

PENCIL FOUNDATION
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
PENCIL Foundation
Nashville, Tennessee

OPINION

We have audited the accompanying financial statements of PENCIL Foundation ("PENCIL"), a Tennessee nonprofit, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PENCIL Foundation as of June 30, 2022 and 2021, 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.

BASIS FOR OPINION

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PENCIL and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PENCIL's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, internal omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PENCIL's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PENCIL's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Handwritten signature in black ink that reads "Kraft CPAs PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee
October 20, 2022

PENCIL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

| | <u>2022</u> | <u>2021</u> |
|--|-------------------------|-------------------------|
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 709,387 | \$ 482,627 |
| Contributions, grants and other receivables | 1,355,323 | 247,993 |
| Inventory | 512,725 | 456,936 |
| Prepaid expenses and other assets | 100,340 | 87,352 |
| Investments | 662,439 | 788,790 |
| Endowment: | | |
| Contributions receivable | 4,614 | 6,185 |
| Investments | 338,461 | 117,272 |
| Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee | 58,399 | 70,020 |
| Property and equipment, net | <u>250,005</u> | <u>278,206</u> |
| TOTAL ASSETS | <u>\$ 3,991,693</u> | <u>\$ 2,535,381</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>LIABILITIES</u> | | |
| Accounts and grants payable | \$ 1,284,096 | \$ 26,756 |
| Payroll liabilities | <u>149,006</u> | <u>94,008</u> |
| TOTAL LIABILITIES | <u>1,433,102</u> | <u>120,764</u> |
| <u>NET ASSETS</u> | | |
| Without donor restrictions: | | |
| Board-designated | 914,150 | 1,139,196 |
| Undesignated | <u>922,355</u> | <u>837,344</u> |
| Total without donor restrictions | 1,836,505 | 1,976,540 |
| With donor restrictions | <u>722,086</u> | <u>438,077</u> |
| TOTAL NET ASSETS | <u>2,558,591</u> | <u>2,414,617</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 3,991,693</u> | <u>\$ 2,535,381</u> |

See accompanying notes to financial statements.

PENCIL FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|---------------------|
| REVENUES AND SUPPORT | | | |
| Government grants and contracts | \$ 362,891 | \$ - | \$ 362,891 |
| Corporate and foundation contributions | 2,305,242 | 184,812 | 2,490,054 |
| Individual contributions | 416,488 | 232,058 | 648,546 |
| Program project funding | 110,776 | 51,218 | 161,994 |
| United Way and other grants | 66,000 | - | 66,000 |
| In-kind contributions | 3,445,505 | 5,000 | 3,450,505 |
| Special events | 313,013 | - | 313,013 |
| Consulting services | 14,969 | - | 14,969 |
| Other revenue | 6,499 | - | 6,499 |
| Investment loss | (102,740) | (30,206) | (132,946) |
| Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee | (8,097) | - | (8,097) |
| Net assets released from restrictions | <u>158,873</u> | <u>(158,873)</u> | <u>-</u> |
| TOTAL REVENUES AND SUPPORT | <u>7,089,419</u> | <u>284,009</u> | <u>7,373,428</u> |
| EXPENSES | | | |
| Program services | 6,543,664 | - | 6,543,664 |
| Supporting services: | | | |
| Management and general | 107,104 | - | 107,104 |
| Fundraising | <u>578,686</u> | <u>-</u> | <u>578,686</u> |
| TOTAL EXPENSES | <u>7,229,454</u> | <u>-</u> | <u>7,229,454</u> |
| CHANGE IN NET ASSETS | (140,035) | 284,009 | 143,974 |
| NET ASSETS - BEGINNING OF YEAR | <u>1,976,540</u> | <u>438,077</u> | <u>2,414,617</u> |
| NET ASSETS - END OF YEAR | <u>\$ 1,836,505</u> | <u>\$ 722,086</u> | <u>\$ 2,558,591</u> |

See accompanying notes to financial statements.

