

**PENCIL FOUNDATION**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION**

**JUNE 30, 2006 AND 2005**

# 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, 2006 and 2005, 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, 2006 and 2005, 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, 2006 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, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 schedule of grant activity for the year ending June 30, 2006 and schedules of support and revenue, expenses and changes in net assets for the years ended June 30, 2006 and 2005 are presented for purposes of additional analysis and are not a required part of the basic 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.*

Nashville, Tennessee  
September 2, 2006

PENCIL FOUNDATION  
STATEMENTS OF FINANCIAL POSITION

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ASSETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$779,620	\$703,942
Contributions receivable	70,500	132,500
Contracts and grants receivable	86,728	61,803
Prepaid expenses and other assets	<u>14,058</u>	<u>13,919</u>
Total assets	<u>\$950,906</u>	<u>\$912,164</u>

LIABILITIES

Funds held for others	\$ 64,628	\$ -
Accounts payable and accrued expenses	<u>37,791</u>	<u>32,824</u>
Total liabilities	<u>102,419</u>	<u>32,824</u>

NET ASSETS

Unrestricted	777,987	740,890
Temporarily restricted	<u>70,500</u>	<u>138,450</u>
Total net assets	<u>848,487</u>	<u>879,340</u>
Total liabilities and net assets	<u>\$950,906</u>	<u>\$912,164</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2006 AND 2005

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	2006		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and revenue:</b>			
Contributions and grants	\$ 33,967	\$ 1,585,348	\$1,619,315
In-kind contributions	-	74,101	74,101
Special events income (net of related direct costs of \$22,932 and \$20,855 for 2006 and 2005, respectively)	71,413	-	71,413
Interest income	18,125	-	18,125
Net assets released from restrictions	<u>1,727,399</u>	<u>(1,727,399)</u>	<u>-</u>
Total support and revenue	<u>1,850,904</u>	<u>( 67,950)</u>	<u>1,782,954</u>
<b>Expenses:</b>			
Program activities expense:			
Jobs for Tennessee Graduates	668,422	-	668,422
Sumner County Partners	-	-	-
Monroe Harding Youth Initiative	3,177	-	3,177
Jobs Skills Training and Employment	435,223	-	435,223
PENCIL Partners	227,602	-	227,602
Reading Partners	132,929	-	132,929
Math Partners	100,254	-	100,254
Caterpillar Student Writers Showcase	29,991	-	29,991
Saint Thomas Science Scholars	4,998	-	4,998
Choices	9,864	-	9,864
Reading College	16,881	-	16,881
PENCIL Box	<u>137,077</u>	<u>-</u>	<u>137,077</u>
Total program activities expense	1,766,418	-	1,766,418
Administrative expenses	<u>47,389</u>	<u>-</u>	<u>47,389</u>
Total expenses	<u>1,813,807</u>	<u>-</u>	<u>1,813,807</u>
Net increase (decrease) in net assets	37,097	( 67,950)	( 30,853)
Net assets at beginning of year	<u>740,890</u>	<u>138,450</u>	<u>879,340</u>
Net assets at end of year	<u>\$ 777,987</u>	<u>\$ 70,500</u>	<u>\$ 848,487</u>

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2005		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 24,869	\$ 1,614,891	\$1,639,760
-	-	-
45,980	-	45,980
6,952	-	6,952
<u>1,620,941</u>	<u>(1,620,941)</u>	<u>-</u>
<u>1,698,742</u>	<u>( 6,050)</u>	<u>1,692,692</u>
593,856	-	593,856
49,360	-	49,360
-	-	-
478,714	-	478,714
196,738	-	196,738
120,677	-	120,677
92,471	-	92,471
29,968	-	29,968
4,994	-	4,994
13,937	-	13,937
40,938	-	40,938
-	-	-
<u>1,621,653</u>	<u>-</u>	<u>1,621,653</u>
<u>15,498</u>	<u>-</u>	<u>15,498</u>
<u>1,637,151</u>	<u>-</u>	<u>1,637,151</u>
61,591	( 6,050)	55,541
<u>679,299</u>	<u>144,500</u>	<u>823,799</u>
<u>\$ 740,890</u>	<u>\$ 138,450</u>	<u>\$ 879,340</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION  
STATEMENTS OF CASH FLOWS

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	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (decrease) increase in net assets	\$( 30,853)	\$ 55,541
Adjustments to reconcile net (decrease) increase in net assets to net cash provided by operating activities:		
Changes in assets and liabilities:		
Decrease in receivables	37,075	85,315
(Increase) decrease in prepaid expense and other	( 139)	18,896
Increase in funds held for others	64,628	-
Increase (decrease) in accounts payable and accrued expenses	<u>4,967</u>	<u>( 24,459)</u>
Total adjustments	<u>106,531</u>	<u>79,752</u>
Net cash provided by operating activities	75,678	135,293
Cash and cash equivalents at beginning of year	<u>703,942</u>	<u>568,649</u>
Cash and cash equivalents at end of year	<u>\$ 779,620</u>	<u>\$ 703,942</u>

See accompanying notes to financial statements.



PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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 enrolled in the Families First program and meet federal 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 "partner with" 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, 2006 AND 2005

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.

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. Due to changes in grant administration, PENCIL chose not to participate as an SES provider in fiscal 2006.

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.

Monroe Harding Youth Initiative is a collaboration between the Foundation and Monroe Harding, Inc. to provide job skills training and placement for youth currently in foster care, those who have aged out of foster care or those who have left the educational system.

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

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, 2006 or 2005.

Certain reclassifications have been made to the financial statements for fiscal year 2005 to conform to the presentation adopted for fiscal year 2006. 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, 2006 AND 2005

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 are 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.

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, 2006 and June 30, 2005 has been estimated to be approximately \$612,000 and \$572,000, respectively. These amounts have not been recorded in the financial statements.

B. CONTRIBUTIONS RECEIVABLE

Contributions receivable are due within one year and totaled \$70,500 and \$132,500 at June 30, 2006 and 2005, respectively. No allowance for uncollectible contributions receivable was considered necessary at June 30, 2006 or 2005.

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. The conditions were met and the Foundation received the gift in 2006.

In 2006, the Foundation received a conditional promise to give in the amount of \$20,000. The funds were designated as a challenge matching grant to be received by the Foundation contingent upon the Foundation obtaining \$20,000 in new gifts/ or grants prior to May 2007 for the PENCIL Box program. At June 30, 2006 the Foundation had not recognized any portion of the conditional gift.

C. CONTRACTS AND GRANTS RECEIVABLE

Contracts and grants receivable are due within one year and no allowance for uncollectible amounts was considered necessary at June 30, 2006 and 2005.

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

D. FUNDS HELD FOR OTHERS

In fiscal 2006, the Foundation entered into an agreement to serve as agent and custodian for contributions, grants, and other income of Alignment Nashville, a collaboration between Metro Public Schools and local businesses, non-profit agencies, government and universities. The purpose is to create a system to bring community organizations and resources into alignment so that their coordinated support to Metropolitan Nashville Public School's and District priorities have a positive impact on student achievement and public school success. The contributions, grants, and other income received are deposited into the Foundation's operating account. All program and administrative expenses of the organization are paid by the Foundation when notified by Alignment Nashville. As of June 30, 2006, the Foundation was serving as agent and custodian for \$64,628, which represents the unexpended net assets of Alignment Nashville. This amount has been recoded as a liability in the financial statements of the Foundation. For the year ended June 30, 2006, the activity in this account is summarized as follows:

Beginning balance - agency fund cash	\$ -
<u>Receipts</u>	
Contribution and grants	<u>155,487</u>
Total support and revenue	<u>155,487</u>
<u>Disbursements</u>	
Salaries and wages	30,862
Payroll taxes	2,361
Telephone	3
Postage	68
Office supplies	2,354
Travel	2,935
Program activities	330
Professional development	4,865
Professional services	19,094
Contracted services	22,545
Copier expense	741
Internet	200
Miscellaneous	<u>4,501</u>
Total expenses	<u>90,859</u>
Ending balance - agency fund cash	<u>\$ 64,628</u>

The Foundation earned administrative fees of \$4,501 for providing these services in fiscal 2006.

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

E. 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 expenses expended for each individual program and other appropriate allocation methods.

F. LEASES

The Foundation leases office space and certain office equipment under non-cancelable operating leases which expire at various dates through April 2011. Lease expense for all operating leases was \$94,019 and \$93,765 for the years ended June 30, 2006 and 2005, respectively. At June 30, 2006, the aggregate future minimum rentals for all non-cancelable leases were as follows:

<u>Year Ended June 30,</u>	
2007	\$ 96,065
2008	14,340
2009	14,340
2010	14,340
2011	<u>10,755</u>
	<u>\$149,840</u>

G. 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, 2006 and 2005 were \$28,035 and \$28,348, respectively.

H. 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.

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

I. 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, 2006 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.

J. NET ASSETS AND NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Temporarily restricted net assets totaling \$70,500 and \$138,450 at June 30, 2006 and 2005 were available for the PENCIL Box, Partners, and Math 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.

