

PENCIL FOUNDATION
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2019 AND 2018

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JUNE 30, 2019 AND 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
PENCIL Foundation
Nashville, Tennessee

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of PENCIL Foundation ("PENCIL"), a Tennessee not-for-profit corporation, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Knight CPAs PLLC

Nashville, Tennessee
October 28, 2019

PENCIL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 256,662	\$ 140,000
Contributions, grants and other receivables	200,514	311,955
Inventory	383,076	399,858
Prepaid expenses and other assets	28,017	39,802
Investments	665,739	621,449
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	60,715	57,627
Property and equipment, net	<u>180,724</u>	<u>234,263</u>
 TOTAL ASSETS	 <u>\$ 1,775,447</u>	 <u>\$ 1,804,954</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Line of credit	\$ -	\$ 39,824
Accounts payable	31,465	8,191
Payroll liabilities	66,069	51,422
Other liabilities	<u>3,840</u>	<u>14,783</u>
 TOTAL LIABILITIES	 <u>101,374</u>	 <u>114,220</u>
 <u>NET ASSETS</u>		
Without donor restrictions:		
Board-designated	851,618	207,578
Undesignated	<u>553,624</u>	<u>1,180,036</u>
Total without donor restrictions	1,405,242	1,387,614
With donor restrictions	<u>268,831</u>	<u>303,120</u>
 TOTAL NET ASSETS	 <u>1,674,073</u>	 <u>1,690,734</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,775,447</u>	 <u>\$ 1,804,954</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
Government grants and contracts	\$ 302,670	\$ -	\$ 302,670
Corporate and foundation contributions	285,054	231,375	516,429
Individual contributions	237,912	2,333	240,245
United Way and other grants	209,635	-	209,635
In-kind contributions	1,543,567	-	1,543,567
Special events	345,603	7,200	352,803
Consulting services	84,732	-	84,732
Other revenue	882	-	882
Investment income	32,072	-	32,072
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	2,988	-	2,988
Net assets released from restrictions	<u>275,197</u>	<u>(275,197)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>3,320,312</u>	<u>(34,289)</u>	<u>3,286,023</u>
EXPENSES			
Program services	2,853,880	-	2,853,880
Supporting services:			
Management and general	78,701	-	78,701
Fundraising	<u>370,103</u>	<u>-</u>	<u>370,103</u>
TOTAL EXPENSES	<u>3,302,684</u>	<u>-</u>	<u>3,302,684</u>
CHANGE IN NET ASSETS	17,628	(34,289)	(16,661)
NET ASSETS - BEGINNING OF YEAR	<u>1,387,614</u>	<u>303,120</u>	<u>1,690,734</u>
NET ASSETS - END OF YEAR	<u>\$ 1,405,242</u>	<u>\$ 268,831</u>	<u>\$ 1,674,073</u>

See accompanying notes to financial statements.

2018

<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
\$ 296,896	\$ -	\$ 296,896
349,098	246,494	595,592
205,882	-	205,882
210,000	-	210,000
1,766,976	-	1,766,976
276,176	-	276,176
45,412	-	45,412
1,272	-	1,272
7,961	-	7,961
3,724	-	3,724
<u>215,108</u>	<u>(215,108)</u>	<u>-</u>
<u>3,378,505</u>	<u>31,386</u>	<u>3,409,891</u>
2,549,818	-	2,549,818
67,902	-	67,902
<u>288,881</u>	<u>-</u>	<u>288,881</u>
<u>2,906,601</u>	<u>-</u>	<u>2,906,601</u>
471,904	31,386	503,290
<u>915,710</u>	<u>271,734</u>	<u>1,187,444</u>
<u>\$ 1,387,614</u>	<u>\$ 303,120</u>	<u>\$ 1,690,734</u>