PENCIL FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2021

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|---------------------|
| REVENUES AND SUPPORT | | | |
| Government grants and contracts | \$ 897,529 | \$ - | \$ 897,529 |
| Corporate and foundation contributions | 529,510 | 76,291 | 605,801 |
| Individual contributions | 425,229 | 113,932 | 539,161 |
| Program project funding | 120,108 | 36,483 | 156,591 |
| United Way and other grants | 71,000 | - | 71,000 |
| In-kind contributions | 2,898,107 | - | 2,898,107 |
| Special events | 268,020 | 14,052 | 282,072 |
| Consulting services | 1,610 | - | 1,610 |
| Other revenue | 17 | - | 17 |
| Investment income | 161,594 | 9,912 | 171,506 |
| Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee | 13,775 | - | 13,775 |
| Net assets released from restrictions | <u>184,744</u> | <u>(184,744)</u> | <u>-</u> |
| TOTAL REVENUES AND SUPPORT | <u>5,571,243</u> | <u>65,926</u> | <u>5,637,169</u> |
| EXPENSES | | | |
| Program services | 4,428,581 | - | 4,428,581 |
| Supporting services: | | | |
| Management and general | 109,900 | - | 109,900 |
| Fundraising | <u>389,294</u> | <u>-</u> | <u>389,294</u> |
| TOTAL EXPENSES | <u>4,927,775</u> | <u>-</u> | <u>4,927,775</u> |
| CHANGE IN NET ASSETS | 643,468 | 65,926 | 709,394 |
| NET ASSETS - BEGINNING OF YEAR | <u>1,333,072</u> | <u>372,151</u> | <u>1,705,223</u> |
| NET ASSETS - END OF YEAR | <u>\$ 1,976,540</u> | <u>\$ 438,077</u> | <u>\$ 2,414,617</u> |

See accompanying notes to financial statements.

PENCIL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

| | Program Services | Supporting Services | | Total Supporting Services | Total |
|---|---------------------|------------------------------|-------------------|---------------------------------|---------------------|
| | | Management and General | Fundraising | | |
| Personnel | \$ 1,227,722 | \$ 61,032 | \$ 318,060 | \$ 379,092 | \$ 1,606,814 |
| Equipment | 57,408 | 2,016 | 17,470 | 19,486 | 76,894 |
| Depreciation | 45,503 | 2,104 | 3,787 | 5,891 | 51,394 |
| Travel | 5,953 | 66 | 821 | 887 | 6,840 |
| Professional services | 96,130 | 11,489 | 31,145 | 42,634 | 138,764 |
| Program expenses | 141,632 | 619 | 727 | 1,346 | 142,978 |
| Grant to Metro Nashville Public Schools | 1,672,241 | - | - | - | 1,672,241 |
| Supplies | 3,156 | 266 | 712 | 978 | 4,134 |
| Supplies - donated | 2,952,635 | - | - | - | 2,952,635 |
| Facility expenses | 32,623 | 2,084 | 3,864 | 5,948 | 38,571 |
| Occupancy - donated | 214,526 | 12,472 | 22,450 | 34,922 | 249,448 |
| Communications | 20,502 | 3,599 | 2,131 | 5,730 | 26,232 |
| Commercial insurance | 18,114 | 1,051 | 1,887 | 2,938 | 21,052 |
| Staff development and community events | 27,794 | 1,832 | 5,564 | 7,396 | 35,190 |
| Donor cultivation | 1,869 | 688 | 2,237 | 2,925 | 4,794 |
| Events | 22,350 | 1,455 | 36,836 | 38,291 | 60,641 |
| Events - donated | - | - | 120,999 | 120,999 | 120,999 |
| Fees & bank charges | 3,506 | 6,331 | 9,996 | 16,327 | 19,833 |
| TOTAL EXPENSES | \$ 6,543,664 | \$ 107,104 | \$ 578,686 | \$ 685,790 | \$ 7,229,454 |

See accompanying notes to financial statements.

PENCIL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

| | <u>Program Services</u> | <u>Supporting Services</u> | | <u>Total Supporting Services</u> | <u>Total</u> |
|---|-----------------------------|---------------------------------------|--------------------|--|---------------------|
| | | <u>Management and General</u> | <u>Fundraising</u> | | |
| Personnel | \$ 1,039,857 | \$ 48,907 | \$ 198,634 | \$ 247,541 | \$ 1,287,398 |
| Equipment | 54,343 | 11,181 | 10,484 | 21,665 | 76,008 |
| Depreciation | 30,875 | 1,390 | 2,500 | 3,890 | 34,765 |
| Travel | 1,145 | 432 | 77 | 509 | 1,654 |
| Professional services | 193,899 | 16,473 | 22,962 | 39,435 | 233,334 |
| Program expenses | 311,133 | - | - | - | 311,133 |
| Grant to Metro Nashville Public Schools | 3,800 | - | - | - | 3,800 |
| Supplies | - | 1,525 | - | 1,525 | 1,525 |
| Supplies - donated | 2,575,670 | - | - | - | 2,575,670 |
| Facility expenses | (648) | 10,596 | 19,072 | 29,668 | 29,020 |
| Occupancy - donated | 182,650 | 10,497 | 16,796 | 27,293 | 209,943 |
| Communications | 10,328 | 5,472 | 10,415 | 15,887 | 26,215 |
| Commercial insurance | 16,050 | 805 | 1,448 | 2,253 | 18,303 |
| Staff development and community events | 9,479 | 1,910 | 2,869 | 4,779 | 14,258 |
| Donor cultivation | - | - | 871 | 871 | 871 |
| Events | - | - | 35,707 | 35,707 | 35,707 |
| Events - donated | - | - | 52,140 | 52,140 | 52,140 |
| Fees & bank charges | - | 712 | 15,319 | 16,031 | 16,031 |
| TOTAL EXPENSES | <u>\$ 4,428,581</u> | <u>\$ 109,900</u> | <u>\$ 389,294</u> | <u>\$ 499,194</u> | <u>\$ 4,927,775</u> |

See accompanying notes to financial statements.

