

PENCIL FOUNDATION

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

JUNE 30, 2005 AND 2004

PENCIL FOUNDATION

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Independent Auditors' Report

To the Board of Directors
PENCIL Foundation
Nashville, Tennessee

We have audited the accompanying statements of financial position of PENCIL Foundation (the "Foundation") as of June 30, 2005 and 2004, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 PENCIL Foundation as of June 30, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005 on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

To the Board of Directors
PENCIL Foundation

Our audits were made for the purpose of forming an opinion on the basic financial statements of the PENCIL Foundation taken as a whole. The accompanying schedules of support and revenue, expenses and changes in net assets for the years ended June 30, 2005 and 2004 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the procedures applied in the audits 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.

The accompanying schedule of grant activity is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits 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.

Crosslin, Vaden & Associates, P.C.

September 2, 2005

PENCIL FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>June 30,</u>	
	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$703,942	\$568,649
Pledge receivables	132,500	125,000
Government contracts and grants receivable	61,803	154,618
Prepaid expenses and other assets	<u>13,919</u>	<u>32,815</u>
Total assets	<u>\$912,164</u>	<u>\$881,082</u>

LIABILITIES

Accounts payable and accrued expenses	\$ 32,824	\$ 57,283
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NET ASSETS

Unrestricted	740,890	679,299
Temporarily restricted	<u>138,450</u>	<u>144,500</u>
Total net assets	<u>879,340</u>	<u>823,799</u>
Total liabilities and net assets	<u>\$912,164</u>	<u>\$881,082</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2005 AND 2004

		2005	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions and grants	\$ 24,869	\$ 1,660,871	\$1,685,740
In-kind contributions	-	571,870	571,870
Interest income	6,952	-	6,952
Net assets released from restrictions	<u>2,238,791</u>	<u>(2,238,791)</u>	<u>-</u>
Total support and revenue	<u>2,270,612</u>	<u>(6,050)</u>	<u>2,264,562</u>
Expenses:			
Program activities expense:			
Jobs for Tennessee Graduates	593,856	-	593,856
Sumner County Partners	49,360	-	49,360
Jobs Skills Training and Employment	478,714	-	478,714
Frist Foundation Award Program	-	-	-
PENCIL Partners	604,058	-	604,058
Reading Partners	248,617	-	248,617
Math Partners	127,431	-	127,431
Caterpillar Student Writers Showcase	29,968	-	29,968
Saint Thomas Science Scholars	4,994	-	4,994
Choices	15,587	-	15,587
Reading College	<u>40,938</u>	<u>-</u>	<u>40,938</u>
	2,193,523	-	2,193,523
Administrative expenses	<u>15,498</u>	<u>-</u>	<u>15,498</u>
Total expenses	<u>2,209,021</u>	<u>-</u>	<u>2,209,021</u>
Net increase (decrease) in net assets	61,591	(6,050)	55,541
Net assets at beginning of year	<u>679,299</u>	<u>144,500</u>	<u>823,799</u>
Net assets at end of year	<u>\$ 740,890</u>	<u>\$ 138,450</u>	<u>\$ 879,340</u>

2004		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 13,797	\$ 2,082,431	\$2,096,228
-	537,557	537,557
3,432	-	3,432
<u>2,500,488</u>	<u>(2,500,488)</u>	<u>-</u>
<u>2,517,717</u>	<u>119,500</u>	<u>2,637,217</u>
566,345	-	566,345
-	-	-
836,507	-	836,507
86,691	-	86,691
538,667	-	538,667
211,694	-	211,694
139,395	-	139,395
32,436	-	32,436
5,152	-	5,152
-	-	-
-	-	-
<u>2,416,887</u>	<u>-</u>	<u>2,416,887</u>
<u>7,542</u>	<u>-</u>	<u>7,542</u>
<u>2,424,429</u>	<u>-</u>	<u>2,424,429</u>
93,288	119,500	212,788
<u>586,011</u>	<u>25,000</u>	<u>611,011</u>
<u>\$ 679,299</u>	<u>\$ 144,500</u>	<u>\$ 823,799</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION
STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase in net assets	\$ 55,541	\$ 212,788
Adjustments to reconcile net increase in net assets to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Decrease (increase) in receivables	85,315	(14,703)
Decrease (increase) in prepaid expense and other	18,896	(11,049)
Decrease in accounts payable and accrued expenses	<u>(24,459)</u>	<u>(80,655)</u>
Total adjustments	<u>79,752</u>	<u>(106,407)</u>
Net cash provided by operating activities	135,293	106,381
Cash and cash equivalents at beginning of year	<u>568,649</u>	<u>462,268</u>
Cash and cash equivalents at end of year	<u><u>\$ 703,942</u></u>	<u><u>\$ 568,649</u></u>

