

PENCIL FOUNDATION

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

JUNE 30, 2012 AND 2011

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, 2012 and 2011, 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. 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, 2012 and 2011, 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.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of support and revenue, expenses, and changes in net assets on pages 17 - 20, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Crosslin & Associates, P.C.

Nashville, Tennessee
September 24, 2012

PENCIL FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2012	2011
Cash and cash equivalents	\$ 657,775	\$ 689,693
Investments in certificates of deposit	515,079	560,435
Contributions receivable (Note B)	38,122	5,000
Contracts and grants receivable (Note C)	56,019	127,588
Prepaid expenses and other assets	5,890	7,923
	<hr/>	<hr/>
Total assets	<u>\$ 1,272,885</u>	<u>\$ 1,390,639</u>

LIABILITIES

Funds held for others (Note D)	\$ -	\$ 174,856
Accounts payable and accrued expenses	56,987	74,132
Total liabilities	<hr/> 56,987	<hr/> 248,988

NET ASSETS

Unrestricted	1,094,276	1,105,651
Temporarily restricted (Note J)	121,622	36,000
Total net assets	<hr/> 1,215,898	<hr/> 1,141,651
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,272,885</u>	<u>\$ 1,390,639</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011

	2012		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions and grants	\$ 155,176	\$ 1,538,181	\$ 1,693,357
In-kind contributions	-	386,742	386,742
Special events income (net of related direct costs of \$62,451 and \$31,236 for 2012 and 2011, respectively)	132,519	38,122	170,641
Rental income (Note F)	31,644	-	31,644
Interest income	17,697	-	17,697
Net assets released from restrictions (Note J)	1,877,423	(1,877,423)	-
Total support and revenue	<u>2,214,459</u>	<u>85,622</u>	<u>2,300,081</u>
Expenses:			
Program activities expense:			
Jobs for Tennessee Graduates	596,931	-	596,931
Financial Literacy/Homebuyer's Education	51,254	-	51,254
PENCIL Partners	250,358	-	250,358
Reading Partners	119,104	-	119,104
Math Partners	109,236	-	109,236
Student Writers Showcase	-	-	-
Saint Thomas Science Scholars	5,383	-	5,383
Family Resource Centers	132,955	-	132,955
PENCIL Box	478,922	-	478,922
NAZA	302,672	-	302,672
Total program activities expense	<u>2,046,815</u>	<u>-</u>	<u>2,046,815</u>
Administrative expenses	<u>179,019</u>	<u>-</u>	<u>179,019</u>
Total expenses	<u>2,225,834</u>	<u>-</u>	<u>2,225,834</u>
Net increase (decrease) in net assets	(11,375)	85,622	74,247
Net assets at beginning of year	<u>1,105,651</u>	<u>36,000</u>	<u>1,141,651</u>
Net assets at end of year	<u>\$ 1,094,276</u>	<u>\$ 121,622</u>	<u>\$ 1,215,898</u>

2011		
Unrestricted	Temporarily Restricted	Total
\$ 47,002	\$ 1,604,560	\$ 1,651,562
-	432,544	432,544
46,259	-	46,259
24,036	-	24,036
20,354	-	20,354
2,031,104	(2,031,104)	-
<u>2,168,755</u>	<u>6,000</u>	<u>2,174,755</u>
793,251	-	793,251
44,480	-	44,480
235,853	-	235,853
144,349	-	144,349
121,555	-	121,555
12,191	-	12,191
4,986	-	4,986
78,327	-	78,327
535,524	-	535,524
134,763	-	134,763
<u>2,105,279</u>	<u>-</u>	<u>2,105,279</u>
73,247	-	73,247
<u>2,178,526</u>	<u>-</u>	<u>2,178,526</u>
(9,771)	6,000	(3,771)
<u>1,115,422</u>	<u>30,000</u>	<u>1,145,422</u>
<u>\$ 1,105,651</u>	<u>\$ 36,000</u>	<u>\$ 1,141,651</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net increase (decrease) in net assets	\$ 74,247	\$ (3,771)
Adjustments to reconcile net increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
Decrease (increase) in receivables	38,447	(1,967)
Decrease in prepaid expense and other	2,033	1,824
(Decrease) increase in funds held for others	(174,856)	72,551
Decrease in accounts payable and accrued expenses	(17,145)	(17,826)
Total adjustments	(151,521)	54,582
Net cash (used in) provided by operating activities	(77,274)	50,811
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (purchases) of investments	45,356	(13,824)
Net cash provided by (used in) investing activities	45,356	(13,824)
(Decrease) increase in cash and cash equivalents	(31,918)	36,987
Cash and cash equivalents at beginning of year	689,693	652,706
Cash and cash equivalents at end of year	\$ 657,775	\$ 689,693

