

PENCIL FOUNDATION

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

JUNE 30, 2009 AND 2008

PENCIL FOUNDATION

Table of Contents

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT.....	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities.....	4 - 5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7 - 16
SUPPLEMENTAL INFORMATION	
Schedule of Grant Activity	17 - 18
Schedules of Support and Revenue, Expenses and Changes in Net Assets	19 - 22
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 <i>GOVERNMENT AUDITING STANDARDS</i>	23 - 24



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, 2009 and 2008, 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, 2009 and 2008, 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 November 6, 2009 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 to 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 performed 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, 2009 and schedules of support and revenue, expenses and changes in net assets for the years ended June 30, 2009 and 2008 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 & Associates, P.C.

Nashville, Tennessee
November 6, 2009

PENCIL FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2009	2008
Cash and cash equivalents	\$ 595,937	\$1,228,208
Investments in certificates of deposit	487,193	-
Contributions receivable (Note B)	25,250	65,000
Contracts and grants receivable (Note C)	177,026	65,599
Prepaid expenses and other assets	18,101	14,127
Total assets	<u>\$1,303,507</u>	<u>\$1,372,934</u>

LIABILITIES

Funds held for others (Note D)	\$ 98,659	\$ 161,303
Accounts payable and accrued expenses	145,988	87,583
Total liabilities	<u>244,647</u>	<u>248,886</u>

NET ASSETS

Unrestricted	1,033,610	1,059,048
Temporarily restricted	25,250	65,000
Total net assets	<u>1,058,860</u>	<u>1,124,048</u>
Total liabilities and net assets	<u>\$1,303,507</u>	<u>\$1,372,934</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2009 AND 2008

	2009		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions and grants	\$ 82,100	\$ 1,407,155	\$ 1,489,255
In-kind contributions	-	434,723	434,723
Special events income (net of related direct costs of \$52,526 and \$28,780 for 2009 and 2008, respectively)	116,442	-	116,442
Rental income (Note F)	22,180	-	22,180
Interest income	36,600	-	36,600
Net assets released from restrictions (Note J)	<u>1,881,628</u>	<u>(1,881,628)</u>	<u>-</u>
Total support and revenue	<u>2,138,950</u>	<u>(39,750)</u>	<u>2,099,200</u>
Expenses:			
Program activities expense:			
Jobs for Tennessee Graduates	836,575	-	836,575
Financial Literacy/Homebuyer's Education	122,946	-	122,946
Jobs Skills Training and Employment	-	-	-
PENCIL Partners	243,839	-	243,839
Reading Partners	127,725	-	127,725
Math Partners	93,740	-	93,740
Student Writers Showcase	-	-	-
Saint Thomas Science Scholars	5,198	-	5,198
Choices	-	-	-
Maplewood	79,142	-	79,142
PENCIL Box	<u>550,074</u>	<u>-</u>	<u>550,074</u>
Total program activities expense	2,059,239	-	2,059,239
Administrative expenses	<u>105,149</u>	<u>-</u>	<u>105,149</u>
Total expenses	<u>2,164,388</u>	<u>-</u>	<u>2,164,388</u>
Net (decrease) increase in net assets	(25,438)	(39,750)	(65,188)
Net assets at beginning of year	<u>1,059,048</u>	<u>65,000</u>	<u>1,124,048</u>
Net assets at end of year	<u>\$ 1,033,610</u>	<u>\$ 25,250</u>	<u>\$ 1,058,860</u>