Purpose restrictions accomplished:

	<u>2006</u>	<u>2005</u>
JTG	\$ 649,246	\$ 573,613
Sumner County Partners	-	49,360
Monroe Harding	2,670	-
J-STEP	458,305	464,516
PENCIL Partners	199,456	217,623
Reading Partners	133,195	102,299
Math Partners	98,830	123,519
Caterpillar Student Writers Showcase	30,000	30,000
Saint Thomas Science Scholars	5,000	5,000
Choices	10,000	14,000
Reading College	-	41,011
PENCIL Box	134,747	-
PENCIL	<u>5,950</u>	<u>-</u>
Total restrictions released	<u>\$1,727,399</u>	<u>\$1,620,941</u>

K. 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, a technological support company, a telecommunications company and a public relations firm.



PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006 AND 2005

L. FUND RAISING COSTS

For fiscal years ended June 30, 2006 and 2005, expenses totaling \$126,398 and \$80,597 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, 2006

<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-06-17400-00
Passed through Tennessee Department of Education (3)	84.002	GR-06-17400-00
<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	GR-05-16203-00
Tennessee Department of Human Services	N/A	GR-05-16203-04
Passed through Tennessee Department of Human Services (2)	93.558	GR-05-16203-04
Total		

- (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 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, 2005 (Accrued) <u>Deferred</u>	<u>Receipts</u>	State <u>Expenditures</u>	Federal <u>Expenditures</u>	June 30, 2006 (Accrued) <u>Deferred</u>
07-01-05 to 06-30-06	\$283,000	\$ - - -	\$262,840 262,840	\$283,000 283,000	\$ - -	\$(20,160) (20,160)
07-01-05 to 06-30-06	187,500	- -	175,227 175,227	- -	187,500 187,500	(12,273) (12,273)
		-	438,067	283,000	187,500	(32,433)
11-04-04 to 03-01-07	242,678	(37,891)	101,469	-	101,421	(37,843)
07-01-04 to 06-30-05	541,212	(22,100)	22,100	-	-	-
07-01-05 to 06-30-06	279,175	-	243,027	252,235	-	( 9,208)
		(22,100)	265,127	252,235	-	( 9,208)
07-01-05 to 06-30-06	210,325	-	125,579	-	130,114	( 4,535)
		(22,100)	125,579	-	130,114	( 4,535)
		(22,100)	390,706	252,235	130,114	(13,743)
		\$(59,991)	\$930,242	\$535,235	\$419,035	\$(84,019)

PENCIL FOUNDATION  
SCHEDULE OF SUPPORT AND REVENUE, EXPENSES AND  
CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2006

	<u>JTG</u>	Monroe Harding <u>Youth Initiative</u>	<u>J-STEP</u>	PENCIL <u>Partners</u>
SUPPORT AND REVENUE				
Contributions and grants	\$ 649,246	\$ 2,670	\$458,305	\$166,506
In-kind contributions	-	-	-	-
Special events income, net	-	-	-	69,913
Interest income	-	-	-	-
Total support and revenue	<u>649,246</u>	<u>2,670</u>	<u>458,305</u>	<u>236,419</u>
EXPENSES				
Salaries and wages	444,558	2,820	292,502	138,753
Payroll taxes	32,938	211	21,013	10,213
Medical insurance	42,402	27	20,376	9,728
401(k) contribution	7,691	38	7,986	5,075
Lease expense	13,638	-	36,426	10,186
Insurance	4,842	-	3,086	1,143
Repairs and maintenance	1,650	-	2,818	882
Telephone	11,294	27	6,015	1,697
Postage	2,239	-	2,830	1,800
Purchased equipment	1,883	-	1,276	272
Office supplies	3,531	-	4,090	1,344
Student supplies	-	-	432	-
Student tuition	-	-	220	-
Travel	7,382	54	596	905
Program activities	11,723	-	1,432	24,702
Professional development	3,325	-	246	-
Publications and promotions	12,985	-	10,650	10,625
Professional services	54,882	-	7,267	2,950
Copier expense	2,902	-	8,970	1,352
Internet	6,216	-	5,317	5,365
Miscellaneous	<u>2,341</u>	<u>-</u>	<u>1,675</u>	<u>610</u>
Total Expenses	<u>668,422</u>	<u>3,177</u>	<u>435,223</u>	<u>227,602</u>
Net increase (decrease) in net assets	<u><u>\$ ( 19,176)</u></u>	<u><u>\$ ( 507)</u></u>	<u><u>\$ 23,082</u></u>	<u><u>\$ 8,817</u></u>

