institutions that management deems to be creditworthy. The market value of investments is subject to market fluctuations.

Management believes that the investment policy is prudent for the long-term welfare of Pencil. At year-end and at certain times during the year, a significant portion of the funds were in excess of federally insured levels; however, Pencil has not experienced any losses from these accounts due to failure of any financial institution.

e. Pledges Receivable

Pencil records unconditional promises to give in the period pledged at net realizable value if due in less than one year. Long-term pledges are recorded at fair value based on a risk adjusted discount rate, when material.

Conditional contributions are recognized when the conditions on which they depend are substantially met.

f. Investments

Investments are recorded at fair value, which refers to the price that would be received to sell an asset or paid to transfer a liability (i.e. "exit price") in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are recognized in the statement of activities.

g. Fixed Assets

Purchases of furniture, equipment, and leasehold improvements that have a useful life of greater than one year are capitalized at cost or, if donated, at their fair value at the date of the gift. Property and equipment is depreciated using the straight-line method over the estimated useful life of the asset.

h. Advances

Pencil received contributions where the donor specifies a particular school as the ultimate beneficiary. Those donations are treated as exchange transactions and recorded advances until they are paid out.

i. Deferred Rent

Pencil records rent expense on the straight-line method and recognizes deferred rent for the cumulative amount that expenses exceed actual payments. In latter stages of the lease, deferred rent will be reduced as the amount of payments exceeds the expense recorded.

j. In-Kind Contributions

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided in-kind. Donated materials are recorded at the estimated fair value at the date of donation (See Note 8).

Board members and other individuals volunteer their time and perform a variety of tasks that assist Pencil. These services have not been recorded in the financial statements, as they do not meet the criteria outlined above.

k. Advertising

The cost of advertising is expensed as incurred.

l. Management Estimates

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

m. Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Pencil.

n. Accounting for Uncertainty of Income Taxes

Pencil does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2012 and later are subject to examination by applicable taxing authorities.

o. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through December 14, 2015, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.

Note 3 - Pledges Receivable

Pledges receivable are due as follows:

<u>Year Ending</u>	<u>Amount</u>
September 30, 2016	\$1,176,786
September 30, 2017	154,000
September 30, 2018	<u>4,000</u>
Total	<u>\$1,334,786</u>

Note 4 - Investments

Accounting standards have established a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that Pencil has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Investments can be summarized as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Money market funds and other cash	\$242,412	\$242,412	\$0
Certificates of deposit	479,607	0	479,607
Exchange traded funds	508,047	508,047	0
Fixed income	<u>167,240</u>	<u>0</u>	<u>167,240</u>
Total	<u>\$1,397,306</u>	<u>\$750,459</u>	<u>\$646,847</u>

Level 1 securities are valued at the closing price reported on the active market they are traded on. Level 2 securities are valued using observable market inputs for securities that are similar to those owned. This method produces a fair value calculation that may not be indicative of net realizable value or reflective of future values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements.

Investment income can be summarized as follows:

Realized gains on sale of investments	\$1,643
Unrealized losses	<u>(6,021)</u>
Total	<u>(\$4,378)</u>

Note 5 - Fixed Assets

Fixed Assets can be summarized as follows:

Computer hardware and software	\$100,215	5 year life
Furniture and equipment	198,962	5 year life
Leasehold improvements	591,669	5 year life
Website database and program	<u>387,840</u>	3 year life
	1,278,686	
Less: accumulated depreciation	<u>(1,111,151)</u>	
Total	<u>\$167,535</u>	

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets can be summarized as follows:

	Balance <u>10/1/14</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>9/30/15</u>
Program restrictions:				
Partnership program	\$22,893	\$155,000	(\$22,893)	\$155,000
Career awareness	53,094	15,000	(53,094)	15,000
Technology & comm.	0	25,000	(0)	25,000
STEM learning	12,504	0	(12,504)	0
Fellows program	151,500	0	(151,500)	0
Financial success initiative	<u>1,026</u>	<u>0</u>	<u>(1,026)</u>	<u>0</u>
Total program restrictions	241,017	195,000	(241,017)	195,000
Time restrictions	<u>390,625</u>	<u>362,000</u>	<u>(343,750)</u>	<u>408,875</u>
Total	<u>\$631,642</u>	<u>\$557,000</u>	<u>(\$584,767)</u>	<u>\$603,875</u>

Note 7 - Special Events

Pencil hosts an annual fundraising event. The special event proceeds and related expenses summarized as follows:

Gross revenue	\$1,750,446
Less: expenses with direct benefit to donors	<u>(177,212)</u>
	1,573,234
Less: indirect expenses	<u>(87,747)</u>
Total revenue	<u>\$1,485,487</u>

Note 8 - In-Kind Contributions

In-kind contributions of \$47,563 were allocated as follows:

	<u>Programs</u>	Management and <u>General</u>	<u>Fundraising</u>	<u>Total</u>
Occupancy	\$11,946	\$1,514	\$3,365	\$16,825
Supplies	14,839	1,881	4,180	20,900
Professional fees	<u>6,985</u>	<u>885</u>	<u>1,968</u>	<u>9,838</u>
Total	<u>\$33,770</u>	<u>\$4,280</u>	<u>\$9,513</u>	<u>\$47,563</u>

A member of the board of directors is a partner in a law firm that donated legal services valued at approximately \$10,000. The revenue and related expense from this donation is recorded as an in-kind contribution.

Note 9 - Retirement Plan

Pencil has adopted a tax deferred 401(k) retirement plan for their employees. All employees are eligible to participate and can designate a percentage of their salaries, subject to regulatory limits, to be contributed to the plan on a pre-tax basis. No contributions by Pencil are made to the plan.

Note 10 - Commitments

Pencil has a lease for office space which expires July 31, 2018. Future minimum payments are as follows:

<u>Year Ending:</u>	<u>Amount</u>
September 30, 2016	\$295,044
September 30, 2017	300,945
September 30, 2018	<u>254,953</u>
Total	<u>\$850,942</u>

Pencil rents office space from a company owned by a person who was a member of the Board of Directors for a portion of the year. Rent paid to that company for the fiscal year was \$276,778.