See accompanying notes to financial statements.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and General

PENCIL Foundation (the "Foundation") is a nonprofit organization formed in 1982 to coordinate efforts by Nashville area businesses and civic organizations to support the Metropolitan Nashville Public School System. Descriptions of the Foundation's programs are as follows:

Jobs for Tennessee Graduates (JTG) places a counselor in high schools to provide job readiness instruction, opportunities for leadership development, interventions to aid in school completion and post-graduation assistance. This program serves students who have been identified by school officials as having one or more barriers to success. Primary funding is on a cost-reimbursement basis by the State Department of Education, Department of Labor and Nashville Career Advancement Center.

Job Skills Training and Employment (J-STEP) provides job readiness and placement assistance. Participants must be ages 18 - 35, have graduated from high school or possess a GED and meet federal low-income requirements. Those served are either unemployed or underemployed and in need of marketable job skills. This program is primarily funded on a cost reimbursement basis by the State Department of Human Services and the United Way.

Reading Partners supports volunteers who work with children in Metropolitan Nashville Public Schools, with the express goal of improving children's reading ability and enjoyment. The program focuses on students in kindergarten through grade four, with a particular emphasis on readers in second grade, and supports the President's America Reads Challenge as well as local and state goals for all children to read proficiently by the end of third grade. This program is funded by local businesses and foundations.

PENCIL Partners encourages a business or other community organization to "adopt" a specific school and conduct activities that enhance learning opportunities for the students. In addition, this program sponsors various other projects throughout the year. This program is primarily funded through corporate and individual donations.

Math Partners promotes student achievement in mathematics and links local businesses, organizations and individual volunteers with public education. The program provides academic assistance to students in grades five and six whose scores on Tennessee's standardized achievement test fall below the national norm. Funded by local corporations, volunteers instruct students in basic skills and concepts as they provide hands-on-activities that relate to real life math usage.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Caterpillar Student Writers Showcase is a writing competition for Metropolitan Nashville Public School students in grades 3 - 12. It is designed to encourage creativity, promote the importance of good communication skills, and complement and support the Metro language arts curriculum. The program is fully funded by Caterpillar.

Saint Thomas Hospital Science Scholars is designed to encourage among high school students, a love of science and a greater awareness of the role of science and math in the medical field through a unique, year-long learning project. It provides instruction from medical experts and exposes students to the career opportunities available in these fields. The program is fully funded by donations from Saint Thomas Hospital.

Sumner County Partners encourages local businesses, civic organizations and faith communities to partner with and volunteer in Sumner County Schools. This program is primarily funded through corporate and individual donations. This program began providing services in the fiscal 2005 program year.

Choices is a program designed to help 8th grade students make thoughtful academic decisions that will expand their career and life options. Through two fast-paced, 50-minute classroom sessions trained volunteers engage students in role-playing exercises to illustrate that the decisions they make today shape their future.

Reading College is an approved Supplemental Educational Services (SES) program by the State of Tennessee. PENCIL partners with Metro Public Schools to deliver after-school tutoring services to students at Kirkpatrick Elementary. Nashville's most effective reading teachers provide small group instruction where students are actively engaged in activity to develop and apply phonetic, reading comprehension and writing skills.