NET ASSETS AT JULY 1, 2005

NET ASSETS AT JUNE 30, 2006

<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>
\$ 108,195	\$ 73,830	\$30,000	\$5,000	\$10,000	\$ -	\$ 75,646	\$39,917	\$ 1,619,315
-	-	-	-	-	-	74,101	-	74,101
-	1,500	-	-	-	-	-	-	71,413
-	-	-	-	-	-	-	18,125	18,125
<u>108,195</u>	<u>75,330</u>	<u>30,000</u>	<u>5,000</u>	<u>10,000</u>	<u>-</u>	<u>149,747</u>	<u>58,042</u>	<u>1,782,954</u>
88,425	64,115	15,344	3,798	3,686	13,872	27,652	1,624	1,097,149
6,320	4,743	1,170	319	253	986	2,041	124	80,331
5,538	2,532	1,133	87	68	1,078	2,729	1,940	87,638
3,221	1,863	613	162	140	634	612	-	28,035
9,046	8,085	1,353	153	320	-	32	-	79,239
904	611	12	1	4	-	-	-	10,603
702	598	160	-	6	-	225	-	7,041
1,173	864	38	-	9	73	414	4	21,608
932	601	174	55	4	-	232	-	8,867
1,602	444	7	-	-	-	1,532	-	7,016
1,152	1,129	208	107	50	26	3,780	-	15,417
-	-	-	-	-	-	-	-	432
-	-	-	-	-	-	-	-	220
353	922	21	2	25	109	2,460	-	12,829
315	2,032	1,205	11	147	3	92,554	1,439	135,563
-	-	-	-	-	-	10	621	4,202
7,656	7,638	562	275	601	14	2,323	94	53,423
3,199	2,614	7,668	-	4,455	4	132	30	83,201
671	277	226	-	77	-	152	304	14,931
1,389	902	10	-	-	2	40	-	19,241
<u>331</u>	<u>284</u>	<u>87</u>	<u>28</u>	<u>19</u>	<u>80</u>	<u>157</u>	<u>41,209</u>	<u>46,821</u>
<u>132,929</u>	<u>100,254</u>	<u>29,991</u>	<u>4,998</u>	<u>9,864</u>	<u>16,881</u>	<u>137,077</u>	<u>47,389</u>	<u>1,813,807</u>
<u>\$( 24,734)</u>	<u>\$( 24,924)</u>	<u>\$ 9</u>	<u>\$ 2</u>	<u>\$ 136</u>	<u>\$(16,881)</u>	<u>\$ 12,670</u>	<u>\$10,653</u>	<u>( 30,853)</u>
								<u>879,340</u>
								<u>\$ 848,487</u>

- (a) The Foundation received \$25,000 for Reading Partners that was recognized when pledged in a prior year but restricted for use in fiscal 2006.
- (b) The Foundation received \$25,000 for Math Partners that was recognized when pledged in a prior year but restricted for use in fiscal 2006.
- (c) The Foundation received \$25,000 for PENCIL Partners that was recognized when pledged in a prior year but restricted for use in fiscal 2006.

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>
<b>SUPPORT AND REVENUE</b>				
Contributions and grants	\$ 573,613	\$ 29,860	\$ 464,516	\$195,123
Special events income, net	-	-	-	45,980
Interest income	-	-	-	-
Total support and revenue	<u>573,613</u>	<u>29,860</u>	<u>464,516</u>	<u>241,103</u>
<b>EXPENSES</b>				
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	24,306
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>196,738</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	\$1,639,760
-	-	-	-	-	-	-	-	45,980
-	-	-	-	-	-	-	6,952	6,952
<u>102,299</u>	<u>123,519</u>	<u>30,000</u>	<u>5,000</u>	<u>14,000</u>	<u>41,011</u>	<u>30,000</u>	<u>37,771</u>	<u>1,692,692</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
1,680	2,412	411	53	-	311	-	3,382	43,218
-	-	-	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>120,677</u>	<u>92,471</u>	<u>29,968</u>	<u>4,994</u>	<u>13,937</u>	<u>40,938</u>	<u>-</u>	<u>15,498</u>	<u>1,637,151</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.





INDEPENDENT AUDITORS' REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS 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, 2006 and 2005, and have issued our report thereon dated September 2, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 reportable 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 caused by errors or fraud 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. However, we noted other matters involving the internal control over financial reporting which we have reported to management of the Foundation, in a separate letter dated September 2, 2006.

To the Board of Directors  
PENCIL Foundation

Compliance and Other Matters

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, grant agreements and other matters, 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 audits 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*.

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.*

Nashville, Tennessee  
September 2, 2006