

**PENCIL FOUNDATION**

**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTAL INFORMATION**

**JUNE 30, 2010 AND 2009**

# 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, 2010 and 2009, 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, 2010 and 2009, 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 24, 2010 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 audit.

To the Board of Directors  
PENCIL Foundation

Our audits were conducted 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, 2010 and schedules of support and revenue, expenses and changes in net assets for the years ended June 30, 2010 and 2009 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 24, 2010

PENCIL FOUNDATION  
STATEMENTS OF FINANCIAL POSITION

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ASSETS

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 652,706	\$ 595,937
Investments in certificates of deposit	546,611	487,193
Contributions receivable (Note B)	25,000	25,250
Contracts and grants receivable (Note C)	105,621	177,026
Prepaid expenses and other assets	<u>9,747</u>	<u>18,101</u>
Total assets	<u>\$1,339,685</u>	<u>\$1,303,507</u>

LIABILITIES

Funds held for others (Note D)	\$ 102,305	\$ 98,659
Accounts payable and accrued expenses	<u>91,958</u>	<u>145,988</u>
Total liabilities	<u>194,263</u>	<u>244,647</u>

NET ASSETS

Unrestricted	1,115,422	1,033,610
Temporarily restricted	<u>30,000</u>	<u>25,250</u>
Total net assets	<u>1,145,422</u>	<u>1,058,860</u>
Total liabilities and net assets	<u>\$1,339,685</u>	<u>\$1,303,507</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2010 AND 2009

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	2010		
	Unrestricted	Temporarily Restricted	Total
<b>Support and revenue:</b>			
Contributions and grants	\$ 74,376	\$ 1,460,111	\$1,534,487
In-kind contributions	-	222,908	222,908
Special events income (net of related direct costs of \$41,817 and \$52,526 for 2010 and 2009, respectively)	113,681	-	113,681
Rental income (Note F)	13,316	-	13,316
Interest income	20,858	-	20,858
Net assets released from restrictions (Note J)	<u>1,678,269</u>	<u>(1,678,269)</u>	<u>-</u>
Total support and revenue	<u>1,900,500</u>	<u>4,750</u>	<u>1,905,250</u>
<b>Expenses:</b>			
Program activities expense:			
Jobs for Tennessee Graduates	821,261	-	821,261
Financial Literacy/Homebuyer's Education	59,368	-	59,368
PENCIL Partners	227,254	-	227,254
Reading Partners	125,224	-	125,224
Math Partners	87,829	-	87,829
Student Writers Showcase	15,064	-	15,064
Saint Thomas Science Scholars	5,027	-	5,027
Maplewood	80,735	-	80,735
PENCIL Box	<u>321,419</u>	<u>-</u>	<u>321,419</u>
Total program activities expense	1,743,181	-	1,743,181
Administrative expenses	<u>75,507</u>	<u>-</u>	<u>75,507</u>
Total expenses	<u>1,818,688</u>	<u>-</u>	<u>1,818,688</u>
Net increase (decrease) in net assets	81,812	4,750	86,562
Net assets at beginning of year	<u>1,033,610</u>	<u>25,250</u>	<u>1,058,860</u>
Net assets at end of year	<u>\$1,115,422</u>	<u>\$ 30,000</u>	<u>\$1,145,422</u>

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2009		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 82,100	\$ 1,407,155	\$ 1,489,255
-	434,723	434,723
116,442	-	116,442
22,180	-	22,180
36,600	-	36,600
<u>1,881,628</u>	<u>(1,881,628)</u>	<u>-</u>
<u>2,138,950</u>	<u>( 39,750)</u>	<u>2,099,200</u>
836,575	-	836,575
122,946	-	122,946
243,839	-	243,839
127,725	-	127,725
93,740	-	93,740
-	-	-
5,198	-	5,198
79,142	-	79,142
<u>550,074</u>	<u>-</u>	<u>550,074</u>
2,059,239	-	2,059,239
<u>105,149</u>	<u>-</u>	<u>105,149</u>
<u>2,164,388</u>	<u>-</u>	<u>2,164,388</u>
( 25,438)	( 39,750)	( 65,188)
<u>1,059,048</u>	<u>65,000</u>	<u>1,124,048</u>
<u>\$ 1,033,610</u>	<u>\$ 25,250</u>	<u>\$ 1,058,860</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION  
STATEMENTS OF CASH FLOWS

