KNOWLES SCIENCE TEACHING FOUNDATION
ANNUAL REPORT 2012

Knowles Science Teaching Foundatuon
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CONTENT

A LETTER FROM THE EXECUTIVE DIRECTOR

The Janet H. and C. Harry Knowles Foundation (also known as the Knowles Science Teaching Foundation, or KSTF) was established in 1999 with a mission of increasing the number of high quality high school science and mathematics teachers in the United States. The work of the foundation has remained true to this original mission but has evolved into a more specialized niche: identifying and developing early-career high school teachers with the potential to become teacher leaders and change agents in science and mathematics education. The generous endowment provided by our founders, Harry and Janet Knowles, has allowed us to maintain a sound financial position while we grow and improve our programs, as evidenced by the financial statements that follow.

On March 1, 2013, I was honored to be elected to the position of Executive Director by KSTF's Board of Trustees. I joined KSTF almost nine year ago, as a Senior Program Officer. Since then, I have watched the staff, the programs and the KSTF community of professional math and science teachers grow and change in remarkable ways It has been an inspiring journey and I am thrilled beyond words to be leading such an innovative and creative organization at such a critical time for education in the United States.

The fiscal year ending May 31, 2012 (FY12) was one of important milestones and growth for KSTF. The Teaching Fellowship Program, KSTF's first, and still it's largest, program, continues to thrive. During the first weekend of June, 2011 we officially welcomed the tenth cohort of Teaching Fellows. Then on March 21, 2012 we awarded Teaching Fellowships to 34 individuals in the 2012 Cohort. The arrival of the 2012 Cohort marked the first time we've had fellows in all three disciplinary areas across all five years of the program. In other words, we've reached our "steady state" of supporting approximately 150 Fellows at a time across the five years of the program. More important than the number of Fellows in the Program, however, is the number of Fellows who remain in, and thereby strengthen, the teaching profession. KSTF teacher retention rates for 2002-2011 range from a comparatively high 96.9% following the first year of teaching to 88.8% following the fifth year. Nationally, across all subjects and grade levels, teacher retention range from 86% following the first year of teaching to 54% following the fifth year of teaching. We believe this difference represents a major achievement and speaks to the efficacy of the Teaching Fellowship Program as well as the strength of KSTF's theory of action.

FY12 also marked a new emphasis in the Fellowship program on supporting Fellows to develop an inquiry stance toward their own teaching practice. Teachers who develop this critical habit of mind of inquiry understand that teaching is complex, and that problems of practice rarely have easy solutions. By taking an inquiry stance towards their practice, teachers build their capacity to evaluate and improve their instruction and better meet the diverse needs of their students. Since 2002, Fellows had submitted annual portfolios based on a professional development goal. This year we shifted the focus of the portfolios from goals to questions, which aligns with efforts across programs to make practitioner inquiry central to the KSTF professional community.

The arrival of the 2012 Cohort of Teaching Fellows marked the end of a stage of growth and exploration for the Teaching Fellowship Program, and the beginning of a stage of increasing program rigor and quality, as well as generating and sharing knowledge about what we have learned. This shift in the Fellowship Program has been facilitated by a reconfiguration of the KSTF Research and Evaluation Program to focus on three areas: research on and by KSTF, program evaluation and teacher research. In July, 2011 KSTF ended the Research Fellows Program, which was launched in 2005 to support early-career scholars who studied critical issues relevant to the selection, induction, retention and mentoring of high school science and mathematics teachers. In its place, we have reallocated foundation resources to focus on supporting and developing classroom teachers themselves as researchers and generators of knowledge of and for teaching. The heart of this effort lies with a group of Fellows and Alumni who began working together in the summer of 2011 to form a practitioner inquiry group. Dr. Jodie Galosy (Director of Research and Evaluation) worked with Dr. Susan Lytle from the University of Pennsylvania and Dr. Diane Wood from Towson University to plan for and support the group's work. PING, (short for Practioner Inquiry for the Next Generation, inspired by a book co-authored by Dr. Lytle) met a total of three times over the year to pose questions and investigate and problematize issues of practice. Furthermore, the group's work informed and supported the shift toward practitioner inquiry in the Teaching Fellowship Program.