PENCIL FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019				
	Program Services	Supporting Services		Total Supporting Services	Total
		Management and General	Fundraising		
Personnel	\$ 961,392	\$ 50,820	\$ 173,994	\$ 224,814	\$ 1,186,206
Equipment	46,188	1,804	2,587	4,391	50,579
Depreciation	46,579	2,677	4,283	6,960	53,539
Travel	32,842	1,528	3,528	5,056	37,898
Professional services	114,933	5,583	18,036	23,619	138,552
Professional services - donated	-	-	-	-	-
Program expenses	64,295	105	532	637	64,932
Grant to Metro Nashville Public Schools	15,528	-	-	-	15,528
Supplies	1,332	204	24	228	1,560
Supplies - donated	1,422,673	-	-	-	1,422,673
Facility expenses	16,666	7,015	12,627	19,642	36,308
Communications	39,644	1,355	8,388	9,743	49,387
Commercial insurance	11,775	685	1,232	1,917	13,692
Staff development and community events	15,780	380	2,266	2,646	18,426
Donor cultivation	444	-	4,123	4,123	4,567
Events	178	-	62,752	62,752	62,930
Events - donated	-	-	61,277	61,277	61,277
Fees & bank charges	860	2,945	8,694	11,639	12,499
Miscellaneous	131	-	-	-	131
Occupancy - donated	62,640	3,600	5,760	9,360	72,000
TOTAL EXPENSES	<u>\$ 2,853,880</u>	<u>\$ 78,701</u>	<u>\$ 370,103</u>	<u>\$ 448,804</u>	<u>\$ 3,302,684</u>

See accompanying notes to financial statements.

2018

Program Services	Supporting Services		Total Supporting Services	Total
	Management and General	Fundraising		
\$ 858,229	\$ 38,100	\$ 156,969	\$ 195,069	\$ 1,053,298
37,363	1,713	3,260	4,973	42,336
41,448	-	-	-	41,448
20,920	289	777	1,066	21,986
119,811	16,781	14,538	31,319	151,130
1,236	-	-	-	1,236
21,304	270	980	1,250	22,554
66,357	-	-	-	66,357
2,678	109	149	258	2,936
1,109,144	-	-	-	1,109,144
8,868	3,395	6,111	9,506	18,374
44,835	795	8,459	9,254	54,089
11,097	678	1,301	1,979	13,076
11,051	623	1,542	2,165	13,216
-	55	3,199	3,254	3,254
1,783	6	35,752	35,758	37,541
-	-	52,338	52,338	52,338
334	4,926	3,506	8,432	8,766
1,030	162	-	162	1,192
192,330	-	-	-	192,330
<u>\$ 2,549,818</u>	<u>\$ 67,902</u>	<u>\$ 288,881</u>	<u>\$ 356,783</u>	<u>\$ 2,906,601</u>

PENCIL FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (16,661)	\$ 503,290
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	53,539	41,448
Net realized and unrealized (gains) losses on investments	(10,586)	5,391
Contributions made to agency endowment fund	(100)	-
Change in value of beneficial interest in agency endowment fund	(2,988)	(3,724)
(Increase) decrease in:		
Contributions, grants and other receivables	111,441	12,918
Prepaid expenses and other assets	11,785	(24,813)
Inventory	16,782	(399,858)
Increase (decrease) in:		
Accounts payable	23,274	(17,764)
Payroll liabilities	14,647	(50,232)
Other liabilities	(10,943)	(16,812)
TOTAL ADJUSTMENTS	<u>206,851</u>	<u>(453,446)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>190,190</u>	<u>49,844</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(241,111)
Proceeds from sale or maturity of investments	365,727	243,265
Purchases of investments	(399,431)	(592,878)
NET CASH USED IN INVESTING ACTIVITIES	<u>(33,704)</u>	<u>(590,724)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(39,824)	39,824
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(39,824)</u>	<u>39,824</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	116,662	(501,056)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>140,000</u>	<u>641,056</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 256,662</u>	<u>\$ 140,000</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

NOTE 1 - GENERAL

PENCIL Foundation (“PENCIL”) is a not-for-profit organization formed in 1982 to link community resources to Nashville public schools to help young people achieve academic success and prepare for life.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of PENCIL have been prepared in accordance with generally accepted accounting principles (“GAAP”), which require PENCIL to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of PENCIL’s management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of PENCIL or by the passage of time. There are currently no donor restrictions that are perpetual in nature.

PENCIL reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Support and Revenue

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions.

PENCIL receives grant revenue from various state and local agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grant. Grants received in advance of the expenditure are recorded as deferred revenue.

Contract revenue is recognized when services are rendered and/or reimbursable charges are incurred under the terms of the contract. Contract revenue received in advance of services provided and/or reimbursable charges being incurred are recorded as deferred revenue.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Support and Revenue (Continued)

PENCIL reports gifts of equipment, materials, or facilities (in-kind contributions) at their fair value in the period received as support without donor restrictions unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as support with donor restrictions. Expirations of donor restrictions are recognized when the donated or acquired long - lived assets are placed in service.