2008		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 45,356	\$ 1,823,230	\$1,868,586
-	224,043	224,043
80,519	-	80,519
-	-	-
29,829	-	29,829
<u>1,992,398</u>	<u>(1,992,398)</u>	<u>-</u>
<u>2,148,102</u>	<u>54,875</u>	<u>2,202,977</u>
672,396	-	672,396
-	-	-
453,364	-	453,364
229,188	-	229,188
94,350	-	94,350
106,049	-	106,049
29,971	-	29,971
5,000	-	5,000
5,000	-	5,000
86,208	-	86,208
<u>315,760</u>	<u>-</u>	<u>315,760</u>
1,997,286	-	1,997,286
46,603	-	46,603
<u>2,043,889</u>	<u>-</u>	<u>2,043,889</u>
104,213	54,875	159,088
<u>954,835</u>	<u>10,125</u>	<u>964,960</u>
<u>\$1,059,048</u>	<u>\$ 65,000</u>	<u>\$1,124,048</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (decrease) increase in net assets	\$(65,188)	\$ 159,088
Adjustments to reconcile net (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Increase in receivables	(71,677)	(87,900)
Increase in prepaid expense and other	(3,974)	(770)
(Decrease) increase in funds held for others	(62,644)	42,604
Increase in accounts payable and accrued expenses	<u>58,405</u>	<u>16,122</u>
Total adjustments	<u>(79,890)</u>	<u>(29,944)</u>
Net cash (used in) provided by operating activities	<u>(145,078)</u>	<u>129,144</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	<u>(487,193)</u>	<u>-</u>
Net cash used in investing activities	<u>(487,193)</u>	<u>-</u>
(Decrease) increase in cash and cash equivalents	(632,271)	129,144
Cash and cash equivalents at beginning of year	<u>1,228,208</u>	<u>1,099,064</u>
Cash and cash equivalents at end of year	<u>\$ 595,937</u>	<u>\$ 1,228,208</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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. In 2009, the program was expanded to include selected 7th grade students at Cameron & Wright Middle Schools. Through this initiative, students focus on career exploration.

Financial Literacy/Homebuyer’s Education (Financial Literacy) educates and assists participants in obtaining the financial skills needed to build a good credit history, savings and/or emergency funds, creating the foundation for sustainable wealth and eventual homeownership. Those served include high school students and young adults who have low-to-moderate income levels.

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 was primarily funded on a cost reimbursement basis by the State Department of Human Services and the United Way. PENCIL did not conduct this program in fiscal 2009.

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.

Reading Partners supports volunteers who work with children in Metropolitan Nashville Public Schools, with the goal of improving children’s reading ability and enjoyment. The program focuses on students in kindergarten through grade four to support 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 FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 was funded by Caterpillar and the Tennessean/Gannett Foundation. PENCIL did not conduct this program in fiscal 2009.

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 a grant 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. PENCIL did not conduct this program in fiscal 2009.

Maplewood Family Resource Center is a partnership between United Way, Metro Government, Nashville Public Schools and PENCIL Foundation. PENCIL Foundation provides all management responsibilities for the Maplewood Family Resource Center, which serves as a hub of resources, support and opportunities for students attending Maplewood High School and their families. The goal is to provide an accessible system of coordinated public and private sector services to strengthen families' abilities to support the academic and life success of their children.

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 which are distributed through the program. Teachers "shop for free" at the center for items essential to classroom instruction.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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, 2009 or 2008.

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, 2009 AND 2008

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.

Investments

During fiscal 2009, the Foundation invested in certificates of deposit with a financial institution with maturities ranging from fiscal year 2010 to 2013. These certificates of deposits have an average yield of 3.29% as of June 30, 2009.

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, 2009 AND 2008

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, Reading Partners and PENCIL Box programs. The total value of time contributed by these volunteers for the year ended June 30, 2009 and 2008 has been estimated to be approximately \$951,000 and \$796,000, respectively. These amounts have not been recorded in the accompanying financial statements.

Recent Accounting Pronouncements

Effective July 1, 2008, the Foundation adopted SFAS No. 157, *Fair Value Measurements*, which established a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosures about the use of fair value measurements. The adoption of SFAS No. 157 did not have an impact on the Foundation's financial position or changes in net assets. Assets and liabilities recorded at fair value in the statements of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by SFAS No. 157, are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Foundation's financial instruments consist of cash equivalents, investments, receivables, accounts payable and accrued expenses. The recorded values of cash equivalents, receivables, accounts payable and accrued expenses approximate their fair values based on their short-term nature. Investments consist of certificates of deposit and are recorded at fair value using Level 1 inputs.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

B. CONTRIBUTIONS RECEIVABLE

Contributions receivable are due within one year and totaled \$25,250 and \$65,000 at June 30, 2009 and 2008, respectively. No allowance for uncollectible contributions receivable was considered necessary at June 30, 2009 or 2008.