See accompanying notes to financial statements.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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 and the Nashville Career Advancement Center. In recent years, the program was expanded to include selected middle school students at Cameron, Wright and Oliver Middle Schools. Through this initiative, students focus on career exploration. The middle school program is funded by the Community Enhancement Fund and the Nashville After Zone Alliance.

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. The following are related programs offered under PENCIL Partners:

- Career Mentoring pairs adults with three 9th 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 Nashville Schools. It is funded by a 21st Century Community Learning Centers grant awarded to Metro schools and subcontracted in part to PENCIL.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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 elementary and middle schools 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 elementary and middle schools 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 was a writing competition for Metropolitan Nashville Public School students in grades 5 - 8. It was 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 and the Nashville Alliance for Public Education on behalf of One Nashville. The Student Writers Showcase competition was not conducted in 2012.

Saint Thomas Hospital Science Scholars is designed to encourage, among selected high school sophomores, 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.

Family Resource Centers are a partnership between United Way, Metro Nashville Government, Metro Nashville Public Schools and PENCIL Foundation. PENCIL Foundation provides all management responsibilities for the Maplewood, Bordeaux and Madison Middle Family Resource Centers, which serves as a hub of resources, support and opportunities for students 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 Metro 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, 2012 AND 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Nashville After Zone Alliance (NAZA) is a network of afterschool providers that operate in different geographic zones. PENCIL is the coordinating agency for the South Central Zone, which includes the following schools in the Overton and Glencliff clusters: Cameron, Wright, Croft, McMurray and Oliver Middle Schools. NAZA is a partnership of the Mayor's Office, Metropolitan Nashville Public Schools, and youth-serving organizations. The goal of NAZA is to create a network of quality afterschool programs in geographically designated zones. Students are exposed to enrichment activities within the visual and performance arts such as dance, painting and pottery. Other activities provide academic support, as well as team building and leadership opportunities.

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, 2012 or 2011.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 three months or less to be cash equivalents.

Investments

The Foundation has invested in certificates of deposit with a financial institution with maturities ranging from fiscal year 2014 to 2019. These certificates of deposits have an average yield of 4.27% as of June 30, 2012.

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.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, 2012 and 2011, has been estimated to be approximately \$2,300,000 and \$2,100,000, respectively. These amounts have not been recorded in the accompanying financial statements.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Instruments

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.

B. CONTRIBUTIONS RECEIVABLE

Contributions receivable are due within one year and totaled \$38,122 and \$5,000 at June 30, 2012 and 2011, respectively. No allowance for uncollectible contributions receivable was considered necessary at June 30, 2012 or 2011.

In 2012, 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 2013 for the PENCIL Box program. At June 30, 2012, the Foundation had not recognized any portion of the conditional gift.

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PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

B. CONTRIBUTIONS RECEIVABLE - Continued

In 2011, 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 2012 for the PENCIL Box program. During 2012, 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, 2012 and 2011.