Donated Services

Donated services are recognized if they create or enhance non-financial assets, or the donated service requires specialized skills, were performed by a donor who possesses such skills, and would have been purchased by PENCIL if not donated. Such services are recognized at fair value as support and expense in the period the services are performed.

A substantial number of unpaid volunteers have made contributions of their time to serve as tutors, mentors, teacher supply store volunteers and in other capacities in order to serve Nashville public school students. The total value of time contributed by these volunteers for the year ended June 30, 2019 has been estimated to be approximately \$2,557,000. This amount has not been recorded in the accompanying financial statements.

Other individuals volunteer their time and perform a variety of tasks that assist PENCIL with program services and fundraising events. No amounts have been reflected in the financial statements for volunteer time since these donated services do not meet the criteria for recognition under GAAP.

Cash and Cash Equivalents

PENCIL considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Management considered this amount to be immaterial, and it was not recorded. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible. In management's opinion, no allowance for uncollectible contributions was necessary as of June 30, 2019 and 2018.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory consists of donated school supplies received primarily from school supply drives and supply distributors. Inventory is recorded at its estimated fair value at the time the goods are received from the donor. Provision is made to reduce any excess, obsolete or slow-moving inventory to net realizable value.

Investments

Investments consist of money market funds, certificates of deposit, bonds, mutual funds, equities and exchange traded funds. Money market funds and certificates of deposit are carried at cash value plus accrued interest. Bonds, mutual funds, equities and exchange traded funds are carried at their quoted market value on the last business day of the reporting period. Interest and dividends, as well as changes in unrealized gains and losses are recognized currently in the statement of activities.

PENCIL has invested in certificates of deposit with a financial institution with maturities ranging from fiscal year 2019 to 2023. These certificates of deposits have an average yield of 2.54% as of June 30, 2019 (3.30% as of June 30, 2018).

Agency Endowment Fund

PENCIL's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee ("CFMT") is recognized as an asset. Investment income and changes in the value of the fund are recognized in the statement of activities, and distributions received from the fund are recorded as increases (decreases) in the beneficial interest.

Property and Equipment

Property and equipment are recorded at cost at the date of purchase, or at estimated fair value at the date of gift. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets, except for leasehold improvements, which are depreciated over the shorter of their estimated useful lives or the expected lease term.

Fair Value Measurements

PENCIL classifies its assets based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

Investments - Mutual funds, equities and exchange traded funds are classified within Level 1 where quoted market prices are available in an active market for identical assets. If quoted market prices are unavailable, fair value is estimated using quoted market prices of investments with similar characteristics, and the investments are classified within Level 2.

Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee - The agency endowment fund held at the CFMT represents PENCIL's interest in pooled investments with other participants in the funds. The CFMT prepares a valuation of the fund based on the fair value of the underlying investments using quoted market prices and allocates income or loss to each participant based on market results. PENCIL reflects this asset within Level 2 of the valuation hierarchy.

There have been no changes in the valuation methodologies used at June 30, 2019 or 2018.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while PENCIL believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Income Taxes

PENCIL qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing PENCIL's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying financial statements.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program Services

PENCIL Partners and PENCIL Academy Partners are businesses and organizations committed to student success through organized, coordinated activities that match the unique attributes of each Partner with the specific needs of each school or academy. Schools turn to us and our wide network of business contacts to help them find Partners that are a good match for their school. Businesses and organizations turn to us and our comprehensive knowledge of Nashville Public Schools when they want to connect with a school where they can help students. PENCIL also serves as the coordinator of these ongoing Partnership relationships. We facilitate communication, provide activity ideas, advise on volunteer management and help the school and Partner develop a year-long strategic plan. In addition, PENCIL hosts the PENCILMeIn.org website where schools, Partners and individuals log their volunteer hours and in-kind gifts.

PENCIL's Family Resource Centers (FRCs) act as a hub for community resources, helping families navigate outside agencies that can assist with social, emotional and physical needs. FRCs stock emergency food/clothing and develop services tailored to their school population, such as GED and English-language classes, parenting classes, eye exams and glasses, individual counseling and student leadership groups.