In addition to supporting teacher research, the Research and Evaluation Program, under the leadership of Director Dr. Jodie Galosy, improved and enhanced the staff's capacity to conduct meaningful research within the context of the Teaching Fellowship and Alumni Programs. In April of 2012, Dr. Galosy, Zora Wolfe, Roseanne Rostock and I presented a series of four papers at the Annual Meeting of the National Association of Research in Science Teaching. These papers examined the selection and retention of Teaching Fellows, the progress and challenges of developing a professional learning community within the Fellowship Program, key practices for the development of pedagogical content knowledge among Fellows and developing a continuum for teacher leadership throughout the Fellowship Program. In March, 2012, the 74th Yearbook of the National Council of Teachers of Mathematics included a chapter on the importance of collaboration to new teacher development written by KSTF staff members Dr. Rachael Brown, Dr. Jeanne Vissa and Dr. Jennifer Mossgrove.

Although the first KSTF Teaching Fellows finished the five-year program in 2007 and became Alumni, we did not begin a formal Alumni program until the summer of 2011. KSTF celebrated yet another key milestone in August of 2011 when Dr. Dina Portnoy joined the staff as the Director of Alumni Programs. During FY12, Dr. Portnoy worked to develop a professional learning community among the KSTF Alumni and began a leadership grant program to fund work by Alumni that showed potential to have a positive impact beyond their own classrooms. For example, with support of a KSTF Alumni Leadership Grant, two alumni in the Washington, DC area began working with two fellows to develop curriculum and assessments for International Baccalaureate physics courses. The Alumni Program also provided support for two Alumni to present at the annual meeting of National Science Teachers Association, and two others to present at the annual meeting of the National Council of Teachers of Mathematics. Two Alumni achieved National Board Certification in FY12 with KSTF support, bringing the total number of board-certified KSTF Alumni to six. And two Alumni were supported by KSTF Leadership Grants to initiate and support professional learning communities within their schools.

Fiscal year 2012 was also the first year that KSTF operated without an Executive Director. In September, 2011 William Rulon-Miller and Paul Kuerbis, both members of the KSTF Board of Trustees, were appointed by the board to serve as part-time Acting Co-Executive Directors during the transition. In March of 2012, Mr. Rulon-Miller left his position as Managing Director of Cross Atlantic Capital Partners to join the KSTF staff as President while Dr. Kuerbis continued to fill the role of Acting Executive Director on a part-time basis. Fiscal year 2013 promises to be an equally important and challenging year in KSTF's trajectory, and I looking forward to writing these annual summaries for many years to come.

Nicole Gillespie
Executive Director
Knowles Science Teaching Foundation

ParenteBeard

Independent Auditors' Report

Board of Trustees
Janet H. & C. Harry Knowles Foundation, Inc.

We have audited the accompanying statement of financial position of the Janet H. & C. Harry Knowles Foundation, Inc. (a nonprofit organization) (the "Foundation") as of May 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide 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 Janet H. & C. Harry Knowles Foundation, Inc. as of May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Huntingdon Valley, Pennsylvania
November 27, 2012

Janet H. & C. Harry Knowles Foundation, Inc.

Statement of Financial Position
May 31, 2012 and 2011

	2012	2011
Assets		
Assets		
Cash and cash equivalents	$ 5,494,037	$ 3,253,785
Investments	52,892,985	62,560,386
Accrued interest and dividends	21,553	-
Unconditional promises to give	10,509,287	10,705,153
Other receivable	240,531	-
Prepaid and refundable federal excise tax	3,791	4,639
Prepaid expenses	105,633	157,791
Property and equipment, net of accumulated depreciation	2,417,192	933,839
Deposits	15,144	15,144
Total assets	$ 71,700,153	$ 77,630,737
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 311,692	$ 215,042
Deferred federal excise tax liability	56,720	50,335
Total liabilities	368,412	265,377
Net Assets		
Unrestricted net assets	71,331,741	77,365,360
Total liabilities and net assets	$ 71,700,153	$ 77,630,737

Janet H. & C. Harry Knowles Foundation, Inc.

Statement of Activities
Years Ended May 31, 2012 and 2011

	2012	2011
Revenues		
Contributions	$ 944,134	$ 1,104,686
Interest and dividend income	84,789	2,392
Net unrealized appreciation in fair value of investments	638,557	9,951,836
Total revenues	1,667,480	11,058,914
Expenses and Losses		
Program services:		
Teaching fellows programs	4,501,454	3,817,690
Research programs	917,539	939,661
Alumni programs	237,864	58,294
Supporting services:		
General and administrative	604,335	594,498
Federal excise tax	7,233	50,359
	6,268,425	5,460,502
Net realized losses on sales of investments	1,432,674	1,215,373
Total expenses and losses	7,701,099	6,675,875
(Decrease) increase in unrestricted net assets	(6,033,619)	4,383,039
Unrestricted Net Assets, Beginning	77,365,360	72,982,321
Unrestricted Net Assets, Ending	$ 71,331,741	$ 77,365,360

Janet H. & C. Harry Knowles Foundation, Inc.