PENCIL Box provides basic school supplies to disadvantaged students whose teachers often purchase these materials with their own money. Funded by a grant from Louisiana Pacific, the program is a partnership between the Nashville business community and Nashville public schools. Companies are encouraged to donate both new and surplus school supplies by distribution through the program. Teachers "shop for free" at the center by using a voucher system by which they can redeem items essential to classroom instructions.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accrual Basis and Financial Statement Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

The Foundation classifies its net assets and its revenue, expenses, gains, and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of the Foundation and changes therein are classified as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets would permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is displayed in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities. The Foundation had no permanently restricted net assets at June 30, 2005 or 2004.

Certain reclassifications have been made to the financial statements for fiscal year 2004 to conform to the presentation adopted for fiscal year 2005. These reclassifications had no effect on net assets as reported at that date.

Contributions

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the 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.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions receivable are recorded at their estimated fair value and reflect discounts for payment terms greater than one year, if applicable. Contributions receivable are considered to be either conditional or unconditional promises to give. A conditional contribution is one which depends on the occurrence of some specified uncertain future event to become binding on the donor. Conditional contributions are not recorded as revenue until the condition is met, at which time they become unconditional. Unconditional contributions are recorded as revenue at the time verifiable evidence of the promise to give is received.

In the event a donor makes changes to the nature of a restricted gift which affects its classification among the net asset categories, such amounts are reflected as reclassifications in the statement of activities.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with an original maturity of less than 90 days to be cash equivalents.

Fair Value of Financial Instruments

The carrying value of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

Income Taxes

The Foundation is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code; and accordingly, no provision for income taxes is included in the accompanying financial statements.

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation is exercised by management in certain areas of the preparation of financial statements. The most significant area is the collection of receivables. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

Office Equipment

Costs of office equipment are charged to expense. Where appropriate, such costs are reimbursed through program contracts. These amounts are not material to the financial statements of the Foundation.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Donated Services

A substantial number of unpaid volunteers have made contributions of their time to assist the Foundation's Partners, Math Partners and Reading Partners programs. The total value of time contributed by these volunteers for the year ended June 30, 2005 and June 30, 2004 has been estimated to be \$571,870 and \$537,557, respectively.

B. CONTRIBUTIONS RECEIVABLE

The present value of contributions receivable at June 30, 2005 and 2004 totaled \$132,500 and \$125,000, respectively. No allowance for doubtful contribution was considered necessary at June 30, 2005 or 2004.

A conditional promise to give was received in the amount of \$15,000 during the year ended June 30, 2005. The funds were designated as a challenge matching grant to be received by the Foundation contingent upon the Foundation obtaining \$15,000 in new gifts and/or grants prior to May 2006 for the PENCIL Box program. At June 30, 2005, the Foundation had not recognized any portion of the conditional gift.

C. INDIRECT COST ALLOCATION

The Foundation's policy is to record contributions to individual programs based on the designation of the contributor and to maintain individual expense accounts for each program. General overhead expenses are allocated from PENCIL to the various programs based on the estimated time and expense expended for each individual program and other appropriate allocation methods.

D. LEASES

The Foundation leases office space and certain office equipment under non-cancelable operating leases which expire at various dates through June 2007. Lease expense for all operating leases was \$93,765 and \$141,063 for the years ended June 30, 2005 and 2004, respectively. At June 30, 2005, the aggregate future minimum rentals for all non-cancelable leases were as follows:

Year Ended June 30,

2006	\$ 80,551
2007	<u>81,725</u>
	<u>\$162,276</u>

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

E. RETIREMENT PLAN

The Foundation established a retirement plan in September 2001 for essentially all employees pursuant to Internal Revenue Code 401(k). The amount of matching contributions by the Foundation is based upon the amounts contributed by plan participants. Benefits relating to contributions by the Foundation become fully vested after six years of participation. Contributions by the Foundation to the plan for the years ended June 30, 2005 and 2004 were \$28,348 and \$26,913, respectively.