The LP PENCIL Box makes sure students have the school supplies necessary for success in the classroom - and that teachers do not have to spend their own money to buy those supplies. Through generous donations from businesses, organizations and individuals, the Box is stocked with school supplies such as pencils, pens, notebooks, crayons, scissors, reading books, backpacks and much more. Every Metro teacher can make four shopping trips per school year for free supplies.

Supporting Services

Management and General relates to the overall direction of PENCIL. These expenses are not identifiable with a particular program or event, or with fundraising, but are indispensable to the conduct of those activities and are essential to PENCIL. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising includes costs of activities directed toward appeals for financial support, including special events. Other activities include the creation and distribution of fundraising materials.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Functional Expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses presents the natural classification detail of expenses by function. Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include personnel, equipment, travel, professional services, supplies, facility expenses, communications, commercial insurance, staff development, donor cultivation, event expenses, fees and bank charges which are allocated on the basis of estimates of time and effort.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Additionally, ASU 2016-14 requires all not-for-profit organizations to present expenses by their natural and functional expense classifications. The ASU is effective for PENCIL in 2019, and accordingly, PENCIL has adjusted the presentation of these financial statements. The ASU has been applied retrospectively to all periods presented.

Recent Authoritative Accounting Guidance

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. PENCIL has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019. PENCIL is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. As PENCIL is a resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, including interim periods. PENCIL is currently evaluating the impact of the adoption of this guidance on its financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019. PENCIL is currently evaluating the impact of this new standard on its financial statements.

Reclassifications

Certain reclassifications have been made in the 2018 financial statements to conform to the 2019 presentation. These reclassifications had no effect on the results of operations previously reported.

Events Occurring After Reporting Date

PENCIL has evaluated events and transactions that occurred between June 30, 2019 and October 28, 2019, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 3 - LIQUIDITY AND AVAILABILITY

The following reflects PENCIL's financial assets at June 30, 2019, reduced by amounts not available for general use within one year of the statement of financial position date because of donor-imposed restrictions. Amounts not available include amounts set aside by the Board of Directors that could be drawn upon if the governing board approves that action.

Financial assets at year end:

Cash and cash equivalents	\$ 256,662
Contributions, grants and other receivables	200,514
Investments	<u>665,739</u>
Total financial assets	<u>1,122,915</u>

Less amounts not available to be used within one year:

Net assets with donor restrictions - capacity campaign	19,410
Board designations	<u>851,618</u>
	<u>871,028</u>

Financial assets available to meet general expenditures
over the next twelve months

\$ 251,887

In addition, PENCIL has a \$100,000 line of credit available to meet cash flow needs.

NOTE 4 - CONTRIBUTIONS, GRANTS AND OTHER RECEIVABLES

Contributions, grants and other receivables consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Contributions receivable	\$ 49,260	\$ 132,500
Grants receivable	138,125	162,500
Other receivables	<u>13,129</u>	<u>16,955</u>
	<u>\$ 200,514</u>	<u>\$ 311,955</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 4 - CONTRIBUTIONS, GRANTS AND OTHER RECEIVABLES (CONTINUED)

Contributions receivable were due as follows at June 30:

	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 49,260	\$ 118,500
One to five years	<u>-</u>	<u>14,000</u>
	<u>\$ 49,260</u>	<u>\$ 132,500</u>

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 70,000	\$ 28,000
Certificates of deposit	45,197	213,989
Bonds	82,470	-
Mutual funds	97,390	143,343
Equities	23,635	27,274
Exchange traded funds	<u>347,047</u>	<u>208,843</u>
	<u>\$ 665,739</u>	<u>\$ 621,449</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Vehicle	\$ 35,532	\$ 35,532
Leasehold improvements	<u>241,112</u>	<u>241,112</u>
	276,644	276,644
Less: Accumulated depreciation	<u>(95,920)</u>	<u>(42,381)</u>
	<u>\$ 180,724</u>	<u>\$ 234,263</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 7 - AGENCY ENDOWMENT FUND

PENCIL established and holds a beneficial interest in an agency endowment fund held by CFMT. PENCIL has granted variance power to CFMT and CFMT has the ultimate authority and control over the Fund and the income derived therefrom. The Fund is charged a .4% administrative fee by CFMT annually. Upon request by PENCIL, income may be distributed to PENCIL annually.

