

**PENCIL FOUNDATION**

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

**JUNE 30, 2008 AND 2007**

# 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, 2008 and 2007, 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, 2008 and 2007, 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 5, 2008 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 made 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, 2008 and schedules of support and revenue, expenses and changes in net assets for the years ended June 30, 2008 and 2007 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 5, 2008

PENCIL FOUNDATION  
STATEMENTS OF FINANCIAL POSITION

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ASSETS

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$1,228,208	\$1,099,064
Contributions receivable (Note B)	65,000	10,125
Contracts and grants receivable (Note C)	65,599	32,574
Prepaid expenses and other assets	<u>14,127</u>	<u>13,357</u>
Total assets	<u>\$1,372,934</u>	<u>\$1,155,120</u>

LIABILITIES

Funds held for others (Note D)	\$ 161,303	\$ 118,699
Accounts payable and accrued expenses	<u>87,583</u>	<u>71,461</u>
Total liabilities	<u>248,886</u>	<u>190,160</u>

NET ASSETS

Unrestricted	1,059,048	954,835
Temporarily restricted	<u>65,000</u>	<u>10,125</u>
Total net assets	<u>1,124,048</u>	<u>964,960</u>
Total liabilities and net assets	<u>\$1,372,934</u>	<u>\$1,155,120</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2008 AND 2007

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	2008		
	Unrestricted	Temporarily Restricted	Total
<b>Support and revenue:</b>			
Contributions and grants	\$ 45,356	\$ 1,823,230	\$1,868,586
In-kind contributions	-	224,043	224,043
Special events income (net of related direct costs of \$28,780 and \$30,447 for 2008 and 2007, respectively)	80,519	-	80,519
Interest income	29,829	-	29,829
Net assets released from restrictions (Note J)	<u>1,992,398</u>	<u>(1,992,398)</u>	<u>-</u>
Total support and revenue	<u>2,148,102</u>	<u>54,875</u>	<u>2,202,977</u>
<b>Expenses:</b>			
Program activities expense:			
Jobs for Tennessee Graduates	672,396	-	672,396
Monroe Harding Youth Initiative	-	-	-
Jobs Skills Training and Employment	453,364	-	453,364
PENCIL Partners	229,188	-	229,188
Reading Partners	94,350	-	94,350
Math Partners	106,049	-	106,049
Student Writers Showcase	29,971	-	29,971
Saint Thomas Science Scholars	5,001	-	5,001
Choices	4,999	-	4,999
Maplewood	86,208	-	86,208
PENCIL Box	<u>315,760</u>	<u>-</u>	<u>315,760</u>
Total program activities expense	1,997,286	-	1,997,286
Administrative expenses	<u>46,603</u>	<u>-</u>	<u>46,603</u>
Total expenses	<u>2,043,889</u>	<u>-</u>	<u>2,043,889</u>
Net increase (decrease) in net assets	104,213	54,875	159,088
Net assets at beginning of year	<u>954,835</u>	<u>10,125</u>	<u>964,960</u>
Net assets at end of year	<u>\$1,059,048</u>	<u>\$ 65,000</u>	<u>\$1,124,048</u>

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2007		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 21,505	\$ 1,697,248	\$1,718,753
-	200,572	200,572
116,680	-	116,680
31,146	-	31,146
<u>1,958,195</u>	<u>(1,958,195)</u>	<u>-</u>
<u>2,127,526</u>	<u>( 60,375)</u>	<u>2,067,151</u>
650,486	-	650,486
5,902	-	5,902
465,405	-	465,405
270,469	-	270,469
128,962	-	128,962
96,119	-	96,119
30,008	-	30,008
5,084	-	5,084
7,518	-	7,518
11,774	-	11,774
<u>259,990</u>	<u>-</u>	<u>259,990</u>
1,931,717	-	1,931,717
<u>18,961</u>	<u>-</u>	<u>18,961</u>
<u>1,950,678</u>	<u>-</u>	<u>1,950,678</u>
176,848	( 60,375)	116,473
<u>777,987</u>	<u>70,500</u>	<u>848,487</u>
<u>\$ 954,835</u>	<u>\$ 10,125</u>	<u>\$ 964,960</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION  
STATEMENTS OF CASH FLOWS