D. FUNDS HELD FOR OTHERS

The Foundation served as agent and custodian for contributions, grants and other income of Alignment Nashville, 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. Through fiscal 2011, the contributions, grants and other income received on behalf of Alignment Nashville were deposited into the Foundation's operating account. All program and administrative expenses of the organization were paid by the Foundation when notified by Alignment Nashville. As of June 30, 2011, the Foundation was serving as agent and custodian for \$174,856, which represented the unexpended net assets of Alignment Nashville. This amount was recorded as a liability in the Foundation's financial statements. During fiscal 2012, the funds were transferred to Alignment Nashville's bank account. Pencil continued to act as agent performing accounting services for Alignment Nashville in 2012; however, is no longer the custodian of Alignment Nashville's funds.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

D. FUNDS HELD FOR OTHERS - Continued

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

Beginning balance - agency fund cash	\$ 102,305
<u>Receipts</u>	
Support and revenue	<u>1,475,175</u>
<u>Disbursements</u>	
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>

The Foundation earned administrative fees of \$31,000 and \$29,000 for providing these services in fiscal 2012 and 2011, 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, 2012 AND 2011

F. LEASES

The Foundation leases office space and certain office equipment under non-cancelable operating leases which expire at various dates through June 2015. The Foundation had a sublease agreement of office space with a nonprofit organization resulting in \$31,644 and \$24,036 of rental income for the years ended June 30, 2012 and 2011, respectively. The sublease agreement was not renewed as of June 30, 2012. Lease expense for all operating leases was \$112,919 and \$82,927 for the years ended June 30, 2012 and 2011, respectively. The Foundation is presently renegotiating its lease for office space which is being leased on a month-to-month basis as of the end of the fiscal year. At June 30, 2012, the aggregate future minimum rentals for all non-cancelable leases were as follows:

Year Ending June 30,

2013	\$13,560
2014	16,065
2015	<u>8,667</u>
	<u>\$38,292</u>

G. RETIREMENT PLAN

The Foundation established a retirement plan in September 2001 for essentially all employees pursuant to Internal Revenue Code Section 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, 2012 and 2011, were \$26,837 and \$24,915, 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.

The Foundation is subject to various claims and legal actions, which arise in the ordinary course of business. In the opinion of management, in consultation with legal counsel, the ultimate resolution of such matters will not have a material adverse effect on the Foundation's financial position or results of operations.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012, 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.

J. NET ASSETS AND NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Temporarily restricted net assets totaling \$121,622 and \$36,000 at June 30, 2012 and 2011, were available for the various 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Job for Tennessee Graduates	\$ 573,359	\$ 782,610
Financial Literacy/Homebuyer's Education	52,441	45,822
PENCIL Partners	135,020	167,300
Reading Partners	121,328	140,363
Math Partners	119,782	146,505
Student Writers Showcase	-	6,680
Saint Thomas Science Scholars	5,000	5,000
Family Resource Centers	135,210	78,497
PENCIL Box	435,385	523,517
NAZA	<u>299,898</u>	<u>134,810</u>
Total restrictions released	<u>\$1,877,423</u>	<u>\$2,031,104</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.

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

L. FUND RAISING COSTS

For fiscal years ended June 30, 2012 and 2011, expenses totaling \$124,851 and \$93,489, 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 September 24, 2012, 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 SUPPORT AND REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

	(a) <u>JTG</u>	Financial <u>Literacy</u>	PENCIL <u>Partners</u>
Support and Revenue:			
Contributions and grants	\$598,359	\$ 52,441	\$135,020
In-kind contributions	-	-	-
Special events income, net	-	-	143,197
Rental income	-	-	-
Interest income	-	-	-
Total support and revenue	<u>598,359</u>	<u>52,411</u>	<u>278,217</u>
Expenses:			
Salaries and wages	380,825	38,185	174,530
Payroll taxes	28,069	2,775	11,964
Medical insurance	82,080	2,165	17,127
401(k) contribution	7,111	519	5,768
Lease expense	16,434	5,088	16,932
Insurance	5,755	-	1,657
Repairs and maintenance	1,243	286	1,287
Telephone	11,518	192	2,385
Postage	496	245	334
Purchased equipment	3,232	-	102
Office supplies	7,160	411	820
Travel	9,878	38	2,431
Donated supplies	-	-	-
Program activities	5,317	-	56
Professional development	2,060	-	99
Publications and promotions	8,707	906	3,056
Professional services	13,954	-	5,724
Copier expense	4,332	392	1,883
Internet	8,760	52	4,203
Miscellaneous	-	-	-
Total expenses	<u>596,931</u>	<u>51,254</u>	<u>250,358</u>
Net increase in net assets	<u>\$ 1,428</u>	<u>\$ 1,187</u>	<u>\$ 27,859</u>
Net Assets at July 1, 2011			
Net Assets at June 30, 2012			