A schedule of changes in PENCIL's beneficial interest in this fund for the years ended June 30, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 57,627	\$ 53,903
Contributions to the fund	100	-
Change in value of beneficial interest in agency endowment fund:		
Investment income - net	3,358	4,093
Administrative expenses	<u>(370)</u>	<u>(369)</u>
	<u>2,988</u>	<u>3,724</u>
Ending balance	<u>\$ 60,715</u>	<u>\$ 57,627</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 8 - FAIR VALUE MEASUREMENTS

The following table summarizes financial assets measured at fair value on a recurring basis, segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of June 30:

<u>2019</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Value</u>
<u>Investments:</u>				
Bonds	\$ -	\$ 82,470	\$ -	\$ 82,470
Mutual Funds:				
High Yield Bond	5,779	-	-	5,779
Emerging Markets Bond	11,439	-	-	11,439
Market Neutral	11,803	-	-	11,803
Foreign Large Blend	14,360	-	-	14,360
Foreign Large Value	4,343	-	-	4,343
Multialternative	17,800	-	-	17,800
Foreign Stock	15,885	-	-	15,885
Mid-Cap Growth	15,981	-	-	15,981
	<u>97,390</u>	<u>-</u>	<u>-</u>	<u>97,390</u>
Equities:				
Communication Services	17,194	-	-	17,194
Utilities	6,441	-	-	6,441
	<u>23,635</u>	<u>-</u>	<u>-</u>	<u>23,635</u>
Exchange Traded Funds:				
Commodities Broad Basket	5,320	-	-	5,320
Foreign Large Blend	34,376	-	-	34,376
Diversified Emerging Markets	14,288	-	-	14,288
Ultrashort Bond	10,066	-	-	10,066
Financial	5,520	-	-	5,520
Large Growth	107,213	-	-	107,213
Large Value	108,789	-	-	108,789
Mid-Cap Blend	19,223	-	-	19,223
Real Estate	3,059	-	-	3,059
Energy Limited Partnership	5,910	-	-	5,910
Short Government Fund	15,093	-	-	15,093
Small Blend Fund	11,663	-	-	11,663
Small Value	6,527	-	-	6,527
	<u>347,047</u>	<u>-</u>	<u>-</u>	<u>347,047</u>
Total Investments	<u>\$ 468,072</u>	<u>\$ 82,470</u>	<u>\$ -</u>	<u>\$ 550,542</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 60,715</u>	<u>\$ -</u>	<u>\$ 60,715</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 8 - FAIR VALUE MEASUREMENTS (CONTINUED)

2018	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Value
<u>Investments:</u>				
<u>Mutual Funds:</u>				
High Yield Bond	\$ 5,703	\$ -	\$ -	\$ 5,703
Emerging Markets Bond	10,945	-	-	10,945
Convertible Bond	3,411	-	-	3,411
Multicurrency	12,308	-	-	12,308
Bank Loan	10,753	-	-	10,753
Market Neutral	11,947	-	-	11,947
Foreign Large Blend	14,261	-	-	14,261
Allocation - 50-70% Equity	14,043	-	-	14,043
Foreign Large Value	4,971	-	-	4,971
Multialternative	17,113	-	-	17,113
Engergy Limited Partnership	4,535	-	-	4,535
Foreign Stock	13,895	-	-	13,895
World Allocation	6,313	-	-	6,313
Diversified Emerging Market	4,107	-	-	4,107
Mid-Cap Growth	9,038	-	-	9,038
	<u>143,343</u>	<u>-</u>	<u>-</u>	<u>143,343</u>
<u>Equities:</u>				
Communication Services	11,908	-	-	11,908
Utilities	11,720	-	-	11,720
Basic Materials	3,646	-	-	3,646
	<u>27,274</u>	<u>-</u>	<u>-</u>	<u>27,274</u>
<u>Exchange Traded Funds:</u>				
Commodities Broad Basket	6,000	-	-	6,000
Foreign Large Blend	61,052	-	-	61,052
Diversified Emerging Markets	18,684	-	-	18,684
Ultrashort Bond	25,085	-	-	25,085
Financial	5,318	-	-	5,318
Large Growth	41,198	-	-	41,198
Large Value	37,378	-	-	37,378
Mid-Cap Blend	7,882	-	-	7,882
Real Estate	2,851	-	-	2,851
Small Value	3,395	-	-	3,395
	<u>208,843</u>	<u>-</u>	<u>-</u>	<u>208,843</u>
Total Investments	<u>\$ 379,460</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 379,460</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 8 - FAIR VALUE MEASUREMENTS (CONTINUED)

