

PENCIL FOUNDATION
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2020 AND 2019

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JUNE 30, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

Kraft CPAs PLLC

Nashville, Tennessee
October 22, 2020

PENCIL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 392,372	\$ 256,662
Contributions, grants and other receivables	295,547	200,514
Inventory	440,263	383,076
Prepaid expenses and other assets	69,044	28,017
Investments	652,056	665,739
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	59,344	60,715
Property and equipment, net	<u>127,186</u>	<u>180,724</u>
TOTAL ASSETS	<u>\$ 2,035,812</u>	<u>\$ 1,775,447</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Paycheck Protection Program loan	\$ 222,915	\$ -
Accounts payable	17,341	31,465
Payroll liabilities	90,333	66,069
Other liabilities	<u>-</u>	<u>3,840</u>
TOTAL LIABILITIES	<u>330,589</u>	<u>101,374</u>
<u>NET ASSETS</u>		
Without donor restrictions:		
Board-designated	823,670	851,618
Undesignated	<u>509,402</u>	<u>553,624</u>
Total without donor restrictions	1,333,072	1,405,242
With donor restrictions	<u>372,151</u>	<u>268,831</u>
TOTAL NET ASSETS	<u>1,705,223</u>	<u>1,674,073</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,035,812</u>	<u>\$ 1,775,447</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
Government grants and contracts	\$ 350,999	\$ -	\$ 350,999
Corporate and foundation contributions	291,512	354,298	645,810
Individual contributions	246,784	1,433	248,217
United Way and other grants	89,745	-	89,745
In-kind contributions	2,038,287	-	2,038,287
Special events	265,770	8,500	274,270
Consulting and fiscal services	47,815	-	47,815
Other revenue	6,138	-	6,138
Investment income	19,117	-	19,117
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	1,605	-	1,605
Net assets released from restrictions	<u>260,911</u>	<u>(260,911)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>3,618,683</u>	<u>103,320</u>	<u>3,722,003</u>
EXPENSES			
Program services	3,243,647	-	3,243,647
Supporting services:			
Management and general	93,432	-	93,432
Fundraising	<u>353,774</u>	<u>-</u>	<u>353,774</u>
TOTAL EXPENSES	<u>3,690,853</u>	<u>-</u>	<u>3,690,853</u>
CHANGE IN NET ASSETS	(72,170)	103,320	31,150
NET ASSETS - BEGINNING OF YEAR	<u>1,405,242</u>	<u>268,831</u>	<u>1,674,073</u>
NET ASSETS - END OF YEAR	<u>\$ 1,333,072</u>	<u>\$ 372,151</u>	<u>\$ 1,705,223</u>

See accompanying notes to financial statements.

2019

<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
\$ 302,670	\$ -	\$ 302,670
285,054	231,375	516,429
237,912	2,333	240,245
209,635	-	209,635
1,543,567	-	1,543,567
345,603	7,200	352,803
84,732	-	84,732
882	-	882
32,072	-	32,072
2,988	-	2,988
<u>275,197</u>	<u>(275,197)</u>	<u>-</u>
<u>3,320,312</u>	<u>(34,289)</u>	<u>3,286,023</u>
2,852,215	-	2,852,215
78,521	-	78,521
<u>371,948</u>	<u>-</u>	<u>371,948</u>
<u>3,302,684</u>	<u>-</u>	<u>3,302,684</u>
17,628	(34,289)	(16,661)
<u>1,387,614</u>	<u>303,120</u>	<u>1,690,734</u>
<u>\$ 1,405,242</u>	<u>\$ 268,831</u>	<u>\$ 1,674,073</u>