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	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net increase (decrease) in net assets	\$ <u>86,562</u>	\$( <u>65,188</u> )
Adjustments to reconcile net increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Decrease (increase) in receivables	71,655	( 71,677)
Decrease (increase) in prepaid expense and other	8,354	( 3,974)
Increase (decrease) in funds held for others	3,646	( 62,644)
(Decrease) increase in accounts payable and accrued expenses	<u>( 54,030)</u>	<u>58,405</u>
Total adjustments	<u>29,625</u>	<u>( 79,890)</u>
Net cash provided by (used in) operating activities	<u>116,187</u>	<u>( 145,078)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	<u>( 59,418)</u>	<u>( 487,193)</u>
Net cash used in investing activities	<u>( 59,418)</u>	<u>( 487,193)</u>
Increase (decrease) in cash and cash equivalents	56,769	( 632,271)
Cash and cash equivalents at beginning of year	<u>595,937</u>	<u>1,228,208</u>
Cash and cash equivalents at end of year	<u>\$ 652,706</u>	<u>\$ 595,937</u>

See accompanying notes to financial statements.



PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

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 career specialist 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 recent years, the program was expanded to include selected 7th and 8th grade students at Cameron & Wright Middle Schools. Through this initiative, students focus on career exploration. The middle school program is funded by the Community Enhancement Fund and Education First Funds.

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.

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. During 2009, there were two new programs added under this program:

- Career Mentoring pairs adults with three 9<sup>th</sup> grade students to mentor on careers and personal development. The program is funded by private and corporate contributions.
- Gold Stars is a before-and-after-school program that provides a safe haven and enrichment opportunities for students at five Metro Schools. It is funded by a 21<sup>st</sup> Century Community Learning Centers grant awarded to Metro schools and subcontracted in part to PENCIL.

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 the United Way, local businesses, and foundations.

Math Partners promotes student achievement in mathematics through trained volunteers. 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 and the United Way, 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 5 - 8. 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 The Tennessean/Gannett Foundation. PENCIL did not conduct this program in fiscal year 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.

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, 2010 AND 2009

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, 2010 or 2009.

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.

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.

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 2010, the Foundation invested in certificates of deposit with a financial institution with maturities ranging from fiscal year 2010 to 2016. These certificates of deposits have an average yield of 3.78% as of June 30, 2010.

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.

The Foundation accounts for the effect of any uncertain tax positions based on a *more likely than not* threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a *cumulative probability assessment* that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Foundation include, but are not limited to, the tax exempt status and determination of whether income is subject to unrelated business income tax; however, the Foundation has determined that such tax positions do not result in an uncertainty requiring recognition.

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, 2010 AND 2009

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, 2010 and 2009 has been estimated to be approximately \$2,000,000 and \$951,000, respectively. These amounts have not been recorded in the accompanying financial statements.

Recent Accounting Pronouncements

Assets and liabilities recorded at fair value on a recurring basis 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 ASC 820, *Fair Value Measurements and Disclosures*, 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, 2010 AND 2009

B. CONTRIBUTIONS RECEIVABLE

Contributions receivable are due within one year and totaled \$25,000 and \$25,250 at June 30, 2010 and 2009, respectively. No allowance for uncollectible contributions receivable was considered necessary at June 30, 2010 or 2009.