<u>(a)</u> <u>Reading</u> <u>Partners</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>Family</u> <u>Resource</u> <u>Centers</u>	<u>(a)</u> <u>PENCIL</u> <u>Box</u>	<u>NAZA</u>	<u>PENCIL</u>	<u>Total</u>
\$116,328	\$94,782	\$ -	\$5,000	\$135,210	\$101,143	\$299,898	\$155,176	\$1,693,357
-	-	-	-	-	386,742	-	-	386,742
9,300	14,944	-	400	-	-	2,800	-	170,641
-	-	-	-	-	-	-	31,644	31,644
-	-	-	-	-	-	-	17,697	17,697
<u>125,628</u>	<u>109,726</u>	<u>-</u>	<u>5,400</u>	<u>135,210</u>	<u>487,885</u>	<u>302,698</u>	<u>204,517</u>	<u>2,300,081</u>
82,814	60,075	-	4,175	105,868	52,471	74,645	97,321	1,070,909
5,747	4,104	-	307	8,230	5,246	5,046	6,450	77,938
4,942	5,979	-	599	5,964	1,415	6,786	18,667	145,724
3,679	1,729	-	160	864	2,039	1,149	3,819	26,837
9,272	7,260	-	-	1,060	5,490	2,736	31,644	95,916
1,184	947	-	-	710	947	750	-	11,950
561	455	-	-	27	354	293	1,613	6,119
966	1,113	-	-	1,177	1,314	1,384	264	20,313
254	145	-	23	52	93	62	2,951	4,655
73	58	-	-	44	58	58	-	3,625
776	3,753	-	3	4,471	2,802	4,528	1,691	26,415
207	161	-	72	219	1,386	18,241	93	32,726
-	-	-	-	-	386,742	-	-	386,742
40	32	-	-	208	12,287	4,232	-	22,172
35	28	-	-	71	28	28	-	2,349
2,944	1,828	-	-	1,283	1,476	1,604	-	21,804
3,611	18,421	-	-	1,543	2,219	178,974	4,582	229,028
315	1,636	-	44	167	289	827	2,463	12,348
1,684	1,512	-	-	997	2,266	1,329	5,059	25,862
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,402</u>	<u>2,402</u>
<u>119,104</u>	<u>109,236</u>	<u>-</u>	<u>5,383</u>	<u>132,955</u>	<u>478,922</u>	<u>302,672</u>	<u>179,019</u>	<u>2,225,834</u>
<u>\$ 6,524</u>	<u>\$ 490</u>	<u>\$ -</u>	<u>\$ 17</u>	<u>\$ 2,255</u>	<u>\$ 8,963</u>	<u>\$ 26</u>	<u>\$ 25,498</u>	74,247
								<u>1,141,651</u>
								<u>\$1,215,898</u>

(a) The Foundation recognized \$52,500, \$25,000 and \$6,000 in contributions in fiscal year 2012 for the PENCIL Box, JTG, and Reading Partners, respectively, that was restricted for use in subsequent years.

See accompanying independent auditors' report.