PENCIL FOUNDATION

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020				
	Program Services	Supporting Services		Total Supporting Services	Total
		Management and General	Fundraising		
Personnel	\$ 1,002,101	\$ 51,115	\$ 189,525	\$ 240,640	\$ 1,242,741
Equipment	38,127	1,740	2,632	4,372	42,499
Depreciation	46,578	2,677	4,283	6,960	53,538
Travel and shipping	18,090	1,539	546	2,085	20,175
Professional services	94,522	5,965	10,501	16,466	110,988
Program expenses	48,738	418	609	1,027	49,765
Grant to Metro Nashville Public Schools	28,341	-	-	-	28,341
Supplies	960	1,281	767	2,048	3,008
Supplies - donated	1,817,722	-	-	-	1,817,722
Facility expenses	7,741	9,099	16,378	25,477	33,218
Communications	29,647	5,787	8,853	14,640	44,287
Commercial insurance	13,006	2,554	1,343	3,897	16,903
Staff development and community events	10,555	5,033	1,868	6,901	17,456
Donor cultivation	288	174	1,319	1,493	1,781
Events	3,338	824	37,929	38,753	42,091
Events - donated	-	-	62,375	62,375	62,375
Fees & bank charges	2,284	536	7,341	7,877	10,161
Miscellaneous	-	-	-	-	-
Occupancy - donated	81,609	4,690	7,505	12,195	93,804
TOTAL EXPENSES	<u>\$ 3,243,647</u>	<u>\$ 93,432</u>	<u>\$ 353,774</u>	<u>\$ 447,206</u>	<u>\$ 3,690,853</u>

See accompanying notes to financial statements.

2019

Program Services	Supporting Services		Total Supporting Services	Total
	Management and General	Fundraising		
\$ 961,392	\$ 50,820	\$ 173,994	\$ 224,814	\$ 1,186,206
46,188	1,804	2,587	4,391	50,579
46,579	2,677	4,283	6,960	53,539
28,405	1,321	3,051	4,372	32,777
113,314	5,504	17,782	23,286	136,600
64,295	105	532	637	64,932
15,528	-	-	-	15,528
1,332	204	24	228	1,560
1,422,673	-	-	-	1,422,673
16,666	7,015	12,627	19,642	36,308
39,644	1,355	8,388	9,743	49,387
11,775	685	1,232	1,917	13,692
20,165	486	2,895	3,381	23,546
444	-	4,123	4,123	4,567
184	-	64,699	64,699	64,883
-	-	61,277	61,277	61,277
860	2,945	8,694	11,639	12,499
131	-	-	-	131
<u>62,640</u>	<u>3,600</u>	<u>5,760</u>	<u>9,360</u>	<u>72,000</u>
<u>\$ 2,852,215</u>	<u>\$ 78,521</u>	<u>\$ 371,948</u>	<u>\$ 450,469</u>	<u>\$ 3,302,684</u>

PENCIL FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 31,150	\$ (16,661)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	53,538	53,539
Net realized and unrealized (gains) losses on investments	1,183	(10,586)
Grant received from agency endowment fund	3,101	-
Contributions made to agency endowment fund	(125)	(100)
Change in value of beneficial interest in agency endowment fund	(1,605)	(2,988)
(Increase) decrease in:		
Contributions, grants and other receivables	(95,033)	111,441
Inventory	(57,187)	16,782
Prepaid expenses and other assets	(41,027)	11,785
Increase (decrease) in:		
Accounts payable	(14,124)	23,274
Payroll liabilities	24,264	14,647
Other liabilities	(3,840)	(10,943)
TOTAL ADJUSTMENTS	<u>(130,855)</u>	<u>206,851</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(99,705)</u>	<u>190,190</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale or maturity of investments	169,947	365,727
Purchases of investments	(157,447)	(399,431)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>12,500</u>	<u>(33,704)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	-	(39,824)
Proceeds from Paycheck Protection Program loan	222,915	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>222,915</u>	<u>(39,824)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	135,710	116,662
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>256,662</u>	<u>140,000</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 392,372</u>	<u>\$ 256,662</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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.