F. COMMITMENTS AND CONTINGENCIES

The Foundation has received federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes any required reimbursements would not be material to the financial statements of the Foundation.

G. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash held by the Foundation. Cash at June 30, 2005 includes demand deposits at high credit quality financial institutions. The deposits carry credit risk to the extent they exceed federally insured limits. An accounting risk also extends to receivables, all of which are uncollateralized.

H. NET ASSETS AND NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Temporarily restricted net assets totaling \$138,450 and \$144,500 at June 30, 2005 and 2004 were available for the PENCIL Box, Partners, Math and Reading Partners programs.

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

H. NET ASSETS AND NET ASSETS RELEASED FROM
DONOR RESTRICTIONS - Continued

Purpose restrictions accomplished:

	<u>2005</u>	<u>2004</u>
JTG	\$ 573,613	\$ 574,450
Sumner County Partners	49,360	-
J-STEP	464,516	865,013
Frist Foundation Award Program	-	80,647
PENCIL Partners	670,923	570,855
Reading Partners	230,239	236,772
Math Partners	158,479	137,688
Caterpillar Student Writers Showcase	30,000	30,063
Saint Thomas Science Scholars	5,000	5,000
Choices	15,650	-
Reading College	<u>41,011</u>	<u>-</u>
Total restrictions released	<u>\$2,238,791</u>	<u>\$2,500,488</u>

I. RELATED PARTIES

The Foundation has certain members of its board of directors who have financial interests in entities which engage in business transactions with the Foundation. These entities include financial institutions, a company from which the Foundation leases office space, and a technological support company.

J. FUND RAISING COSTS

For fiscal years ended June 30, 2005 and 2004, expenses totaling \$80,597 and \$75,281 respectively, were associated with fundraising and are classified in the statement of activities in the program's activities expenses.

SUPPLEMENTAL INFORMATION

PENCIL FOUNDATION
SCHEDULE OF GRANT ACTIVITY
YEAR ENDED JUNE 30, 2005

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>
<u>Jobs for Tennessee Graduates</u>		
Tennessee Department of Education	N/A	GR-05-16134-01
Tennessee Department of Education	N/A	GR-04-15988-01
Passed through Tennessee Department of Education (3)	84.002	GR-05-16134-01
Passed through Tennessee Department of Education (3)	84.002	GR-04-15998-01
<u>Workforce Investment Act of 1998</u>		
Passed through Nashville Career Advancement Center (1)	17.259	GR-01-09-037-208-98-00
<u>Job Skills Training Education Program</u>		
Tennessee Department of Human Services	N/A (a)	GR-05-16134-01
Tennessee Department of Human Services	N/A (a)	GR-02-14105-04
Passed through Tennessee Department of Human Services (2)	93.558(a)	GR-05-16203-00
Passed through Tennessee Department of Human Services (2)	93.558(a)	GR-02-14105-04

Total

- (a) - Denotes that specific grant is a component of a major program.
 (1) - United States Department of Labor grant.
 (2) - United States Department of Health and Human Services grant.
 (3) - United States Department of Education grant.

Note A: The schedule of grant activity includes the federal and state grant activity of the PENCIL Foundation. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Tennessee. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