In 2009, the Foundation received a conditional promise to give in the amount of \$30,000. The funds were designated as a challenge matching grant to be received by the Foundation contingent upon the Foundation obtaining \$30,000 in new gifts/or grants in 2009 for the PENCIL Box program. At June 30, 2009, the Foundation had not recognized any portion of the conditional gift.

In 2008, the Foundation received a conditional promise to give in the amount of \$25,000. The funds were designated as a challenge matching grant to be received by the Foundation contingent upon the Foundation obtaining \$25,000 in new gifts/or grants in 2009 for the PENCIL Box program. During 2009, the conditions were met and the Foundation received the 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, 2009 and 2008.

D. FUNDS HELD FOR OTHERS

The Foundation serves 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 of Alignment Nashville 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 on behalf of Alignment Nashville 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, 2009 and 2008, the Foundation was serving as agent and custodian for \$98,659 and \$161,303, respectively, which represents the unexpended net assets of Alignment Nashville. This amount has been recorded as a liability in the financial statements of the Foundation.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

D. FUNDS HELD FOR OTHERS - Continued

For the year ended June 30, 2009, the activity in this account is summarized as follows:

Beginning balance - agency fund cash	\$161,303
<u>Receipts</u>	
Support and revenue	<u>658,823</u>
<u>Disbursements</u>	
Salaries and wages	485,142
Payroll taxes	34,633
Benefits/insurance	17,108
Communications	99
Postage	304
Supplies	13,818
Travel/parking	16,346
Program activities	5,889
Professional development	14,524
Professional fees/liability insurance	3,349
Professional/contract services	92,790
Copier/printing	3,809
Technology	8,656
Financial services	<u>25,000</u>
Total expenses	<u>721,467</u>
Ending balance - agency fund cash	<u>\$ 98,659</u>

The Foundation earned administrative fees of \$25,000 and \$23,000 for providing these services in fiscal 2009 and 2008, respectively.

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.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

F. LEASES

The Foundation leases office space and certain office equipment under non-cancelable operating leases which expire at various dates through June 2014. During fiscal year 2009, the Foundation entered into sublease agreements with other nonprofit organization's for 12 month periods for office space resulting in \$22,180 of rental income for the year ended June 30, 2009. Lease expense for all operating leases was \$103,805 and \$100,139 for the years ended June 30, 2009 and 2008, respectively. At June 30, 2009, the aggregate future minimum rentals for all non-cancelable leases were as follows:

<u>Year Ended June 30,</u>	
2010	\$106,745
2011	105,862
2012	97,926
2013	2,004
2014	<u>2,004</u>
	<u>\$314,541</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. Contributions by the Foundation to the plan for the years ended June 30, 2009 and 2008 were \$32,236 and \$32,725, 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.

I. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents held by the Foundation. Cash and cash equivalents at June 30, 2009 includes demand deposits and a money market fund held at financial institutions. The deposits and the money market fund carry credit risk to the extent they exceed federally insured limits from time to time. Credit risk also extends to receivables, all of which are uncollateralized.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

J. NET ASSETS AND NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Temporarily restricted net assets totaling \$25,250 and \$65,000 at June 30, 2009 and 2008 were available for the PENCIL Box 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 consisted of the following for the years ending June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
JTG	\$ 844,008	\$ 673,948
Financial Literacy	54,012	-
J-STEP	-	505,369
PENCIL Partners	162,397	150,776
Reading Partners	95,993	97,124
Math Partners	100,296	107,264
Student Writers Showcase	-	30,000
Saint Thomas Science Scholars	5,000	5,000
Choices	-	5,000
Maplewood	80,598	88,056
PENCIL Box	<u>539,324</u>	<u>329,861</u>
Total restrictions released	<u>\$1,881,628</u>	<u>\$1,992,398</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 and a public relations firm.

