

PENCIL FOUNDATION

FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

JUNE 30, 2011 AND 2010

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, 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
STATEMENTS OF FINANCIAL POSITION

ASSETS

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 689,693	\$ 652,706
Investments in certificates of deposit	560,435	546,611
Contributions receivable (Note B)	5,000	25,000
Contracts and grants receivable (Note C)	127,588	105,621
Prepaid expenses and other assets	<u>7,923</u>	<u>9,747</u>
Total assets	<u>\$1,390,639</u>	<u>\$1,339,685</u>

LIABILITIES

Funds held for others (Note D)	\$ 174,856	\$ 102,305
Accounts payable and accrued expenses	<u>74,132</u>	<u>91,958</u>
Total liabilities	<u>248,988</u>	<u>194,263</u>

NET ASSETS

Unrestricted	1,105,651	1,115,422
Temporarily restricted	<u>36,000</u>	<u>30,000</u>
Total net assets	<u>1,141,651</u>	<u>1,145,422</u>
Total liabilities and net assets	<u>\$1,390,639</u>	<u>\$1,339,685</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010

	2011		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions and grants	\$ 47,002	\$ 1,604,560	\$ 1,651,562
In-kind contributions	-	432,544	432,544
Special events income (net of related direct costs of \$31,236 and \$41,817 for 2011 and 2010, respectively)	46,259	-	46,259
Rental income (Note F)	24,036	-	24,036
Interest income	20,354	-	20,354
Net assets released from restrictions (Note J)	<u>2,031,104</u>	<u>(2,031,104)</u>	<u>-</u>
Total support and revenue	<u>2,168,755</u>	<u>6,000</u>	<u>2,174,755</u>
Expenses:			
Program activities expense:			
Jobs for Tennessee Graduates	793,251	-	793,251
Financial Literacy/Homebuyer's Education	44,480	-	44,480
PENCIL Partners	235,853	-	235,853
Reading Partners	144,349	-	144,349
Math Partners	121,555	-	121,555
Student Writers Showcase	12,191	-	12,191
Saint Thomas Science Scholars	4,986	-	4,986
Maplewood	78,327	-	78,327
PENCIL Box	535,524	-	535,524
NAZA	<u>134,763</u>	<u>-</u>	<u>134,763</u>
Total program activities expense	2,105,279	-	2,105,279
Administrative expenses	<u>73,247</u>	<u>-</u>	<u>73,247</u>
Total expenses	<u>2,178,526</u>	<u>-</u>	<u>2,178,526</u>
Net increase (decrease) in net assets	(9,771)	6,000	(3,771)
Net assets at beginning of year	<u>1,115,422</u>	<u>30,000</u>	<u>1,145,422</u>
Net assets at end of year	<u>\$1,105,651</u>	<u>\$ 36,000</u>	<u>\$ 1,141,651</u>

2010		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 74,376	\$ 1,460,111	\$1,534,487
-	222,908	222,908
113,681	-	113,681
13,316	-	13,316
20,858	-	20,858
<u>1,678,269</u>	<u>(1,678,269)</u>	<u>-</u>
<u>1,900,500</u>	<u>4,750</u>	<u>1,905,250</u>
821,262	-	821,262
59,369	-	59,369
227,253	-	227,253
125,224	-	125,224
87,829	-	87,829
15,064	-	15,064
5,027	-	5,027
80,735	-	80,735
321,418	-	321,418
-	-	-
<u>1,743,181</u>	<u>-</u>	<u>1,743,181</u>
<u>75,507</u>	<u>-</u>	<u>75,507</u>
<u>1,818,688</u>	<u>-</u>	<u>1,818,688</u>
81,812	4,750	86,562
<u>1,033,610</u>	<u>25,250</u>	<u>1,058,860</u>
<u>\$1,115,422</u>	<u>\$ 30,000</u>	<u>\$1,145,422</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION
STATEMENTS OF CASH FLOWS

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (decrease) increase in net assets	\$(3,771)	\$ 86,562
Adjustments to reconcile net (decrease) increase in net assets to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in receivables	(1,967)	71,655
Decrease in prepaid expense and other	1,824	8,354
Increase in funds held for others	72,551	3,646
Decrease in accounts payable and accrued expenses	<u>(17,826)</u>	<u>(54,030)</u>
Total adjustments	<u>54,582</u>	<u>29,625</u>
Net cash provided by operating activities	<u>50,811</u>	<u>116,187</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	<u>(13,824)</u>	<u>(59,418)</u>
Net cash used in investing activities	<u>(13,824)</u>	<u>(59,418)</u>
Increase in cash and cash equivalents	36,987	56,769
Cash and cash equivalents at beginning of year	<u>652,706</u>	<u>595,937</u>
Cash and cash equivalents at end of year	<u>\$ 689,693</u>	<u>\$ 652,706</u>

See accompanying notes to financial statements.

