



## 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, 2011 and 2010, 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, 2011 and 2010, 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 9, 2011 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant 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 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 PENCIL Foundation taken as a whole. The accompanying schedule of grant activity for the year ending June 30, 2011 and schedules of support and revenue, expenses and changes in net assets for the years ended June 30, 2011 and 2010 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  
September 9, 2011

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

B. CONTRIBUTIONS RECEIVABLE - Continued

In 2010, the Foundation received donor notification of 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 in 2011 for the PENCIL Box program. During 2011, 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, 2011 and 2010.

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 Nashville 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, 2011 and 2010, the Foundation was serving as agent and custodian for \$174,856 and \$102,305, respectively, which represents the unexpended net assets of Alignment Nashville. This amount has been recorded as a liability in the Foundation's financial statements.

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010

D. FUNDS HELD FOR OTHERS - Continued

For the year ended June 30, 2011, the activity in this account is summarized as follows:

Beginning balance - agency fund cash	\$ 102,305
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Receipts

Support and revenue	<u>1,475,175</u>
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Disbursements

Salaries and wages	688,145
Payroll taxes	50,010
Benefits/insurance	53,334
General liability insurance	2,358
Facility lease	24,036
Repairs/maintenance	1,428
Communications	14,030
Postage	704
Supplies/operating expenses	33,280
Travel/parking	25,531
Program activities	11,511
Professional development/training	5,557
Professional fees/membership	1,768
Professional services	432,437
Copier/printing	15,766
Internet/technology/equipment	12,229
Audit	1,500
Financial services	<u>29,000</u>
Total expenses	<u>1,402,624</u>

Ending balance - agency fund cash	<u>\$ 174,856</u>
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The Foundation earned administrative fees of \$29,000 and \$27,000 for providing these services in fiscal 2011 and 2010, 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.