Statement of Cash Flows
Years Ended May 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Revenue collected:		
Contributions	$ 640,000	$ 428,500
Interest and dividend income	63,236	2,392
Payments for expenses and taxes:		
Expenses	(6,065,526)	(4,937,062)
Grants	(139,153)	(287,125)
Federal excise tax	-	35,000
Net cash used in operating activities	(5,501,443)	(4,758,295)
Cash Flows from Investing Activities		
Proceeds from sales of investments	40,436,559	5,936,323
Purchases of investments	(31,063,275)	(3,613,186)
Purchases of property and equipment	(1,631,589)	(197,368)
Net cash provided by investing activities	7,741,695	2,125,769
Net increase (decrease) in cash and cash equivalents	2,240,252	(2,632,526)
Cash and Cash Equivalents, Beginning	3,253,785	5,886,311
Cash and Cash Equivalents, Ending	$ 5,494,037	$ 3,253,785
Reconciliation of Increase (Decrease) in Unrestricted Net Assets to Net Cash Used in Operating Activities		
(Decrease) increase in unrestricted net assets	$ (6,033,619)	$ 4,383,039
Adjustments to reconcile (decrease) increase in unrestricted net assets to net cash used in operating activities:		
Depreciation	148,236	144,615
Deferred federal excise tax	6,385	50,335
Donated investments	(500,000)	(710,902)
Change in present value discount	(444,134)	(392,284)
Net realized losses on sales of investments	1,432,674	1,215,373
Net unrealized appreciation in fair value of investments	(638,557)	(9,951,836)
Net change in:		
Accrued interest and dividends	(21,553)	-
Unconditional promises to give	640,000	427,000
Other receivable	(240,531)	-
Prepaid and refundable federal excise tax	848	35,024
Prepaid expenses	52,158	(36,438)
Deposits	-	(8,249)
Accounts payable and accrued expenses	96,650	86,028
Net cash used in operating activities	$ (5,501,443)	$ (4,758,295)

1. Organization and Summary of Significant Accounting Policies

Organization

The Janet H. & C. Harry Knowles Foundation, Inc. ("the Foundation") was established in 1999 to increase the number and quality of high school science and mathematics teachers for grades 9-12 in the United States. Janet and Harry Knowles (the "Knowles") established the Foundation in recognition of the importance of quality science and mathematics instruction to the well-being and future of the United States as well as in appreciation of the many dedicated science and mathematics teachers that helped form their lives. The Foundation has registered for an alternative business name and operates under the name Knowles Science Teaching Foundation, Inc.

The Foundation supports three programs. The teaching fellowship program is a multi-year comprehensive program that includes both financial and professional support for course work, professional development activities and to build a community of teacher-scholars. During the initial period of the fellowship, a fellow is enrolled as a full-time student taking courses to procure a teaching license as a high school teacher and usually a master's degree. In subsequent years, the fellow must be a full time high school science or mathematics teacher. Fellows receive funds for course work, stipends, membership in professional organizations, professional development meetings, mentors and instructional materials. The research program supports pre-tenure faculty members conducting research on high school science and mathematics teaching as well as internal research and evaluation. The alumni program supports the fellows once they have completed the fellowship. Alumni work together to support professional leadership in schools and districts and continue to improve as science and math teachers. The alumni program is developing multiple avenues through which alumni can receive leadership grants and build a national network that continues to support their professional growth.

Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

In accordance with generally accepted accounting principles, the Foundation 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. All net assets for the Foundation were unrestricted at May 31, 2012 and 2011. The unrestricted net assets are net assets that are not subject to donor-imposed stipulations.

Cash and Cash Equivalents

The Foundation considers all short-term debt securities with an original maturity of three (3) months or less to be cash equivalents.

Use of Estimates

The preparation 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 disclosures of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates are based on several factors including the facts and circumstances available at the time the estimates are made, historical experience, risk of loss, general economic conditions, and trends, and the assessment of probable future outcome. Some of the more difficult, subjective and significant estimates include determinations of the useful lives of depreciable assets, estimates of allowances for uncollectible promises to give, discounts to present value, fair value of investments, deferred taxes and the allocation of expenses. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of changes, if any, are reflected in the accompanying statement of activities in the period that they are determined.