In 2010, the Foundation received donor notification of a conditional promise to give in the amount of \$20,000. The funds are designated as a challenge matching grant to be received by the Foundation contingent upon the Foundation obtaining \$20,000 in new gifts/or grants in 2011 for the PENCIL Box program. At June 30, 2010, the Foundation had not recognized any portion of the conditional gift.

In 2009, the Foundation received donor notification of 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 2010 for the PENCIL Box program. During 2010, 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, 2010 and 2009.

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, 2010 and 2009, the Foundation was serving as agent and custodian for \$102,305 and \$98,659, 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, 2010 AND 2009

D. FUNDS HELD FOR OTHERS - Continued

For the year ended June 30, 2010, the activity in this account is summarized as follows:

Beginning balance - agency fund cash	\$ 98,659
<u>Receipts</u>	
Support and revenue	<u>1,221,372</u>
<u>Disbursements</u>	
Salaries and wages	642,521
Payroll taxes	46,251
Benefits/insurance	39,064
General liability insurance	2,558
Facility lease	3,278
Repairs/maintenance	119
Communications	2,691
Postage	858
Supplies/operating expenses	65,741
Travel/parking	28,667
Program activities	35,155
Professional development/training	9,459
Professional fees/membership	1,484
Professional services	253,598
Copier/printing	13,826
Internet/technology/equipment	43,956
Audit	1,500
Financial services	<u>27,000</u>
Total expenses	<u>1,217,726</u>
Ending balance - agency fund cash	<u>\$ 102,305</u>

The Foundation earned administrative fees of \$27,000 and \$25,000 for providing these services in fiscal 2010 and 2009, 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, 2010 AND 2009

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 \$13,316 and \$22,180 of rental income for the years ended June 30, 2010 and 2009, respectively. Lease expense for all operating leases was \$95,404 and \$103,805 for the years ended June 30, 2010 and 2009, respectively. At June 30, 2010, the aggregate future minimum rentals for all non-cancelable leases were as follows:

Year Ended June 30,

2011	\$105,862
2012	97,926
2013	2,004
2014	<u>2,505</u>
	<u>\$208,297</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, 2010 and 2009 were \$29,816 and \$32,236, 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, 2010 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, 2010 AND 2009

J. NET ASSETS AND NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Temporarily restricted net assets totaling \$30,000 and \$25,250 at June 30, 2010 and 2009 were available for the Reading 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
JTG	\$ 819,311	\$ 844,008
Financial Literacy	45,147	54,012
PENCIL Partners	172,344	162,397
Reading Partners	138,113	95,993
Math Partners	66,976	100,296
Student Writers Showcase	15,000	-
Saint Thomas Science Scholars	5,000	5,000
Maplewood	80,752	80,598
PENCIL Box	<u>335,626</u>	<u>539,324</u>
Total restrictions released	<u>\$1,678,269</u>	<u>\$1,881,628</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 and a company from which the Foundation leases office space.

L. FUND RAISING COSTS

For fiscal years ended June 30, 2010 and 2009, expenses totaling \$109,233 and \$106,304 respectively, were associated with fundraising and are classified in the statement of activities in the program's activities expenses.

M. SUBSEQUENT EVENTS

Management evaluated subsequent events through November 24, 2010, the date the financial statements were available to be issued, and has determined there are no subsequent events requiring disclosure.