PENCIL FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

| | <u>2022</u> | <u>2021</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 143,974 | \$ 709,394 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 51,394 | 34,765 |
| Net realized and unrealized (gains) losses on investments | 175,283 | (154,140) |
| Grant received from agency endowment fund | 3,524 | 3,099 |
| Contributions restricted for endowment | (248,950) | (113,545) |
| Paycheck Protection Program loan forgiveness | - | (222,915) |
| Change in value of beneficial interest in agency endowment fund | 8,097 | (13,775) |
| (Increase) decrease in: | | |
| Contributions, grants and other receivables | (1,107,330) | 47,554 |
| Prepaid expenses and other assets | (12,988) | (18,308) |
| Inventory | (55,789) | (16,673) |
| Increase (decrease) in: | | |
| Accounts and grants payable | 1,257,340 | 9,415 |
| Payroll liabilities | 54,998 | 3,675 |
| TOTAL ADJUSTMENTS | <u>125,579</u> | <u>(440,848)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>269,553</u> | <u>268,546</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (23,193) | (185,785) |
| Proceeds from sale or maturity of investments | 63,816 | 179,824 |
| Purchases of investments | (333,937) | (279,690) |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(293,314)</u> | <u>(285,651)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from contributions restricted for investment in endowment | 250,521 | 107,360 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | <u>250,521</u> | <u>107,360</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 226,760 | 90,255 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>482,627</u> | <u>392,372</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 709,387</u> | <u>\$ 482,627</u> |

See accompanying notes to financial statements.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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, 2022 AND 2021

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 and ticket sales 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, 2022 has been estimated to be approximately \$724,000 (\$728,000 for the year ended June 30, 2021). 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 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, 2022 AND 2021

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. As of June 30, 2022, management deemed the discount to be insignificant. 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, 2022 and 2021.

Inventory

Inventory consists of donated school supplies received primarily from supply distributors and school supply drives. 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 maturing in fiscal year 2023. These certificates of deposits have an average yield of 2.20% as of June 30, 2022 (2.35% as of June 30, 2021).

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, 2022 AND 2021

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, 2022 or 2021.

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, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds

PENCIL's endowment consists of funds established by donors to be held in perpetuity, including gifts requiring that the principal be invested, and the income or specific portions thereof be used to provide long-term stability for PENCIL. PENCIL's endowment funds are based on the spending policies described below which follow the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act ("SUPMIFA").

Interpretation of applicable law - The board of directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, PENCIL classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Spending policy - The board of directors has formally adopted an endowment spending policy. The policy does not allow distributions to be made from the endowment account unless the balance in the account is greater than \$350,000 or as otherwise approved by the board of directors. When distributions are made, the amount will be calculated using a rolling 36 month, quarterly average balance. The finance committee will then consider a distribution between 3-5% of that average balance.

Investment policy - The purpose and objectives of the investment policy is to maximize long-term investment performance, within appropriate risk limits and diversification parameters. Given the long-term nature of the endowment fund and that no current distributions are anticipated from the fund, the fund carries a modestly higher than average risk tolerance. The policy allows substantial discretion in the asset allocation and diversification of the assets for the purposes of increasing investment return and/or reducing risk exposure. The target investment allocation follows:

| | |
|---------------------------|-----------|
| Cash and cash equivalents | 2% - 10% |
| Equity | 36% - 80% |
| Fixed income | 25% - 50% |
| Alternative investments | 0% - 9% |

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.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued)

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 PENCILMeIn615.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.

After June 30, 2022, PENCIL transitioned its four full-time FRC Coordinators to Family and Children's Services (F&CS). This transition occurred after Metro Nashville Public Schools (MNPS) awarded an FRC expansion contract to F&CS to open and operate 25 new FRC sites throughout MNPS. PENCIL and F&CS worked very closely to assure the transition was a smooth one for all the team members as well as the school communities they served. PENCIL is now working collaboratively with F&CS to bring strong community partners to all FRC sites to provide a high level of support to their students and families.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Services (continued)

The DG 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.

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, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

In September 2020, the FASB issued Accounting Standards Update (“ASU”) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU was effective for PENCIL beginning on July 1, 2021 and did not result in a significant change to the financial statements.

Recent Authoritative Accounting Guidance

In February 2016, the Financial Accounting Standards Board (“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 statement of financial position 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 July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11 *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date.