Revenue Recognition

Contributions - Contributions are recognized when cash, securities or other assets, or an unconditional promise to give are received. A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of promisor’s obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

Government grants and contracts - A portion of PENCIL's revenue is derived from cost-reimbursable grants and contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when PENCIL has incurred expenditures in compliance with specific contract or grant provisions. Amounts received in advance of the expenditure are recorded as deferred revenue. Additionally, certain grants qualify as exchange transactions. PENCIL recognizes grant revenue for exchange transactions at the time the services are provided.

In-kind contributions - PENCIL reports any gifts of property, equipment, or materials at the estimated fair value at the date of gift 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 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.

Special events - Special event revenue is generated from sponsorships, ticket sales and sale of auction items at events held during the year and are recognized when the events occur, which is when PENCIL completes its performance obligation.

Consulting and fiscal services - Consulting revenue is generated from services provided to communities across the nation that are interested in building a network of strong partnerships within their school district, as well as for accounting services provided to another organization. PENCIL recognizes revenue at the time the services are provided, which is when PENCIL's performance obligation is fulfilled.

Donated services

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, 2020 has been estimated to be approximately \$1,363,780 (\$2,557,000 for the year ended June 30, 2019). This amount has not been recorded in the accompanying financial statements as it does not meet GAAP recognition criteria.

Other individuals volunteer their time and perform a variety of tasks that assist PENCIL with other 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.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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, 2020 and 2019.

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 2021 to 2023. These certificates of deposits have an average yield of 2.31% as of June 30, 2020 (2.54% as of June 30, 2019).

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.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Bonds are valued on the basis of information provided by pricing services that employ valuation matrices that may incorporate both broker/dealer-supplied valuations as well as valuation models reflecting factors such as benchmark yields, reported trades, broker/dealer quotes, bid/offer data and other relevant elements, and are classified within Level 2 of the valuation hierarchy

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, 2020 or 2019.

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.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (continued)

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.

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, occupancy, communications, commercial insurance, staff development and community events, 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.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

On July 1, 2019, PENCIL adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and all subsequent amendments to the ASU (collectively, “ASC 606”), which supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. ASC 606 requires revenue to be recognized in an amount that reflects the considerations to which the entity expects to be entitled in an exchange of goods or services. PENCIL adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of July 1, 2019. PENCIL performed an analysis of revenue streams and transactions to determine in-scope applicability. The revenue streams considered in-scope for purposes of ASC 606 include certain grant revenues and most revenues associated with performance of special events (sponsorships, ticket sales and sales of items). PENCIL recognizes revenues that fall within the scope of ASC 606 as it satisfies its obligation to the customer. The adoption of ASC 606 did not result in a material change to the accounting for any of the in-scope revenue streams; as such, PENCIL did not record a cumulative effect adjustment.

On July 1, 2019, PENCIL adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions and improve guidance to better distinguish between conditional and unconditional contributions. This standard did not result in a change to the financial statements or the timing of revenue recognition for PENCIL's contributions and grants.

Recent Authoritative Accounting Guidance

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 statement of activities. In June 2020, in response to the COVID-19 pandemic, the FASB issued ASU 2020-05, allowing certain entities to defer implementation of ASU 2016-02 for an additional year. As a result, the standard will now be effective for fiscal years beginning after December 15, 2021. PENCIL is currently evaluating the impact of the pending adoption of the new standard on the 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.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

PENCIL has evaluated events and transactions that occurred between June 30, 2020 and October 22, 2020, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Reclassifications

Certain amounts in prior year financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the results of operations or net assets as previously reported.

NOTE 3 - LIQUIDITY AND AVAILABILITY

The following reflects PENCIL's financial assets as of June 30, 2020 and 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.