<u>Grant Period</u>	<u>Program Award</u>	July 1, 2004 (Accrued) <u>Deferred</u>	<u>Receipts</u>	<u>State Expenditures</u>	<u>Federal Expenditures</u>	June 30, 2005 (Accrued) <u>Deferred</u>
07-01-04 to 06-30-05	260,000	\$ -	\$260,000	\$260,000	\$ -	\$ -
07-01-03 to 06-30-04	345,500	(40,559)	40,559	-	-	-
		<u>(40,559)</u>	<u>300,559</u>	<u>260,000</u>	<u>-</u>	<u>-</u>
07-01-04 to 06-30-05	200,000	-	200,000	-	200,000	-
07-01-03 to 06-30-04	162,500	(19,012)	19,012	-	-	-
		<u>(19,012)</u>	<u>219,012</u>	<u>-</u>	<u>200,000</u>	<u>-</u>
		<u>(59,571)</u>	<u>519,571</u>	<u>260,000</u>	<u>200,000</u>	<u>-</u>
11/01/04 to 03/31/06	123,875	-	22,078	-	59,969	(37,891)
07-01-04 to 06-30-05	541,212	-	44,800	66,900	-	(22,100)
07-01-03- to 06-30-04	550,610	(49,246)	49,246	-	-	-
		<u>(49,246)</u>	<u>94,046</u>	<u>66,900</u>	<u>-</u>	<u>(22,100)</u>
07-01-04 to 06-30-05	291,422	-	291,422	-	291,422	-
07-01-03 to 06-30-04	260,650	(27,393)	27,393	-	-	-
		<u>(27,393)</u>	<u>318,815</u>	<u>-</u>	<u>291,422</u>	<u>-</u>
		<u>(76,639)</u>	<u>412,861</u>	<u>66,900</u>	<u>291,422</u>	<u>(22,100)</u>
		<u>\$(136,210)</u>	<u>\$954,510</u>	<u>\$326,900</u>	<u>\$551,391</u>	<u>\$(59,991)</u>

PENCIL FOUNDATION
SCHEDULE OF SUPPORT AND REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2005

	<u>JTG</u>	<u>Sumner County Partners</u>	<u>J-STEP</u>	<u>PENCIL Partners</u>
SUPPORT AND REVENUE				
Contributions and grants	\$ 573,613	\$ 29,860	\$ 464,516	\$241,103
In-kind contributions	-	-	-	407,320
Interest income	-	-	-	-
Total support and revenue	<u>573,613</u>	<u>29,860</u>	<u>464,516</u>	<u>648,423</u>
EXPENSES				
Salaries and wages	405,985	34,762	327,140	116,704
Payroll taxes	30,475	1,642	23,787	9,625
Medical insurance	38,283	2,424	26,920	9,022
401(k) contribution	8,522	-	9,511	4,660
Lease expense	11,713	1,558	35,448	7,946
Insurance	4,617	88	4,009	1,088
Repairs and maintenance	3,470	-	2,756	872
Telephone	12,479	582	7,414	1,851
Postage	1,692	265	2,475	1,916
Purchased equipment	-	-	417	366
Office supplies	2,501	202	3,142	2,128
Student tuition	-	-	30	-
Travel	9,164	835	3,410	836
Program activities	9,880	283	500	431,626
Professional development	-	-	6	-
Publications and promotions	10,313	230	8,048	3,358
Professional services	33,035	500	7,081	5,254
Contracted services	1,776	-	-	-
Copier expense	4,139	138	9,786	1,145
Internet	3,524	-	4,750	5,028
Miscellaneous	<u>2,288</u>	<u>5,851</u>	<u>2,084</u>	<u>633</u>
Total Expenses	<u>593,856</u>	<u>49,360</u>	<u>478,714</u>	<u>604,058</u>
Net increase (decrease) in net assets	<u>\$(20,243)</u>	<u>\$(19,500)</u>	<u>\$(14,198)</u>	<u>\$ 44,365</u>
NET ASSETS AT JULY 1, 2004				
NET ASSETS AT JUNE 30, 2005				