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

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, Education First Funds 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, 2011 AND 2010

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 and the Nashville Alliance for Public Education on behalf of One Nashville.

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 Nashville Government, Metro 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 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, 2011 AND 2010

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 Glenclyff 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, 2011 or 2010.

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

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 2012 to 2016. These certificates of deposits have an average yield of 3.89% as of June 30, 2011.

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, 2011 AND 2010

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, 2011 and 2010 has been estimated to be approximately \$2,100,000 and \$2,000,000, respectively. These amounts have not been recorded in the accompanying financial statements.

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

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 \$5,000 and \$25,000 at June 30, 2011 and 2010, respectively. No allowance for uncollectible contributions receivable was considered necessary at June 30, 2011 or 2010.

In 2011, the Foundation received donor notification of a conditional promise to give in the amount of \$30,000. The funds are 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. At June 30, 2011, the Foundation had not recognized any portion of the conditional gift.

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.

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

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 2010, the Foundation entered into a sublease agreement with other nonprofit organization for 12 month periods for office space resulting in \$24,036 and \$13,316 of rental income for the years ended June 30, 2011 and 2010, respectively. Lease expense for all operating leases was \$82,927 and \$95,404 for the years ended June 30, 2011 and 2010, respectively. At June 30, 2011, the aggregate future minimum rentals for all non-cancelable leases were as follows:

<u>Year Ended June 30,</u>	
2012	\$ 97,926
2013	2,004
2014	<u>2,505</u>
	<u>\$102,435</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, 2011 and 2010 were \$24,915 and \$29,816, 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 can be subject to various claims and legal actions, which arise in the ordinary course of business. In the opinion of management, 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, 2011 AND 2010

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, 2011 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 \$36,000 and \$30,000 at June 30, 2011 and 2010 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Job for Tennessee Graduates	\$ 782,610	\$ 819,311
Financial Literacy/Homebuyer's Education	45,822	45,147
PENCIL Partners	167,300	172,344
Reading Partners	140,363	138,113
Math Partners	146,505	66,976
Student Writers Showcase	6,680	15,000
Saint Thomas Science Scholars	5,000	5,000
Maplewood	78,497	80,752
PENCIL Box	523,517	335,626
NAZA	<u>134,810</u>	<u>-</u>
Total restrictions released	<u>\$2,031,104</u>	<u>\$1,678,269</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, 2011 AND 2010

L. FUND RAISING COSTS

For fiscal years ended June 30, 2011 and 2010, expenses totaling \$93,489 and \$109,233, 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 9, 2011, 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, 2011

<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-10-27245-00
	N/A	GR-11-31315-00
Passed through Tennessee Department of Education (2)	17.259	GR-10-27245-00
	17.259	GR-11-31315-00
<u>Workforce Investment Act of 1998</u>		
Passed through Nashville Career Advancement Center (1)	17.259	18519
Passed through Nashville Career Advancement Center (1)	17.259	18519
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, 2010 (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, 2011 (Accrued) <u>Deferred</u>
07-01-09 to 06-30-10	\$253,000	\$(19,306)	\$ 19,306	\$ -	\$ -	\$ -
07-01-10 to 06-30-11	205,500	<u>-</u>	<u>177,680</u>	<u>205,500</u>	<u>-</u>	<u>(27,820)</u>
		<u>(19,306)</u>	<u>196,986</u>	<u>205,500</u>	<u>-</u>	<u>(27,820)</u>
07-01-09 to 06-30-10	157,500	(11,832)	11,832	-	-	-
07-01-10 to 06-30-11	195,000	<u>-</u>	<u>169,320</u>	<u>-</u>	<u>195,000</u>	<u>(25,680)</u>
		<u>(11,832)</u>	<u>181,152</u>	<u>-</u>	<u>195,000</u>	<u>(25,680)</u>
		<u>(31,138)</u>	<u>378,138</u>	<u>205,500</u>	<u>195,000</u>	<u>(53,500)</u>
07-01-09 to 06-30-10	134,787	(17,171)	17,171	-	-	-
07-01-10 to 06-30-11	140,276	<u>-</u>	<u>124,922</u>	<u>-</u>	<u>136,600</u>	<u>(11,678)</u>
		<u>(17,171)</u>	<u>142,093</u>	<u>-</u>	<u>136,600</u>	<u>(11,678)</u>
		<u>\$(48,309)</u>	<u>\$520,231</u>	<u>\$205,500</u>	<u>\$331,600</u>	<u>\$(65,178)</u>

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>Maplewood</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
-	-	-	-	-	-	-	<u>20,354</u>	<u>20,354</u>
<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
-	-	-	-	-	-	-	<u>6,177</u>	<u>6,177</u>
<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.

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>	86,562
							<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, 2011, the Foundation received \$25,000 to be used in fiscal 2011.

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, 2011, and have issued our report thereon dated September 9, 2011. 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
September 9, 2011