## **SUPPLEMENTAL INFORMATION**

PENCIL FOUNDATION  
SCHEDULE OF GRANT ACTIVITY  
YEAR ENDED JUNE 30, 2010

<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-09-23954-00
	N/A	GR-10-27245-00
Passed through Tennessee Department of Education (2)	84.002	GR-09-23954-00
	17.259	GR-10-27245-00
<u>Workforce Investment Act of 1998</u>		
Passed through Nashville Career Advancement Center (1)	17.259	GR-01-09-037-208-98-00
Passed through Nashville Career Advancement Center (1)	17.259	LW09P091YOUTH10
<u>Jobs for Tennessee Graduates - Summer Youth Program</u>		
Passed through Nashville Career Advancement Center (1)	17.259	LW09ST91YOUTH09
Passed through Nashville Career Advancement Center (1)	17.259	LW09ST91YOUTH09
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>	June 30, 2009 (Accrued) <u>Deferred</u>	<u>Receipts/</u> <u>Write-off</u>	<u>State</u> <u>Expenditures</u>	<u>Federal</u> <u>Expenditures</u>	June 30, 2010 (Accrued) <u>Deferred</u>
07-01-08 to 06-30-09	\$283,000	\$ ( 23,273)	\$ 23,273	\$ -	\$ -	\$ -
07-01-09 to 06-30-10	253,000	<u>-</u>	<u>235,204</u>	<u>254,510</u>	<u>-</u>	<u>(19,306)</u>
		<u>( 23,273)</u>	<u>258,477</u>	<u>254,510</u>	<u>-</u>	<u>(19,306)</u>
07-01-08 to 06-30-09	187,500	( 15,515)	15,515	-	-	-
07-01-09 to 06-30-10	157,500	<u>-</u>	<u>144,158</u>	<u>-</u>	<u>155,990</u>	<u>(11,832)</u>
		<u>( 15,515)</u>	<u>159,673</u>	<u>-</u>	<u>155,990</u>	<u>(11,832)</u>
		<u>( 38,788)</u>	<u>418,150</u>	<u>254,510</u>	<u>155,990</u>	<u>(31,138)</u>
11-04-04 to 06-03-09	128,050	( 10,306)	10,306	-	-	-
07-01-09 to 06-30-10	134,787	<u>-</u>	<u>111,902</u>	<u>-</u>	<u>129,073</u>	<u>(17,171)</u>
		<u>( 10,306)</u>	<u>122,208</u>	<u>-</u>	<u>129,073</u>	<u>(17,171)</u>
07-01-08 to 06-30-09	138,871	(112,338)	112,338	-	-	-
07-01-09 to 06-30-10	80,062	<u>-</u>	<u>80,062</u>	<u>-</u>	<u>80,062</u>	<u>-</u>
		<u>(112,338)</u>	<u>192,400</u>	<u>-</u>	<u>80,062</u>	<u>-</u>
		<u>\$(161,432)</u>	<u>\$732,758</u>	<u>\$254,510</u>	<u>\$365,125</u>	<u>\$(48,309)</u>

See accompanying independent auditors' report.

PENCIL FOUNDATION  
SCHEDULE OF SUPPORT AND REVENUE, EXPENSES AND  
CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2010

	<u>JTG</u>	<u>Financial Literacy</u>	<u>PENCIL Partners</u>
Support and Revenue			
Contributions and grants	\$819,311	\$ 45,147	\$172,344
In-Kind contributions	-	-	-
Special events income, net	3,142	10,000	83,539
Rental income	-	-	-
Interest income	-	-	-
Total Support and Revenue	<u>822,453</u>	<u>55,147</u>	<u>255,883</u>
Expenses			
Salaries and wages	577,673	32,065	151,452
Payroll taxes	43,232	2,361	10,603
Medical Insurance	61,927	4,554	10,842
401(k) contribution	11,445	2,144	6,287
Lease expense	16,870	3,610	17,290
Insurance	7,154	855	1,711
Repairs and maintenance	1,814	972	1,470
Telephone	15,072	963	2,054
Postage	1,708	840	953
Purchased equipment	1,893	107	214
Office supplies	8,965	1,097	2,525
Travel	5,957	57	1,390
Donated supplies	-	95	-
Program activities	21,697	-	181
Professional development	2,069	13	-
Publications and promotions	12,233	2,538	3,889
Professional services	15,330	4,190	7,242
Copier expense	6,462	1,668	2,347
Internet	6,142	843	6,012
Miscellaneous	<u>3,619</u>	<u>397</u>	<u>791</u>
Total Expenses	<u>821,262</u>	<u>59,369</u>	<u>227,253</u>
Net increase (decrease) in net assets	<u>\$ 1,191</u>	<u>\$( 4,222)</u>	<u>\$ 28,630</u>

NET ASSETS AT JULY 1, 2009

NET ASSETS AT JUNE 30, 2010

- (a) The Foundation recognized \$5,000 in contributions in fiscal 2010 for Reading Partners that was restricted for use in subsequent years.