PENCIL FOUNDATION
SCHEDULE OF SUPPORT AND REVENUE, EXPENSES AND
CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

	<u>JTG</u>	<u>Financial Literacy</u>	<u>PENCIL Partners</u>
Support and Revenue:			
Contributions and grants	\$ 782,610	\$45,822	\$ 167,300
In-kind contributions	-	-	-
Special events income, net	-	-	46,259
Rental income	-	-	-
Interest income	-	-	-
Total support and revenue	<u>782,610</u>	<u>45,822</u>	<u>213,559</u>
Expenses:			
Salaries and wages	547,668	31,734	133,947
Payroll taxes	35,183	2,148	7,763
Medical insurance	72,397	2,324	15,469
401(k) contribution	9,299	1,033	4,983
Lease expense	16,578	4,410	17,563
Insurance	6,295	-	1,632
Repairs and maintenance	3,489	180	863
Telephone	15,546	193	2,218
Postage	787	475	816
Purchased equipment	-	28	699
Office supplies	14,429	448	2,900
Travel	16,307	19	2,300
Donated supplies	-	-	-
Program activities	13,426	-	17,036
Professional development	6,525	75	140
Publications and promotions	14,429	1,121	4,797
Professional services	9,324	-	16,883
Copier expense	5,745	254	3,227
Internet	5,824	38	2,617
Miscellaneous	-	-	-
Total expenses	<u>793,251</u>	<u>44,480</u>	<u>235,853</u>
Net increase (decrease) in net assets	<u>\$(10,641)</u>	<u>\$ 1,342</u>	<u>\$(22,294)</u>
Net Assets at July 1, 2010			
Net Assets at June 30, 2011			

<u>(a)</u> <u>Reading</u> <u>Partners</u>	<u>(a)</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>Family</u> <u>Resource</u> <u>Centers</u>	<u>PENCIL</u> <u>Box</u>	<u>NAZA</u>	<u>PENCIL</u>	<u>Total</u>
\$146,363	\$146,505	\$ 6,680	\$ 5,000	\$78,497	\$ 90,973	\$134,810	\$47,002	\$1,651,562
-	-	-	-	-	432,544	-	-	432,544
-	-	-	-	-	-	-	-	46,259
-	-	-	-	-	-	-	24,036	24,036
-	-	-	-	-	-	-	20,354	20,354
<u>146,363</u>	<u>146,505</u>	<u>6,680</u>	<u>5,000</u>	<u>78,497</u>	<u>523,517</u>	<u>134,810</u>	<u>91,392</u>	<u>2,174,755</u>
102,943	61,653	7,913	4,222	57,737	61,649	54,671	52,058	1,116,195
6,526	3,949	519	281	3,798	3,863	3,544	1,314	68,888
8,055	5,292	1,527	295	3,628	1,700	3,828	2,059	116,574
3,493	2,407	364	128	855	1,243	234	876	24,915
9,044	8,138	-	-	1,544	4,136	-	-	61,413
1,088	872	-	-	653	653	-	-	11,193
643	613	-	-	115	529	-	-	6,432
1,533	1,445	-	-	1,491	1,448	958	105	24,937
494	321	-	7	72	160	38	33	3,203
-	42	-	-	-	1,398	1,331	-	3,498
1,327	10,368	113	38	4,341	10,286	3,679	2,959	50,888
98	246	6	10	202	501	1,338	-	21,027
-	-	-	-	-	432,544	-	-	432,544
-	-	1,710	-	-	8,807	-	624	41,603
-	40	-	-	12	10	-	86	6,888
3,653	1,916	-	-	2,107	2,060	66	-	30,149
3,869	22,353	-	-	976	975	63,331	3,868	121,579
484	1,047	39	5	158	269	932	600	12,760
1,099	853	-	-	638	3,293	813	2,488	17,663
-	-	-	-	-	-	-	6,177	6,177
<u>144,349</u>	<u>121,555</u>	<u>12,191</u>	<u>4,986</u>	<u>78,327</u>	<u>535,524</u>	<u>134,763</u>	<u>73,247</u>	<u>2,178,526</u>
<u>\$ 2,014</u>	<u>\$ 24,950</u>	<u>\$(5,511)</u>	<u>\$ 14</u>	<u>\$ 170</u>	<u>\$(12,007)</u>	<u>\$ 47</u>	<u>\$18,145</u>	<u>(3,771)</u>
								<u>1,145,422</u>
								<u>\$ 1,141,651</u>

(a) The Foundation recognized \$25,000 and \$6,000 in contributions in fiscal 2011 for the Math Partners and Reading Partners, respectively, that was restricted for use in subsequent years.

See accompanying independent auditors' report.