<u>Reading Partners</u>	<u>Math Partners</u>	<u>Caterpillar Student Writers Showcase</u>	<u>Saint Thomas Science Scholars</u>	<u>Choices</u>	<u>Reading College</u>	<u>PENCIL Box</u>	<u>PENCIL</u>	<u>Total</u>
\$ 102,299	\$123,519(a)	\$30,000	\$5,000	\$14,000	\$41,011	\$30,000(b)	\$30,819	\$1,685,740
127,940	34,960	-	-	1,650	-	-	-	571,870
-	-	-	-	-	-	-	6,952	6,952
<u>230,239</u>	<u>158,479</u>	<u>30,000</u>	<u>5,000</u>	<u>15,650</u>	<u>41,011</u>	<u>30,000</u>	<u>37,771</u>	<u>2,264,562</u>
81,401	60,011	17,141	3,864	11,597	17,357	-	-	1,075,962
5,870	4,372	1,237	352	877	1,308	-	-	79,545
5,769	3,620	945	124	46	259	-	6,760	94,172
3,333	1,113	660	133	220	196	-	-	28,348
8,760	8,976	1,332	384	-	-	-	-	76,117
933	647	35	4	13	-	-	-	11,434
741	494	-	-	-	-	-	-	8,333
1,690	1,138	4	-	1	6	-	9	25,174
509	302	364	21	16	-	-	-	7,560
418	209	52	-	-	-	-	-	1,462
908	648	70	5	109	555	-	242	10,510
-	-	-	-	-	-	-	-	30
342	237	26	-	-	8	-	5	14,863
129,620	37,372	411	53	1,650	311	-	3,382	615,088
-	-	-	3	-	-	-	718	727
3,126	4,781	113	37	1,001	-	-	-	31,007
2,496	1,473	6,983	-	3	20,938	-	2,690	80,453
-	-	-	-	-	-	-	-	1,776
821	444	516	1	31	-	-	628	17,649
1,526	1,284	-	-	-	-	-	-	16,112
354	310	79	13	23	-	-	1,064	12,699
<u>248,617</u>	<u>127,431</u>	<u>29,968</u>	<u>4,994</u>	<u>15,587</u>	<u>40,938</u>	<u>-</u>	<u>15,498</u>	<u>2,209,021</u>
<u>\$ (18,378)</u>	<u>\$ 31,048</u>	<u>\$ 32</u>	<u>\$ 6</u>	<u>\$ 63</u>	<u>\$ 73</u>	<u>\$30,000</u>	<u>\$22,273</u>	55,541
								<u>823,799</u>
								<u>\$ 879,340</u>

- (a) The Foundation received \$50,000 for the Math Partners program which has been restricted for use in subsequent fiscal years.
- (b) The Foundation received \$30,000 for the PENCIL Box program which has been restricted for use in subsequent fiscal years.

PENCIL FOUNDATION
SCHEDULE OF SUPPORT AND REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004

	<u>JTG</u>	<u>Sumner County Partners</u>	<u>J-STEP</u>	<u>The Frist Foundation Awards Program</u>
SUPPORT AND REVENUE				
Contributions and grants	\$574,450	\$19,500	\$865,013	\$ 80,647
In-kind contributions	-	-	-	-
Interest income	-	-	-	-
Total support and revenue	<u>574,450</u>	<u>19,500</u>	<u>865,013</u>	<u>80,647</u>
EXPENSES				
Salaries and wages	379,984	-	487,405	24,863
Management expenses	-	-	-	1,292
Payroll taxes	28,308	-	35,924	1,772
Medical insurance	32,575	-	61,797	331
401(k) contribution	6,468	-	11,092	1,069
Lease expense	31,273	-	68,580	3,396
Insurance	-	-	7,629	90
Repairs and maintenance	3,551	-	5,481	-
Telephone	10,859	-	9,530	49
Postage	1,073	-	4,480	93
Office supplies	2,258	-	65,155	172
Student tuition	-	-	33,779	-
Travel	5,324	-	5,832	12
Program activities	8,828	-	660	52,155
Professional development	-	-	332	14
Publications and promotions	5,875	-	9,291	1,233
Professional services	32,381	-	15,075	14
Contracted services	5,834	-	-	-
Copier expense	3,129	-	11,297	135
Internet	2,453	-	3,168	-
Miscellaneous	6,172	-	-	-
Total Expenses	<u>566,345</u>	<u>-</u>	<u>836,507</u>	<u>86,690</u>
Net increase (decrease) in net assets	<u>\$ 8,105</u>	<u>\$19,500</u>	<u>\$ 28,506</u>	<u>\$ (6,043)</u>
NET ASSETS AT JULY 1, 2003				
NET ASSETS AT JUNE 30, 2004				