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 392,372	\$ 256,662
Contributions, grants and other receivables	295,547	200,514
Investments	<u>652,056</u>	<u>665,739</u>
Total financial assets	<u>1,339,975</u>	<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>823,670</u>	<u>851,618</u>
	<u>823,670</u>	<u>871,028</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 516,305</u>	<u>\$ 251,887</u>

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 4 - CONTRIBUTIONS, GRANTS AND OTHER RECEIVABLES

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

	<u>2020</u>	<u>2019</u>
Contributions receivable	\$ 23,440	\$ 49,260
Grants receivable	251,250	138,125
Other receivables	<u>20,857</u>	<u>13,129</u>
	<u>\$ 295,547</u>	<u>\$ 200,514</u>

As of June 30, 2020 and 2019, all contributions receivable were due within one year.

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 25,000	\$ 70,000
Certificates of deposit	77,345	45,197
Bonds	64,244	82,470
Mutual funds	91,979	97,390
Equities	34,055	23,635
Exchange traded funds	<u>359,433</u>	<u>347,047</u>
	<u>\$ 652,056</u>	<u>\$ 665,739</u>

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Vehicle	\$ 35,532	\$ 35,532
Leasehold improvements	<u>241,112</u>	<u>241,112</u>
	276,644	276,644
Less: Accumulated depreciation	<u>(149,458)</u>	<u>(95,920)</u>
	<u>\$ 127,186</u>	<u>\$ 180,724</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

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, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 60,715	\$ 57,627
Contributions to the fund	125	100
Grants paid to the agency	(3,101)	-
Change in value of beneficial interest in agency endowment fund:		
Investment income - net	2,008	3,358
Administrative expenses	(403)	(370)
	<u>1,605</u>	<u>2,988</u>
Ending balance	<u>\$ 59,344</u>	<u>\$ 60,715</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

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>2020</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Value</u>
<u>Investments:</u>				
Bonds	\$ -	\$ 64,244	\$ -	\$ 64,244
<u>Mutual Funds:</u>				
High Yield Bond	7,336	-	-	7,336
Market Neutral	17,850	-	-	17,850
Foreign Large Blend	13,267	-	-	13,267
Multialternative	19,633	-	-	19,633
Foreign Stock	18,103	-	-	18,103
Mid-Cap Growth	15,790	-	-	15,790
	<u>91,979</u>	<u>-</u>	<u>-</u>	<u>91,979</u>
<u>Equities:</u>				
Communication Services	18,983	-	-	18,983
Utilities	15,072	-	-	15,072
	<u>34,055</u>	<u>-</u>	<u>-</u>	<u>34,055</u>
<u>Exchange Traded Funds:</u>				
Foreign Large Blend	31,820	-	-	31,820
Diversified Emerging Markets	18,226	-	-	18,226
Large Growth	139,038	-	-	139,038
Large Value	99,590	-	-	99,590
Mid-Cap Blend	25,406	-	-	25,406
Real Estate	2,749	-	-	2,749
Short Government Fund	15,089	-	-	15,089
Small Blend Fund	15,320	-	-	15,320
Small Value	12,195	-	-	12,195
	<u>359,433</u>	<u>-</u>	<u>-</u>	<u>359,433</u>
Total investments at fair value	<u>\$ 485,467</u>	<u>\$ 64,244</u>	<u>\$ -</u>	<u>\$ 549,711</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 59,344</u>	<u>\$ -</u>	<u>\$ 59,344</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 8 - FAIR VALUE MEASUREMENTS (CONTINUED)

2019	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Value
<u>Investments:</u>				
Bonds	\$ -	\$ 82,470	\$ -	\$ 82,470
<u>Mutual Funds:</u>				
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>
<u>Equities:</u>				
Communication Services	17,194	-	-	17,194
Utilities	6,441	-	-	6,441
	<u>23,635</u>	<u>-</u>	<u>-</u>	<u>23,635</u>
<u>Exchange Traded Funds:</u>				
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 at fair value	<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, 2020 AND 2019

NOTE 9 - LINE OF CREDIT

PENCIL has a \$100,000 revolving line of credit maturing in November 2020. Interest is payable monthly at a variable rate of Prime + 1.00% (4.25% at June 30, 2020), with the outstanding principal balance payable at maturity. The line is secured by PENCIL's investments. As of June 30, 2020 and 2019, there was an outstanding balance of \$0 under this line of credit.