<u>(a)</u> <u>Reading</u> <u>Partners</u>	<u>(b)</u> <u>Math</u> <u>Partners</u>	<u>Student</u> <u>Writers</u> <u>Showcase</u>	<u>Saint</u> <u>Thomas</u> <u>Science</u> <u>Scholars</u>	<u>Maplewood</u>	<u>PENCIL</u> <u>Box</u>	<u>PENCIL</u>	<u>Total</u>
\$143,113	\$ 66,976	\$15,000	\$ 5,000	\$80,752	\$ 112,468	\$ 74,376	\$1,534,487
-	-	-	-	-	222,908	-	222,908
-	17,000	-	-	-	-	-	113,681
-	-	-	-	-	-	13,316	13,316
-	-	-	-	-	-	20,858	20,858
<u>143,113</u>	<u>83,976</u>	<u>15,000</u>	<u>5,000</u>	<u>80,752</u>	<u>335,376</u>	<u>108,550</u>	<u>1,905,250</u>
83,349	54,244	10,550	4,430	56,995	62,429	42,095	1,075,282
5,914	3,995	801	338	4,225	4,605	3,375	79,449
7,199	3,393	884	83	2,578	2,767	1,733	95,960
3,333	2,199	208	115	813	1,641	1,632	29,817
9,260	7,955	-	-	1,098	2,431	16,186	74,700
1,141	998	-	-	856	856	998	14,569
1,039	917	-	-	22	22	26	6,282
1,374	1,040	-	-	1,449	1,414	104	23,470
608	559	1	27	169	602	114	5,581
142	125	-	-	107	107	-	2,695
699	4,861	160	9	2,860	1,099	2,586	24,861
427	233	1	17	154	754	67	9,057
-	-	-	-	-	222,908	-	223,003
32	21	-	-	4,923	8,477	942	36,273
-	-	-	-	252	( 48)	21	2,307
4,386	2,002	316	-	1,356	1,410	-	28,130
3,415	2,985	2,068	-	1,566	5,511	2,043	44,350
918	879	75	8	311	790	1,665	15,123
1,462	962	-	-	607	3,249	936	20,213
<u>526</u>	<u>461</u>	<u>-</u>	<u>-</u>	<u>394</u>	<u>394</u>	<u>984</u>	<u>7,566</u>
<u>125,224</u>	<u>87,829</u>	<u>15,064</u>	<u>5,027</u>	<u>80,735</u>	<u>321,418</u>	<u>75,507</u>	<u>1,818,688</u>
<u>\$ 17,889</u>	<u>\$( 3,853)</u>	<u>( 64)</u>	<u>\$( 27)</u>	<u>\$ 17</u>	<u>\$ 13,958</u>	<u>\$ 33,043</u>	<u>\$ 86,562</u>
							<u>1,058,860</u>
							<u>\$1,145,422</u>

(b) The Foundation recognized contributions pledged in prior years for Math Partners that was restricted for use in subsequent years when received. Subsequent to June 30, 2010, the Foundation received \$25,000 to be used in fiscal 2011.

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</u> <u>Literacy</u>	<u>PENCIL</u> <u>Partners</u>
<b>SUPPORT AND REVENUE</b>			
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>
<b>EXPENSES</b>			
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
-	-	-	-	-	36,600	36,600
<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.





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 accompanying financial statements of PENCIL Foundation (the "Foundation") as of and for the year ended June 30, 2010, and have issued our report thereon dated November 24, 2010. We conducted our audit 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 deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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, and 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 audit, 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 24, 2010