Concentration of Credit Risk

The Foundation maintains cash and cash equivalent balances at a financial institution in the Philadelphia area. Accounts are insured by the FDIC (Federal Deposit Insurance Corporation) up to $250,000 for interest-bearing accounts and to an unlimited amount for non-interest bearing accounts. The Foundation also maintains cash and cash equivalent balances at brokerage firms in the Philadelphia area. Accounts at the brokerage firms are insured by the SIPC (Securities Investor Protection Corporation) up to $500,000, of which $100,000 may be in cash. The Foundation maintains balances in excess of the insured amounts. The alternative investments, which consist of hedge funds and private equity investments, are not insured. As of May 31, 2012, two investments represented 51% of total investments. As of May 31, 2011, five investments represented 97% of total investments.

Investments

Investments in equity securities and mutual funds with readily determinable fair values are reported at fair value based on quoted market prices. Other investments consist of investments in alternative investments. As there is no ready determinable market for alternative investments, they are stated at fair value as estimated by the general partner or investment manager. The Foundation reviews and evaluates the values provided by the general partner or investment manager and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. The Foundation uses the specific identification method in determining realized gains and losses reported on the statement of activities. Unrealized gains and losses on investments resulting from market fluctuations are reported in the statement of activities in the period that such fluctuations occur. Dividends are recorded on the ex-dividend date. Interest income is recognized as earned. All gains and investment income are unrestricted. Because of the inherent uncertainty of valuation, estimated fair values of the alternative investment may differ significantly from the values that would have been used had a ready determinable market for the investments existed, and the difference could be material. Due to the long-term holding period and lack of marketability of private equity investments, the alternative investments should not be considered a liquid investment that is readily convertible into cash.

Risks and Uncertainties

The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities, it is reasonably possible that the amounts reported in the accompanying statement of financial position could change materially in the near future.

Promises to Give

Unconditional promises to give (pledges) are recognized as assets and revenues in the period the promise is received. The unconditional promises to give are recorded at the net realizable value and are discounted at an appropriate rate commensurate with the risks involved. An allowance for uncollectible promises to give is provided, if applicable, based upon management's judgment, including such factors as due date (aging), prior collection history, type of contribution and nature of fundraising activity. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Other Receivable

Other receivable consists of a deposit with the township related to construction.

Property and Equipment

Property and equipment are carried at cost. Depreciation of property and equipment, including computer software, is provided using the straight-line method of depreciation over the estimated useful lives of the assets. Leasehold improvements are depreciated over the shorter of the remaining term of the lease or the useful life of the improvements using the straight-line method.

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Computer software is stated at cost at date of purchase and is depreciated using the straight-line method over its estimated useful life.

Income Taxes

The Foundation is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a private operating foundation under Section 4942(j)(3) of the Internal Revenue Code. Therefore, the Foundation has made no provision for federal income taxes in the accompanying financial statements.

The Foundation is subject to federal excise taxes imposed on private operating foundations at two percent (2%). The tax rate is reduced to one percent (1%) if certain criteria are met. The excise tax is imposed on net investment income, as defined under federal law, which includes realized gains on the sale of investments.

The Foundation accounts for uncertainties in income taxes in accordance with authoritative guidance, which prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met.

The Foundation's federal tax Return of Private Foundation for 2011, 2010 and 2009 remain subject to examination by the Internal Revenue Service.

The Foundation's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. As of May 31, 2012, the Foundation believes there are no uncertain tax positions.

Revenue Recognition

Revenue is primarily earned from investment income and contributions. Contributions are recognized when pledged or received. Unconditional promises to give are recorded at the net realizable value and are discounted at an appropriate rate commensurate with the risks involved. Contributions have been recorded as unrestricted since there are no donor restrictions.

Compensated Absences

Employees of the Foundation are entitled to ten paid vacation days per year for the first five years of employment and one additional day for each year of employment up to a total of twenty vacation days per year. Unused vacation days are cumulative up to twenty days. Employees are also entitled to eight paid holidays and eight paid sick days per year. Unused sick days are cumulative up to twenty days. Upon termination, employees are paid for unused vacation days, but not unused sick days.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability, otherwise known as the "exit price", in an orderly transaction between market participants at the measurement date. See Note 4 for a discussion of fair value measurements.

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated among the programs and supporting services benefited. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support of the Foundation.

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform with the 2012 presentation.

Recent Accounting Standards

Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04 "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," ("ASU 2011-04") which amends FASB ASC Topic 820, "Fair Value Measurements," to bring accounting principles generally accepted in the United States of America for fair value measurement in line with International Accounting Standards by clarifying existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity's stockholder's equity; and disclose requirements regarding quantitative information about unobservable inputs used in the fair value measurements of Level 3 assets. ASU 2011-04 is effective for fiscal years and interim reporting periods beginning after December 15, 2011. Management is evaluating the impact of adopting ASU 2011-04 and believes it will not be material to the financial statements but will provide additional disclosures.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition and disclosure through November 27, 2012, the date the financial statements were available to be issued.