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	<u>Year Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net increase in net assets	\$ 159,088	\$ 116,473
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in receivables	( 87,900)	114,529
(Increase) decrease in prepaid expense and other	( 770)	701
Increase in accounts payable and accrued expenses	<u>16,122</u>	<u>33,670</u>
Total adjustments	<u>( 72,548)</u>	<u>148,900</u>
Net cash provided by operating activities	<u>86,540</u>	<u>265,373</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in funds held for others	<u>42,604</u>	<u>54,071</u>
Net cash provided by investing activities	<u>42,604</u>	<u>54,071</u>
Increase in cash and cash equivalents	129,144	319,444
Cash and cash equivalents at beginning of year	<u>1,099,064</u>	<u>779,620</u>
Cash and cash equivalents at end of year	<u>\$ 1,228,208</u>	<u>\$1,099,064</u>

See accompanying notes to financial statements.



PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

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.

Monroe Harding Youth Initiative is a collaboration between the Foundation and Monroe Harding, Inc. to provide job skills training and placement for youth currently in foster care, those who have aged out of foster care or those who have left the educational system. PENCIL did not participate in the initiative in fiscal 2008.

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 is primarily funded on a cost reimbursement basis by the State Department of Human Services and the United Way.

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 express goal of improving children's reading ability and enjoyment. The program focuses on students in kindergarten through grade four, with a particular emphasis on readers in second grade, and supports the President's America Reads Challenge as well as 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, 2008 AND 2007

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 is funded by Caterpillar and the Tennessean/Gannett Foundation.

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 donations 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.

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, 2008 AND 2007

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, 2008 or 2007.

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, 2008 AND 2007

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.

Fair Value of Financial Instruments

The carrying value of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

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, 2008 AND 2007

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, 2008 and 2007 has been estimated to be approximately \$796,000 and \$531,000, respectively. These amounts have not been recorded in the financial statements.

B. CONTRIBUTIONS RECEIVABLE

Contributions receivable are due within one year and totaled \$65,000 and \$10,125 at June 30, 2008 and 2007, respectively. No allowance for uncollectible contributions receivable was considered necessary at June 30, 2008 or 2007.

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. At June 30, 2008 the Foundation had not recognized any portion of the conditional gift.

In 2007, the Foundation received 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 2008 for the PENCIL Box program. During 2008, 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, 2008 and 2007.

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

D. FUNDS HELD FOR OTHERS

In fiscal 2006, the Foundation entered into an agreement to serve 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 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 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, 2008 and 2007, the Foundation was serving as agent and custodian for \$161,303 and \$118,699, 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. For the year ended June 30, 2008, the activity in this account is summarized as follows:

Beginning balance - agency fund cash	\$118,699
<u>Receipts</u>	
Contribution and grants	<u>622,614</u>
Total support and revenue	<u>622,614</u>
<u>Disbursements</u>	
Salaries and wages	287,860
Payroll taxes	20,917
Benefits	2,322
Telephone	151
Postage	128
Purchased equipment	2,274
Office supplies	6,992
Travel	16,668
Program activities/committee grants	45,145
Professional development	12,652
Professional fees/memberships	56,245
Professional services	79,997
Contracted services	1,000
Copier expense	6,658
Internet	18,001
Financial services	<u>23,000</u>
Total expenses	<u>580,010</u>
Ending balance - agency fund cash	<u>\$161,303</u>

The Foundation earned administrative fees of \$23,000 and \$19,530 for providing these services in fiscal 2008 and 2007, respectively.

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

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.

F. LEASES

The Foundation leases office space and certain office equipment under non-cancelable operating leases which expire at various dates through June 2012. Lease expense for all operating leases was \$100,139 and \$98,347 for the years ended June 30, 2008 and 2007, respectively. At June 30, 2008, the aggregate future minimum rentals for all non-cancelable leases were as follows:

<u>Year Ended June 30,</u>	
2009	\$102,098
2010	104,741
2011	103,858
2012	<u>95,922</u>
	<u>\$406,619</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, 2008 and 2007 were \$32,725 and \$31,392, 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.

PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

I. CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash held by the Foundation. Cash at June 30, 2008 includes demand deposits at high credit quality financial institutions. The deposits carry credit risk to the extent they exceed federally insured limits. An accounting 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 \$65,000 and \$10,125 at June 30, 2008 and 2007 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:

	<u>2008</u>	<u>2007</u>
JTG	\$ 673,948	\$ 652,313
Monroe Harding Youth Initiative	-	6,838
J-STEP	505,369	534,069
PENCIL Partners	150,776	177,551
Reading Partners	97,124	111,705
Math Partners	107,264	102,112
Student Writers Showcase	30,000	30,000
Saint Thomas Science Scholars	5,000	5,000
Choices	5,000	5,375
Maplewood	88,056	10,537
PENCIL Box	<u>329,861</u>	<u>322,695</u>
Total restrictions released	<u>\$1,992,398</u>	<u>\$1,958,195</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, a technological support company, a telecommunications company and a public relations firm.



PENCIL FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008 AND 2007

L. FUND RAISING COSTS

For fiscal years ended June 30, 2008 and 2007, expenses totaling \$106,558 and \$113,934 respectively, were associated with fundraising and are classified in the statement of activities in the program's activities expenses.

M. SUBSEQUENT EVENT

The Foundation received an unconditional pledge contribution from a donor in the amount of \$50,000 for the Math Partners program subsequent to the year ending June 30, 2008. The amount is expected to be received over a two year period.

## **SUPPLEMENTAL INFORMATION**

PENCIL FOUNDATION  
SCHEDULE OF GRANT ACTIVITY  
YEAR ENDED JUNE 30, 2008

<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-06-17400-01
Passed through Tennessee Department of Education (3)	84.002	FA-08-21884-00
	84.002	GR-06-17400-01
<u>Workforce Investment Act of 1998</u>		
Passed through Nashville Career Advancement Center (1)	17.259	GR-01-09-037-208-98-00
<u>Job Skills Training Education Program</u>		
Tennessee Department of Human Services	N/A	GR-07-18006-00
Passed through Tennessee Department of Human Services (2)	93.558	GR-07-18006-00
Total		

(1) - United States Department of Labor grant.

(2) - United States Department of Health and Human Services grant.

(3) - 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, 2007 (Accrued) <u>Deferred</u>	<u>Receipts</u>	<u>State Expenditures</u>	<u>Federal Expenditures</u>	June 30, 2008 (Accrued) <u>Deferred</u>
07-01-07 to 06-30-08	\$283,000	\$ -	\$258,773	\$282,300	\$ -	\$(23,527)
07-01-06 to 06-30-07	283,000	<u>( 5,842)</u>	<u>5,842</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>( 5,842)</u>	<u>264,615</u>	<u>282,300</u>	<u>-</u>	<u>(23,527)</u>
07-01-07 to 06-30-08	187,500	-	172,515	-	188,200	(15,685)
07-01-06 to 06-30-07	187,500	<u>( 3,894)</u>	<u>3,894</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>( 3,894)</u>	<u>176,409</u>	<u>-</u>	<u>188,200</u>	<u>(15,685)</u>
		<u>( 9,736)</u>	<u>441,024</u>	<u>282,300</u>	<u>188,200</u>	<u>(39,212)</u>
11-04-04 to 06-03-08	396,828	<u>(10,893)</u>	<u>135,825</u>	<u>-</u>	<u>128,001</u>	<u>( 3,069)</u>
07-01-07 to 06-30-08	187,200	-	157,852	157,852	-	-
07-01-07 to 06-30-08	100,800	<u>-</u>	<u>77,748</u>	<u>-</u>	<u>77,748</u>	<u>-</u>
		<u>-</u>	<u>235,600</u>	<u>157,852</u>	<u>77,748</u>	<u>-</u>
		<u>\$(20,629)</u>	<u>\$812,449</u>	<u>\$440,152</u>	<u>\$393,949</u>	<u>\$(42,281)</u>

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>4</u>	<u>5</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>5,001</u>	<u>4,999</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>\$ ( 1)</u>	<u>\$ 1</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.