<u>PENCIL Partners</u>	<u>Reading Partners</u>	<u>Math Partners</u>	<u>Caterpillar Student Writers Showcase</u>	<u>Saint Thomas Science Scholars</u>	<u>PENCIL</u>	<u>Total</u>
\$229,201(a)	\$159,870(b)	\$118,750(c)	\$ 30,000	\$ 5,000	\$13,797	\$2,096,228
391,654	101,902	43,938	63	-	-	537,557
-	-	-	-	-	3,432	3,432
<u>620,855</u>	<u>261,772</u>	<u>162,688</u>	<u>30,063</u>	<u>5,000</u>	<u>17,229</u>	<u>2,637,217</u>
88,160	77,507	63,809	20,362	4,161	-	1,146,251
-	-	-	-	-	-	1,292
6,485	5,593	4,743	1,472	314	-	84,611
6,703	3,885	4,513	907	160	-	110,871
3,204	2,679	1,490	807	104	-	26,913
9,039	9,286	9,155	1,247	362	-	132,338
1,202	987	998	64	19	-	10,989
896	679	679	670	-	-	11,956
1,428	1,041	1,006	5	-	6	23,924
1,734	382	394	73	-	-	8,229
849	1,819	1,136	146	4	-	71,539
-	-	-	-	-	-	33,779
848	284	54	54	-	-	12,408
411,788	102,784	46,084	6,342	1	936	629,578
10	4	54	4	2	150	570
1,639	1,262	1,262	51	25	-	20,638
2,297	1,955	2,954	-	-	3,419	58,095
-	-	-	-	-	-	5,834
1,900	1,173	690	236	-	291	18,851
485	372	373	-	-	-	6,851
-	-	-	-	-	2,740	8,912
<u>538,667</u>	<u>211,692</u>	<u>139,394</u>	<u>32,440</u>	<u>5,152</u>	<u>7,542</u>	<u>2,424,429</u>
<u>\$ 82,188</u>	<u>\$ 50,080</u>	<u>\$ 23,294</u>	<u>\$ (2,377)</u>	<u>\$ (152)</u>	<u>\$ 9,687</u>	212,788
						<u>611,011</u>
						<u>\$ 823,799</u>

- (a) The Foundation received \$50,000 for the PENCIL Partners program which has been restricted for use in subsequent fiscal years.
- (b) The Foundation received \$50,000 for the Reading program which has been restricted for use in subsequent fiscal years.
- (c) The Foundation received \$25,000 for the Math program which has been restricted for use in fiscal 2005



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Directors
PENCIL Foundation
Nashville, Tennessee

We have audited the financial statements of PENCIL Foundation (the "Foundation") as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated September 2, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Directors
PENCIL Foundation

This report is intended solely for the information and use of management, the Board of Directors, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crosslin, Vaden & Associates, P.C.

September 2, 2005



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
PENCIL Foundation
Nashville, Tennessee

Compliance

We have audited the compliance of PENCIL Foundation (the "Foundation") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Foundation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2005.

To the Board of Directors
PENCIL Foundation

Internal Control Over Compliance

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Directors, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Crosslin, Vaden & Associates, P.C.

September 2, 2005

PENCIL FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

SECTION I: SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weaknesses identified? Yes X No
- Reportable conditions identified that are not considered to be material weaknesses? Yes X None Reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weaknesses identified? Yes X No
- Reportable conditions identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditors' report issued on compliance for major programs:

Unqualified

- Any audit findings disclosed that are required to be reported in accordance with section 510(1) of Circular A-133? Yes X No

PENCIL FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Major Programs

CFDA Number	Name of Federal Program	Amount Expended
93.558	Job Skills Training Education Program passed through the Tennessee Department of Human Services	\$291,422

Dollar threshold used to distinguish between type A and type B programs

\$300,000

Auditee qualified as low-risk auditee

X Yes

___ No

SECTION II: FINANCIAL STATEMENT FINDINGS

A. Reportable Conditions in Internal Control

None reported

B. Compliance Findings

None reported

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