L. FUND RAISING COSTS

For fiscal years ended June 30, 2009 and 2008, expenses totaling \$106,304 and \$106,558 respectively, were associated with fundraising and are classified in the statement of activities in the program's activities expenses.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

M. SUBSEQUENT EVENTS

Management evaluated subsequent events through November 6, 2009, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

PENCIL FOUNDATION
 SCHEDULE OF GRANT ACTIVITY
 YEAR ENDED JUNE 30, 2009

<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	FA-08-21884-00
	N/A	GR-09-23954-00
Passed through Tennessee Department of Education (2)	84.002	FA-08-21884-00
	84.002	GR-09-23954-00
<u>Workforce Investment Act of 1998</u>		
Passed through Nashville Career Advancement Center (1)	17.259	GR-01-09-037-208-98-00
<u>Jobs for Tennessee Graduates - Summer Youth Program</u>		
Passed through Nashville Career Advancement Center (1)	17.259	GR-01-09-037-208-98-00
Total		

- (1) - United States Department of Labor grant.
 (2) - 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, 2008 (Accrued) <u>Deferred</u>	<u>Receipts</u>	State <u>Expenditures</u>	Federal <u>Expenditures</u>	June 30, 2009 (Accrued) <u>Deferred</u>
07-01-07 to 06-30-08	\$283,000	\$(23,527)	\$ 23,527	\$ -	\$ -	\$ -
07-01-08 to 06-30-09	283,000	<u>-</u>	<u>259,027</u>	<u>282,300</u>	<u>-</u>	<u>(23,273)</u>
		<u>(23,527)</u>	<u>282,554</u>	<u>282,300</u>	<u>-</u>	<u>(23,273)</u>
07-01-07 to 06-30-08	187,500	(15,685)	15,685	-	-	-
07-01-08 to 06-30-09	187,500	<u>-</u>	<u>172,685</u>	<u>-</u>	<u>188,200</u>	<u>(15,515)</u>
		<u>(15,685)</u>	<u>188,370</u>	<u>-</u>	<u>188,200</u>	<u>(15,515)</u>
		<u>(39,212)</u>	<u>470,924</u>	<u>282,300</u>	<u>188,200</u>	<u>(38,788)</u>
11-04-04 to 06-03-09	128,050	<u>(3,069)</u>	<u>122,955</u>	<u>-</u>	<u>130,192</u>	<u>(10,306)</u>
07-01-08 to 06-30-09	138,871	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,338</u>	<u>(112,338)</u>
		<u>\$(42,281)</u>	<u>\$593,879</u>	<u>\$282,300</u>	<u>\$430,730</u>	<u>\$(161,432)</u>

See accompanying independent auditors' report.

PENCIL FOUNDATION
SCHEDULE OF SUPPORT AND REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009

	<u>JTG</u>	(a) <u>Financial Literacy</u>	<u>PENCIL Partners</u>
SUPPORT AND REVENUE			
Contributions and grants	\$844,008	\$ 54,012	\$162,397
In-kind contributions	-	-	-
Special events income, net	-	-	81,648
Rental income	-	-	-
Interest income	-	-	-
Total support and revenue	<u>844,008</u>	<u>54,012</u>	<u>244,045</u>
EXPENSES			
Salaries and wages	574,176	80,243	162,025
Payroll taxes	42,626	5,648	11,546
Medical insurance	54,080	8,487	13,970
401(k) contribution	10,484	4,467	5,528
Lease expense	17,976	4,104	19,682
Insurance	6,488	2,488	2,057
Repairs and maintenance	1,861	1,694	1,350
Telephone	12,465	2,998	2,655
Postage	1,880	509	2,136
Purchased equipment	878	-	1,442
Office supplies	10,590	1,047	1,642
Travel	14,288	595	1,151
Donated supplies	-	-	-
Program activities	21,824	577	297
Professional development	5,120	65	-
Publications and promotions	12,578	5,425	5,253
Professional services	40,019	2,163	7,304
Copier expense	4,085	1,071	2,697
Internet	4,165	895	2,771
Miscellaneous	<u>992</u>	<u>470</u>	<u>333</u>
Total expenses	<u>836,575</u>	<u>122,946</u>	<u>243,839</u>
Net (decrease) increase in net assets	<u>\$ 7,433</u>	<u>\$(68,934)</u>	<u>\$ 206</u>

NET ASSETS AT JULY 1, 2008

NET ASSETS AT JUNE 30, 2009

(a) The Foundation recognized \$12,000 in contributions in fiscal 2008 for Financial Literacy that were utilized in fiscal 2009.