PENCIL FOUNDATION  
SCHEDULE OF SUPPORT AND REVENUE, EXPENSES AND  
CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2007

	<u>JTG</u>	Monroe Harding <u>Youth Initiative</u>	<u>J-STEP</u>	<u>PENCIL Partners</u>
SUPPORT AND REVENUE				
Contributions and grants	\$652,313	\$6,838	\$534,069	\$143,521
In-kind contributions	-	-	-	33,530
Special events income, net	-	-	-	95,148
Interest income	-	-	-	-
Total support and revenue	<u>652,313</u>	<u>6,838</u>	<u>534,069</u>	<u>272,199</u>
EXPENSES				
Salaries and wages	425,251	4,709	323,151	136,541
Payroll taxes	31,321	353	23,227	9,865
Medical insurance	45,961	537	21,569	11,599
401(k) contribution	8,048	50	9,164	5,363
Lease expense	12,376	140	37,440	10,908
Insurance	4,025	-	2,834	973
Repairs and maintenance	1,208	-	2,877	930
Telephone	12,625	65	5,841	1,566
Postage	1,663	-	2,505	1,663
Purchased equipment	592	-	1,111	1,261
Office supplies	5,694	29	3,456	2,135
Student supplies	-	-	1,003	-
Student tuition	-	-	366	-
Travel	8,059	-	251	1,381
Program activities	10,063	-	-	69,217
Professional development	3,173	-	117	-
Publications and promotions	13,246	19	6,743	4,596
Professional services	56,896	-	9,983	4,513
Copier expense	3,430	-	7,828	1,907
Internet	3,698	-	4,205	5,264
Miscellaneous	<u>3,157</u>	<u>-</u>	<u>1,734</u>	<u>787</u>
Total expenses	<u>650,486</u>	<u>5,902</u>	<u>465,405</u>	<u>270,469</u>
Net increase (decrease) in net assets	<u>\$ 1,827</u>	<u>\$ 936</u>	<u>\$ 68,664</u>	<u>\$ 1,730</u>
NET ASSETS AT JULY 1, 2006				
NET ASSETS AT JUNE 30, 2007				

<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>
\$ 111,705	\$ 77,237	\$ 30,000	\$ 5,000	\$ 5,375	\$15,537	\$110,653	\$26,505	\$1,718,753
-	-	-	-	-	-	167,042	-	200,572
9,200	10,193	-	-	2,139	-	-	-	116,680
-	-	-	-	-	-	-	<u>31,146</u>	<u>31,146</u>
<u>120,905</u>	<u>87,430</u>	<u>30,000</u>	<u>5,000</u>	<u>7,514</u>	<u>15,537</u>	<u>277,695</u>	<u>57,651</u>	<u>2,067,151</u>
86,098	65,315	15,709	3,878	1,802	10,357	41,606	10,961	1,125,378
6,214	4,893	1,218	296	137	769	3,110	839	82,242
6,346	2,825	1,345	145	47	266	5,435	-	96,075
3,284	2,398	631	118	72	203	2,062	-	31,393
9,048	8,028	1,045	132	364	-	2,144	-	81,625
768	531	-	-	-	-	-	-	9,131
693	621	59	-	-	-	-	-	6,388
1,287	865	1	-	-	24	2,090	20	24,384
788	490	290	106	26	1	650	13	8,195
72	31	10	-	-	-	-	-	3,077
1,489	1,569	160	119	32	53	6,930	553	22,219
-	-	-	-	-	-	-	-	1,003
-	-	-	-	-	-	-	-	366
355	599	20	3	-	51	1,732	36	12,487
163	151	1,003	35	-	-	190,017	1,074	271,723
-	-	-	3	-	50	266	-	3,609
5,994	3,417	763	215	372	-	1,023	-	36,388
4,016	2,253	7,351	-	4,579	-	1,199	3,000	93,790
404	1,149	233	19	70	-	1,006	678	16,724
1,534	676	86	-	-	-	466	-	15,929
<u>409</u>	<u>308</u>	<u>84</u>	<u>15</u>	<u>17</u>	<u>-</u>	<u>254</u>	<u>1,787</u>	<u>8,552</u>
<u>128,962</u>	<u>96,119</u>	<u>30,008</u>	<u>5,084</u>	<u>7,518</u>	<u>11,774</u>	<u>259,990</u>	<u>18,961</u>	<u>1,950,678</u>
<u>\$( 8,057)</u>	<u>\$( 8,689)</u>	<u>\$( 8)</u>	<u>\$( 84)</u>	<u>\$( 4)</u>	<u>\$ 3,763</u>	<u>\$ 17,705</u>	<u>\$38,690</u>	116,473
								<u>848,487</u>
								<u>\$ 964,960</u>

(a) The Foundation received \$25,000 for Math Partners that was recognized when pledged in a prior year but restricted for use in fiscal 2007.

See accompanying independent auditors' report.