2. Supplemental Disclosure of Cash Flow Information

Noncash Investing and Financing Transactions

During the years ended May 31, 2012 and 2011, the Foundation received donated investments with fair market values of $500,000 and $710,902, respectively. Donated investments are recorded at their fair value at date of donation.

3. Investments

The Foundation's investments consisted of the following at May 31, 2012 and 2011:

	2012	2011
Alternative investments	$ 36,717,698	$ 62,560,386
Common stocks	1,709,196	-
Large cap equity	2,114,579	-
Mid cap equity	1,136,097	-
Small cap equity	70,706	-
International equity	952,952	-
Emerging market equity	319,563	-
Fixed income	9,432,214	-
Foreign	439,980	-
	$ 52,892,985	$ 62,560,386

Investment advisory and custodial fees are netted against investment income. Fees for the years ended May 31, 2012 and 2011 were $545,368 and $770,480, respectively.

The gains and losses on investments bought and sold during the years ended May 31, 2012 and 2011 as well as held during the years that (depreciated) appreciated in value are summarized as follows:

	2012	2011
Alternative investments	$ (873,206)	$ 8,736,463
Common stocks	155,551	-
Equity mutual funds	(62,187)	-
Fixed income mutual funds	(14,275)	-
	$ (794,117)	$ 8,736,463
Unrealized appreciation in fair value of investments	$ 638,557	$ 9,951,836
Realized losses on sales of investments	(1,432,674)	(1,215,373)
	$ (794,117)	$ 8,736,463

4. Fair Value Measurements

The Foundation measures on a recurring basis its investments at fair value in accordance with FASB codification "Fair Value Measurement," which provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets that are accessible to the Foundation for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Inputs to the valuation methodology include significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Inputs to the valuation methodology are unobservable inputs which are significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2012 and 2011.

Alternative investments - these consist of hedge funds and private equity investments which invest in limited partnerships. The net asset value of a share in an alternative investment is calculated by dividing the total net assets of the investment by the number of shares outstanding. These investments are reported at estimated fair values by determination of the net asset value based on estimated fair values provided by investment managers. Management reviews and evaluates the values and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Because of the inherent uncertainty of valuation, estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed, and the difference could be material. Due to the lock up period for hedge funds and the long-term holding period and lack of marketability of private equity investments, the alternative investments should not be considered liquid investments that are readily convertible into cash.

The alternative investments are determined by evaluating the fair values of the underlying investments of the hedge funds and private equity investments, incorporating valuations that consider expected cash flows and market-based information, including comparable transactions and performance multiples. Although the Foundation believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies, assumptions and the inherent uncertainty of valuation of the fair value could result in a material different fair value measurement at the reporting date.

Common stocks - valued at the closing price reported on a national securities exchange on which the individual securities are traded.

Mutual funds - valued at the quoted net asset value of shares held by the Foundation at year end.

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets measured at fair value on a recurring basis, as of May 31, 2012 and 2011:

	May 31, 2012			
	Level 1	Level 2	Level 3	Total
Alternative investments:				
Private equity investments	$ -	$ -	$ 27,127,562	27,127,562
Hedge funds	-	-	9,590,136	9,590,136
Common stocks	1,709,196	-	-	1,709,196
Equity mutual funds:				
Large cap equity	2,114,579	-	-	2,114,579
Mid cap equity	1,136,097	-	-	1,136,097
Small cap equity	70,706	-	-	70,706
International equity	952,952	-	-	952,952
Emerging market equity	319,563	-	-	319,563
Fixed income mutual funds:				
Fixed income	9,432,214	-	-	9,432,214
Foreign fixed income	439,980	-	-	439,980
	$ 16,175,287	$ -	$ 36,717,698	$ 52,892,985

	May 31, 2011			
	Level 1	Level 2	Level 3	Total
Alternative investments:				
Private equity investments	$ -	$ -	$ 25,101,477	$ 25,101,477
Hedge funds	-	-	37,458,909	37,458,909
	$ -	$ -	$ 62,560,386	$ 62,560,386

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 assets, consisting of alternative investments investing in limited partnerships, for the years ended May 31, 2012 and 2011:

	2012	
	Private Equity	Hedge Funds
Balance, beginning of year	$ 25,101,477	$ 37,458,909
Contributions	500,000	-
Net realized losses	-	(1,544,769)
Net unrealized (depreciation) appreciation in fair value relating to investments still held at the reporting date	(197,145)	868,708
Purchases	2,910,251	5,192,000
Sales	(1,187,021)	(32,384,712)
Balance, end of year	$ 27,127,562	$ 9,590,136

	2011	
	Private Equity	Hedge Funds
Balance, beginning of year	$ 17,625,555	$ 37,810,603
Contributions	710,902	-
Net realized losses	-	(1,215,373)
Net unrealized appreciation in fair value relating to investments still held at the reporting date	5,151,834	4,800,002
Purchases	1,613,186	2,000,000
Sales	-	(5,936,323)
Balance, end of year	$ 25,101,477	$ 37,458,909

	2012			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds (a)	$ 9,590,136	$ -	-	-
Private equity - distressed (b)	18,837,894	-	-	-
Private equity - emerging (c)	7,989,076	-	-	-
Private equity - other (d)	300,592	1,699,408	-	-
	$ 36,717,698	$ 1,699,408		

	2011			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds (a)	$ 37,458,909	$ -	-	-
Private equity - distressed (b)	18,510,705	5,825,784	-	-
Private equity - emerging (c)	6,590,772	6,212,019	-	-
	$ 62,560,386	$ 12,037,803		

(a) This category includes hedge funds that seek capital appreciation principally through investing in investment funds managed by third party investment managers who employ a variety of alternative investment strategies. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. After the partner has been a partner for at least one year, a partner may, upon notice ranging from 65 to 120 days, redeem all or part of its interest as of the beginning of any calendar quarter.

(b) This category includes an investment in a limited partnership that seeks long-term capital appreciation by investing in companies and underlying funds investing primarily in distressed investments. The fair value of the investment in this category has been estimated using the net asset value per share of the investment. No limited partner shall be permitted to make a withdrawal of any of its capital contributions.

(c) This category includes an investment in a limited partnership that seeks long-term capital appreciation by creating a diversified portfolio of emerging private market investment strategies. The fair value of the investment in this category has been estimated using the net asset value per share of the investment. No limited partner shall be permitted to make a withdrawal of any of its capital contributions.

(d) This category includes investments in limited partnerships that seek long-term capital appreciation. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. No limited partner shall be permitted to make a withdrawal of any of its capital contributions.

5. Unconditional Promises to Give

During the year ended May 31, 2010, the Foundation received binding pledge agreements from Janet and Harry Knowles for $4,000,000 and $12,000,000, respectively. The total outstanding balances for the two pledges at May 31, 2012 and 2011 were $13,933,000 and $14,573,000, respectively. The timing of the remaining payments is to be made at the discretion of the donors, except the $4,000,000 pledge is scheduled to be paid no later than January 31, 2016. The timing of the remaining payments of the $12,000,000 pledge has been present valued over the life expectancy of the donor over 6.3 years. The promises to give at May 31, 2012 and 2011 have been discounted to net present value using a discount rate of 5% calculated as follows:

	2012	2011
Receivable in less than one year	$ -	$ -
Receivable in one to five years	2,933,000	3,573,000
Receivable in more than five years	11,000,000	11,000,000
Total unconditional promises to give	13,933,000	14,573,000
Less discounts to net present value	(3,423,713)	(3,867,847)
	$ 10,509,287	$ 10,705,153

6. Property and Equipment

A summary of property and equipment and accumulated depreciation as of May 31, 2012 and 2011, is detailed below:

	2012	2011	Estimated Useful Lives in Years
Leasehold improvements	$ 2,515,113	$ 995,042	20
Equipment	68,783	78,171	3 - 10
Computer software	468,991	424,007	3
Furniture and fixtures	88,546	30,737	10
	3,141,433	1,527,957	
Less accumulated depreciation	(724,241)	(594,118)	
	$ 2,417,192	$ 933,839	

Depreciation expense was $148,236 and $144,615 for the years ended May 31, 2012 and 2011, respectively.

7. Related Party Transactions

The Knowles Science and Mathematics Institute ("KSMI") was established by the Knowles in 2005 to hold the title of the building used for the operations of the Foundation. KSMI is a not-for-profit organization, exempt from federal income taxes under Section 501(c)(2) of the Internal Revenue Code. KSMI purchased the building located in Moorestown, New Jersey.