<u>Reading Partners</u>	<u>(b) Math Partners</u>	<u>Saint Thomas Science Scholars</u>	<u>Maplewood</u>	<u>PENCIL Box</u>	<u>PENCIL</u>	<u>Total</u>
\$ 95,993	\$ 70,546	\$ 5,000	\$80,598	\$ 94,601	\$ 82,100	\$ 1,489,255
-	-	-	-	434,723	-	434,723
32,938	-	-	-	1,856	-	116,442
-	-	-	-	-	22,180	22,180
-	-	-	-	-	<u>36,600</u>	<u>36,600</u>
<u>128,931</u>	<u>70,546</u>	<u>5,000</u>	<u>80,598</u>	<u>531,180</u>	<u>140,880</u>	<u>2,099,200</u>
85,985	60,352	4,276	59,469	67,909	44,207	1,138,642
6,273	4,464	327	4,345	5,063	12,919	93,211
6,259	3,277	164	4,238	5,109	2,906	98,490
3,378	2,570	168	1,888	2,033	1,719	32,235
10,899	9,939	144	-	2,532	22,180	87,456
1,207	999	-	783	448	-	14,470
970	858	-	51	33	-	6,817
1,345	1,130	-	1,393	1,316	151	23,453
763	565	49	222	791	385	7,300
-	-	-	-	-	-	2,320
931	1,156	-	1,509	3,865	8,870	29,610
419	591	14	250	3,048	129	20,485
-	-	-	-	432,858	-	432,858
55	39	-	769	15,115	1,605	40,281
-	-	-	113	704	756	6,758
3,065	2,671	-	1,922	2,317	1,900	35,131
2,944	2,158	-	1,274	3,479	1,782	61,123
2,224	2,099	56	286	1,328	1,838	15,684
814	716	-	506	2,076	1,942	13,885
<u>194</u>	<u>156</u>	<u>-</u>	<u>124</u>	<u>50</u>	<u>1,860</u>	<u>4,179</u>
<u>127,725</u>	<u>93,740</u>	<u>5,198</u>	<u>79,142</u>	<u>550,074</u>	<u>105,149</u>	<u>2,164,388</u>
<u>\$ 1,206</u>	<u>\$(23,194)</u>	<u>\$(198)</u>	<u>\$ 1,456</u>	<u>\$(18,894)</u>	<u>\$ 35,731</u>	<u>(65,188)</u>
						<u>1,124,048</u>
						<u>\$ 1,058,860</u>

(b) The Foundation recognized \$55,000 in contributions pledged in fiscal 2008 for Math Partners that was restricted for use in subsequent years when it is to be received. The Foundation received \$25,000 in fiscal 2009.

See accompanying independent auditors' report.

PENCIL FOUNDATION
SCHEDULE OF SUPPORT AND REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2008

	<u>JTG</u>	<u>J-STEP</u>	<u>PENCIL Partners</u>
SUPPORT AND REVENUE			
Contributions and grants	\$673,948	\$505,369	\$ 150,776
In-kind contributions	-	-	-
Special events income, net	-	-	80,519
Interest income	-	-	-
Total support and revenue	<u>673,948</u>	<u>505,369</u>	<u>231,295</u>
EXPENSES			
Salaries and wages	444,015	314,305	134,476
Payroll taxes	33,452	22,420	9,925
Medical insurance	51,402	22,107	14,896
401(k) contribution	8,123	8,633	5,708
Lease expense	13,121	38,947	11,595
Insurance	4,293	2,537	1,327
Repairs and maintenance	1,262	2,854	897
Telephone	11,817	5,525	2,513
Postage	1,755	1,140	1,469
Purchased equipment	177	4,368	285
Office supplies	6,242	4,644	2,378
Student tuition	-	-	-
Travel	21,052	1,229	1,053
Program activities	10,147	169	24,728
Professional development	26	145	-
Publications and promotions	10,510	6,530	7,075
Professional services	36,608	11,043	4,942
Contracted services	9,186	-	-
Copier expense	4,299	3,349	1,530
Internet	2,512	1,892	3,581
Miscellaneous	<u>2,397</u>	<u>1,527</u>	<u>810</u>
Total expenses	<u>672,396</u>	<u>453,364</u>	<u>229,188</u>
Net increase (decrease) in net assets	<u>\$ 1,552</u>	<u>\$ 52,005</u>	<u>\$ 2,107</u>