<u>2018</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Value</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 57,627</u>	<u>\$ -</u>	<u>\$ 57,627</u>

NOTE 9 - LINE OF CREDIT

PENCIL has a \$100,000 revolving line of credit maturing in December 2019. Interest is payable monthly at a variable rate of Prime + 1.00% (6.5% at June 30, 2019), with the outstanding principal balance payable at maturity. The line is secured by PENCIL's investments. As of June 30, 2019 and 2018, there was an outstanding balance of \$0 and \$39,824, respectively under this line of credit.

NOTE 10 - LEASES

PENCIL leases certain office equipment under non-cancelable operating leases which expire at various dates through August 2021. During 2016, PENCIL entered into a new office equipment lease for which the lessor advanced PENCIL funds to offset future payments required under an existing lease agreement for similar equipment. The funds received from the lessor are recorded as a liability on PENCIL's books which will be reduced as payments are made over the remainder of the original lease term. The remaining liability as of June 30, 2019 was \$3,840 (\$14,783 as of June 30, 2018).

During fiscal year 2018, PENCIL received rent-free office space from Metropolitan Nashville Public Schools ("MNPS"). The estimated fair market value of the space monthly was \$1,170 and is recorded as an in-kind contribution. PENCIL also received rent-free space from MNPS for a free teacher supply store (LP PENCIL Box). The estimated fair market value of the space was \$14,200 per month and was recorded as an in-kind contribution. PENCIL terminated both these agreements in April 2018 and began utilizing a different rent-free office and warehouse space that PENCIL had been renovating since October 2017. The lease renews annually unless either party provides written notice to terminate the agreement. The estimated fair market value of the space is \$6,000 per month and is recorded as an in-kind contribution.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 10 - LEASES (CONTINUED)

Lease expense paid for all operating leases was \$11,832 for the year ended June 30, 2019 (\$11,832 for the year ended June 30, 2018).

A summary of future minimum lease payments for equipment, net of amounts received from lessor to offset future required payments, as of June 30, 2019 follows:

Year ending June 30,

2020	\$ 11,832
2021	11,832
2022	<u>1,972</u>
	<u>\$ 25,636</u>

NOTE 11 - NET ASSETS

Board-designated net assets consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Education of future healthcare providers	\$ 44,990	\$ 60,518
Reserve fund	670,913	89,433
Beneficial interest in agency endowment fund	60,715	57,627
Capacity campaign	<u>75,000</u>	<u>-</u>
	<u>\$ 851,618</u>	<u>\$ 207,578</u>

Net assets with donor restrictions consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Future year partnerships	\$ 168,907	\$ 159,126
LP PENCIL Box	65,000	60,000
Capacity campaign	19,410	62,787
Back to School Breakfast	7,000	12,000
Eyecare	<u>8,514</u>	<u>9,207</u>
	<u>\$ 268,831</u>	<u>\$ 303,120</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2019 AND 2018

NOTE 12 - RETIREMENT PLAN

PENCIL sponsors a Section 401(k) defined contribution plan for the benefit of eligible employees. The plan provides for PENCIL to make a matching contribution for each employee deferral contribution, subject to limitations. Total contributions by PENCIL to the plan amounted to \$14,977 in 2019 (\$12,609 in 2018).

NOTE 13 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject PENCIL to concentrations of credit risk consist principally of cash and cash equivalents, and various contributions, grants, contracts and related receivables. PENCIL maintains cash and cash equivalents and investments in certificates of deposit at reputable financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. PENCIL's balances may, at times, exceed statutory limits. PENCIL has not experienced any losses in these accounts and management considers this to be a normal business risk.

There were no contribution concentrations for the year ended June 30, 2019. Contributions received from two sources totaled approximately \$217,000, or 25%, of total contribution revenue received for the year ended June 30, 2018.

NOTE 14 - RELATED PARTIES

PENCIL has certain members of its board of directors who are employed by or have financial interests in entities which engage in business transactions with PENCIL. These entities include a financial institution, higher education institutions, a communications company, an entertainment facility, an insurance broker, and a construction aggregate company from which PENCIL receives free rent (see Note 10 for lease details).