The Foundation leases office space from KSMI under a twenty-year lease that commenced on December 1, 2005. The Foundation has the right and option to extend the term of the lease for two separate renewal periods of five years each. The lease required annual rent for the first five years of $82,080, based on $20 per square foot for 4,104 square feet. In July 2007, an addition was added to the existing building increasing the occupied space to 4,999 square feet and, accordingly, the annual rent was increased to $99,980. Effective January 1, 2009, the annual rent was reduced to $82,740.

Future lease commitments are as follows for the years ended May 31:

2013	$	75,845
2014		82,740
2015		82,740
2016		82,740
2017		82,740
Thereafter		655,065
	$	1,061,870

Rent expense to KSMI for the years ended May 31, 2012 and 2011 was $82,740 each year. Rent expense to unrelated parties was $104,857 for the year ended May 31, 2012. There was no rent paid to unrelated parties for the year ended May 31, 2011.

During the years ended May 31, 2012 and 2011, the Foundation received donated investments with fair market values of $500,000 and $710,902, respectively, from the Knowles Charitable Foundation, a foundation established by the Knowles.

During the year ended May 31, 2012, two trustees were paid a total of $74,500 for consulting services. During the year ended May 31, 2011, there were no consulting services paid to trustees.

8. Commitments

The Foundation has committed to invest $2,000,000 in two private equity investments. As of May 31, 2012, the Foundation had funded $300,592 of these commitments, leaving a balance of $1,699,408 of commitments to fund.

9. Retirement Plan

The Foundation has a 401(k) plan available to substantially all employees. Employees may contribute to the plan, subject to IRS limitations. The Foundation matches fifty percent (50%) of contributions by participating eligible employees up to six percent (6%) of salary contributed by the employee.

Prior to January 1, 2011, the Foundation provided a Simple IRA retirement plan for employees. Employees could contribute up to $11,500, or $14,000 if over age 50. The Foundation matched contributions by participating, eligible employees up to three percent (3%) of salary.

For the years ended May 31, 2012 and 2011, the Foundation matched contributions of $47,705 and $32,462, respectively.

10. Excise Taxes

The Foundation is subject to federal excise taxes imposed on private operating foundations at two percent (2%), or at one percent (1%) if certain criteria are met. The excise tax is imposed on net investment income, as defined under federal law, which includes realized gains on the sale of investments. Current excise taxes were provided at one percent (1%) for the years ended May 31, 2012 and 2011.

The Foundation's Form 990-PFs, *Federal Return of Private Foundation*, are subject to examination by the Internal Revenue Service ("IRS"), generally for three years after the date they were filed. The Foundation is not currently under examination by the IRS. The Foundation's tax returns for 2011, 2010 and 2009 remain subject to examination by the IRS.

The deferred federal excise tax liability at May 31, 2012 and 2011 was provided on the net appreciation in the fair value of investments recognized for financial statement purposes.

11. Program and Supporting Services

Total program and supporting services are comprised of the following expense categories:

	2012	2011
Salaries and wages	$ 1,979,137	$ 1,409,521
Payroll taxes	183,553	109,071
Retirement plan	47,705	32,453
Employee benefits	233,532	85,074
	2,443,927	1,636,119
Activities	4,786	4,499
Board of directors	5,152	31,112
Books	2,295	3,839
Consultants	12,885	10,443
Depreciation	148,236	144,615
Equipment rental	3,288	3,264
Grants	139,153	287,125
Hiring	13,974	46,718
Information technology	80,110	79,626
Insurance	14,397	11,627
Meetings	103,646	103,653
Memberships	15,477	16,807
Mentors	9,033	11,012
Miscellaneous	23,872	21,873
Observations	23,474	15,270
Office expense	66,736	94,254
Orientation	60,477	48,477
Postage	6,275	7,200
Printing	3,870	6,127
Professional development	246,272	270,543
Professional fees	96,742	128,141
Public relations	220,506	229,483
Recruiting	227,289	201,471
Rent	187,596	82,751
Repairs and maintenance	26,080	30,803
Stipends	1,110,549	1,067,692
Substitute teachers	12,098	10,613
Supplies	399	400
Taxes	7,233	50,359
Travel and lodging	743,811	616,837
Tuition	177,157	176,359
Utilities	31,630	11,390
	$ 6,268,425	$ 5,460,502

ParenteBeard

Independent Auditors' Report
on Supplementary Information

Board of Trustees
Janet H. & C. Harry Knowles Foundation, Inc.

We have audited the financial statements of Janet H. & C. Harry Knowles Foundation, Inc. as of and for the years ended May 31, 2012 and 2011, and have issued our report thereon dated November 27, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenses is presented for the 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.