NOTE 10 - PAYCHECK PROTECTION PROGRAM LOAN

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. The CARES Act provides an economic relief package to many businesses in the U.S. as a direct response to the adverse impacts of COVID-19. Section 1102 of CARES Act establishes the Paycheck Protection Program ("PPP"), which is implemented by the Small Business Administration, and is intended to provide small businesses (generally those with 500 or less employees) with funds to pay up to 24 weeks of payroll costs and benefits, interest on mortgages, rent and utilities. The funds are available in the form of a loan which is fully forgivable if at least 60% of the funds are used for payroll costs. Any unforgiven funds will convert to a note with a 1.0% interest rate and payable over 24 months. On April 30, 2020, PENCIL received \$222,915 from a PPP loan and it is management's intention to have the loan fully forgiven based upon preliminary estimation of the forgiveness calculation. As of the date these financial statements were available to be issued, the amount of loan forgiveness has not been determined. PENCIL has elected to record the portion of the note forgiven as revenue once the forgiveness amount is determined. Annual principal maturities under the note are as follows:

Year ending June 30,

2021	\$ 99,073
2022	<u>123,842</u>
	<u>\$ 222,915</u>

NOTE 11 - 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, 2020 was \$0 (\$3,840 as of June 30, 2019).

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 11 - LEASES (CONTINUED)

PENCIL receives rent-free office and warehouse space under a lease that expires in October 2022. Either party may terminate the lease upon 90 days advance written notice. The estimated fair market value of the space is \$7,817 per month in 2020 (\$6,000 per month in fiscal year ended 2019) and is recorded as an in-kind contribution. During 2020, PENCIL received a new calculation of the square footage of the space being leased, which was more than originally thought, therefore PENCIL increased the fair value of the space recorded.

In June 2020, PENCIL entered into a restated lease agreement extending the cancellable lease through October 2027. Subsequently, PENCIL began utilizing the entire building.

Lease expense paid for all operating leases was \$11,832 for the year ended June 30, 2020 (\$11,832 for the year ended June 30, 2019).

A summary of future minimum lease payments for equipment as of June 30, 2020, follows:

Year ending June 30,

2021	\$ 11,832
2022	<u>1,972</u>
	<u>\$ 13,804</u>

NOTE 12 - NET ASSETS

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

	<u>2020</u>	<u>2019</u>
Education of future healthcare providers	\$ 37,491	\$ 44,990
Reserve fund	667,061	670,913
Beneficial interest in agency endowment fund	59,344	60,715
Capacity campaign	<u>59,774</u>	<u>75,000</u>
	<u>\$ 823,670</u>	<u>\$ 851,618</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 12 - NET ASSETS (CONTINUED)

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

	<u>2020</u>	<u>2019</u>
Future year partnerships	\$ 294,884	\$ 168,907
LP PENCIL Box	65,000	65,000
Capacity campaign	-	19,410
Back to School Breakfast	3,500	7,000
Eyecare	7,920	8,514
Other	<u>847</u>	<u>-</u>
	<u>\$ 372,151</u>	<u>\$ 268,831</u>

NOTE 13 - 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 \$16,676 in 2020 (\$14,977 in 2019).

NOTE 14 - 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.

Contributions received from one source totaled approximately \$129,500, or 13%, of total contribution revenue received for the year ended June 30, 2020. There were no contribution concentrations for the year ended June 30, 2019.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020 AND 2019

NOTE 15 - 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 11 for lease details).

NOTE 16 - COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries including the geographical area in which PENCIL operates. While it is unknown how long these conditions will last and what the complete financial effect will be to PENCIL, management is continuing to evaluate the evolving situation and will implement appropriate countermeasures as needed.