



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
NOTES TO FINANCIAL STATEMENTS
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.