ParenteBeard LLC

Huntingdon Valley, Pennsylvania
November 27, 2012

Janet H. & C. Harry Knowles Foundation, Inc.

Schedule of Expenses
Years Ended May 31, 2012 and 2011
(See Independent Auditors' Report on Supplementary Information)

	2012	2011
Teaching Fellows Programs		
Salaries and wages	$ 1,146,202	$ 890,992
Payroll taxes	129,404	81,047
Retirement plan	32,962	23,639
Employee benefits	190,470	66,525
	1,499,038	1,062,203
Activities	4,786	4,499
Books	1,648	2,716
Depreciation	106,429	102,302
Equipment rental	2,361	2,309
Grants	69,993	67,125
Hiring	13,974	46,718
Information technology	57,517	56,328
Insurance	10,336	8,225
Meetings	66,502	59,502
Memberships	15,297	16,086
Mentors	9,033	11,012
Observations	23,474	15,270
Office expense	47,268	45,001
Orientation	60,477	48,477
Postage	4,505	5,093
Printing	2,779	4,334
Professional development	193,456	252,933
Professional fees	25,264	54,846
Public relations	158,318	162,338
Recruiting	227,289	201,471
Rent	134,689	58,538
Repairs and maintenance	18,724	21,790
Stipends - fellows	875,591	741,614
Substitute teachers	12,098	10,613
Supplies	-	400
Travel and lodging	660,742	571,531
Tuition	177,157	176,359
Utilities	22,709	8,057
	$ 4,501,454	$ 3,817,690

Janet H. & C. Harry Knowles Foundation, Inc.

Schedule of Expenses
Years Ended May 31, 2012 and 2011
(See Independent Auditors' Report on Supplementary Information)

	2012	2011
Research Programs		
Salaries and wages	$ 358,896	$ 236,047
Payroll taxes	32,923	20,898
Retirement plan	10,060	7,062
Employee benefits	33,185	15,621
	435,064	279,628
Books	336	660
Consultants	12,885	10,443
Depreciation	21,694	24,849
Equipment rental	481	561
Grants	69,160	220,000
Information technology	11,724	13,682
Insurance	2,107	1,998
Meetings	33,066	41,429
Miscellaneous	20,052	4,934
Office expense	9,635	10,931
Postage	918	1,237
Printing	566	1,053
Professional development	46,400	11,187
Professional fees	5,150	13,322
Public relations	32,270	39,432
Rent	27,454	14,219
Repairs and maintenance	3,817	5,293
Stipends - research	152,308	216,728
Travel and lodging	27,823	26,118
Utilities	4,629	1,957
	$ 917,539	$ 939,661

Janet H. & C. Harry Knowles Foundation, Inc.

Schedule of Expenses
Years Ended May 31, 2012 and 2011
(See Independent Auditors' Report on Supplementary Information)

	2012	2011
Alumni Programs		
Salaries and wages	$ 118,137	$ 6,208
Payroll taxes	10,242	776
Retirement plan	3,128	156
Employee benefits	6,870	261
	138,377	7,401
Books	90	41
Depreciation	5,824	1,558
Equipment rental	129	35
Information technology	3,147	858
Insurance	566	125
Meetings	1,181	243
Miscellaneous	3,820	16,939
Office expense	2,587	685
Postage	247	78
Printing	152	66
Professional development	6,416	6,423
Professional fees	1,382	835
Public relations	8,663	2,472
Rent	7,370	892
Repairs and maintenance	1,025	332
Supplies	399	-
Travel and lodging	55,246	19,188
Utilities	1,243	123
	$ 237,864	$ 58,294

Janet H. & C. Harry Knowles Foundation, Inc.

Schedule of Expenses
Years Ended May 31, 2012 and 2011
(See Independent Auditors' Report on Supplementary Information)

	2012	2011
General and Administrative		
Salaries and wages	$ 355,902	$ 276,274
Payroll taxes	10,984	6,350
Retirement plan	1,555	1,596
Employee benefits	3,007	2,667
	371,448	286,887
Board of directors	5,152	31,112
Books	221	422
Depreciation	14,289	15,906
Equipment rental	317	359
Information technology	7,722	8,758
Insurance	1,388	1,279
Meetings	2,897	2,479
Memberships	180	721
Office expense	7,246	37,637
Postage	605	792
Printing	373	674
Professional fees	64,946	59,138
Public relations	21,255	25,241
Rent	18,083	9,102
Repairs and maintenance	2,514	3,388
Stipends - board	82,650	109,350
Utilities	3,049	1,253
	$ 604,335	$ 594,498