NET ASSETS AT JULY 1, 2007

NET ASSETS AT JUNE 30, 2008

<u>Reading Partners</u>	<u>(a) Math Partners</u>	<u>Student Writers Showcase</u>	<u>Saint Thomas Science Scholars</u>	<u>Choices</u>	<u>Maplewood</u>	<u>PENCIL Box</u>	<u>PENCIL</u>	<u>Total</u>
\$ 97,124	\$162,139	\$30,000	\$ 5,000	\$5,000	\$88,056	\$105,818	\$45,356	\$1,868,586
-	-	-	-	-	-	224,043	-	224,043
-	-	-	-	-	-	-	-	80,519
-	-	-	-	-	-	-	<u>29,829</u>	<u>29,829</u>
<u>97,124</u>	<u>162,139</u>	<u>30,000</u>	<u>5,000</u>	<u>5,000</u>	<u>88,056</u>	<u>329,861</u>	<u>75,185</u>	<u>2,202,977</u>
54,232	72,034	16,194	3,963	3,616	64,725	57,831	-	1,165,391
4,114	4,606	1,189	303	221	4,736	4,333	-	85,299
5,984	3,140	1,623	171	197	5,480	6,852	31	111,883
3,429	2,459	634	177	111	1,232	2,217	-	32,723
9,377	8,353	1,045	132	408	-	2,196	-	85,174
770	580	-	-	-	444	-	-	9,951
691	622	59	-	-	63	-	-	6,448
1,232	879	1	-	-	1,275	768	1,042	25,052
690	489	99	112	1	172	363	-	6,290
82	42	-	-	-	142	43	-	5,139
1,206	3,559	116	27	1	3,429	3,893	1,223	26,718
-	-	-	-	-	-	-	-	-
453	549	44	-	13	431	1,200	12	26,036
89	113	1,057	-	-	356	232,192	35,041	303,892
-	-	-	-	-	91	-	-	262
3,809	2,986	658	-	220	1,294	914	-	33,996
5,585	3,062	6,934	-	-	1,502	949	2,000	72,625
-	-	-	-	-	-	-	-	9,186
1,535	1,847	297	112	206	345	846	598	14,964
633	398	-	-	-	268	1,096	211	10,591
<u>439</u>	<u>331</u>	<u>21</u>	<u>3</u>	<u>6</u>	<u>223</u>	<u>67</u>	<u>6,445</u>	<u>12,269</u>
<u>94,350</u>	<u>106,049</u>	<u>29,971</u>	<u>5,000</u>	<u>5,000</u>	<u>86,208</u>	<u>315,760</u>	<u>46,603</u>	<u>2,043,889</u>
<u>\$ 2,774</u>	<u>\$ 56,090</u>	<u>\$ 29</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,848</u>	<u>\$ 14,101</u>	<u>\$28,582</u>	159,088
								<u>964,960</u>
								<u>\$1,124,048</u>

(a) The Foundation recognized \$55,000 in contributions pledged in fiscal 2008 for Math Partners that is restricted for use in subsequent years when it is to be received.

See accompanying independent auditors' report.



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, 2009 and 2008, and have issued our report thereon dated November 6, 2009. 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 audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, 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 or other matters 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 & Associates, P.C.

Nashville, Tennessee
November 6, 2009