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. PENCIL expects to adopt the guidance retrospectively at the beginning of the period of adoption, July 1, 2022, through a cumulative-effect adjustment, and will not apply the new standard to comparative periods presented.

The new standard provides a number of practical expedients. Upon adoption, PENCIL expects to elect all the practical expedients available. PENCIL does not expect the adoption of the new standard to have a material impact on the financial statements.

Reclassifications

Certain reclassifications were made to the 2021 financial statements to conform to the current year presentation. Such reclassifications had no impact on the change in net assets previously reported.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

PENCIL has evaluated events and transactions that occurred between June 30, 2022 and October 20, 2022, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 - LIQUIDITY AND AVAILABILITY

The following reflects PENCIL's financial assets at June 30, 2022 and 2021, 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>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| Financial assets at year end: | | |
| Cash and cash equivalents | \$ 709,387 | \$ 482,627 |
| Contributions, grants and other receivables | 1,359,937 | 254,178 |
| Investments | <u>1,000,900</u> | <u>906,062</u> |
| Total financial assets | <u>3,070,224</u> | <u>1,642,867</u> |
| Less amounts not available to be used within one year: | | |
| Donor-restricted endowment | 362,497 | 123,457 |
| Receivables due in more than one year | - | 30,000 |
| Board designations | 914,150 | 1,139,196 |
| Reimbursement grants payable | <u>1,191,221</u> | <u>-</u> |
| | <u>2,467,868</u> | <u>1,292,653</u> |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ 602,356</u> | <u>\$ 350,214</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, 2022 AND 2021

NOTE 4 - CONTRIBUTIONS, GRANTS AND OTHER RECEIVABLES

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

| | <u>2022</u> | <u>2021</u> |
|--------------------------|---------------------|-------------------|
| Contributions receivable | \$ 40,693 | \$ 75,185 |
| Grants receivable | 1,278,279 | 172,808 |
| Other receivables | <u>36,351</u> | <u>-</u> |
| | <u>\$ 1,355,323</u> | <u>\$ 247,993</u> |

Contributions receivable, including those restricted for the endowment, were due as follows at June 30:

| | <u>2022</u> | <u>2021</u> |
|---------------------------|------------------|------------------|
| Due in less than one year | \$ 45,307 | \$ 51,370 |
| One to five years | <u>-</u> | <u>30,000</u> |
| | <u>\$ 45,307</u> | <u>\$ 81,370</u> |

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

| | <u>2022</u> | <u>2021</u> |
|-------------------------|---------------------|-------------------|
| Certificates of deposit | \$ 45,044 | \$ 61,266 |
| Bonds | 46,840 | 51,692 |
| Mutual funds | 186,997 | 193,195 |
| Equities | 36,027 | 85,076 |
| Exchange traded funds | <u>685,992</u> | <u>514,833</u> |
| | <u>\$ 1,000,900</u> | <u>\$ 906,062</u> |

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

| | <u>2022</u> | <u>2021</u> |
|--------------------------------|-------------------|-------------------|
| Equipment | \$ 35,532 | \$ 35,532 |
| Software | 20,000 | 20,000 |
| Leasehold improvements | <u>430,090</u> | <u>406,897</u> |
| | 485,622 | 462,429 |
| Less: Accumulated depreciation | <u>(235,617)</u> | <u>(184,223)</u> |
| | <u>\$ 250,005</u> | <u>\$ 278,206</u> |

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, 2022 and 2021 follows:

| | <u>2022</u> | <u>2021</u> |
|--|------------------|------------------|
| Beginning balance | \$ 70,020 | \$ 59,344 |
| Contributions to the fund | - | - |
| Grants paid to the agency | (3,524) | (3,099) |
| Change in value of beneficial interest in agency endowment fund | <u>(8,097)</u> | <u>13,775</u> |
| Ending balance | <u>\$ 58,399</u> | <u>\$ 70,020</u> |

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

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>2022</u> | <u>Level 1 Inputs</u> | <u>Level 2 Inputs</u> | <u>Level 3 Inputs</u> | <u>Total Value</u> |
|--|---------------------------|---------------------------|---------------------------|------------------------|
| Bonds | \$ - | \$ 46,840 | \$ - | \$ 46,840 |
| Mutual Funds | 186,997 | - | - | 186,997 |
| Equities | 36,027 | - | - | 36,027 |
| Exchange Traded Funds | <u>685,992</u> | <u>-</u> | <u>-</u> | <u>685,992</u> |
| Total Investments | <u>\$ 909,016</u> | <u>\$ 46,840</u> | <u>\$ -</u> | <u>\$ 955,856</u> |
| Beneficial interest in agency endowment fund | <u>\$ -</u> | <u>\$ 58,399</u> | <u>\$ -</u> | <u>\$ 58,399</u> |

| <u>2021</u> | <u>Level 1 Inputs</u> | <u>Level 2 Inputs</u> | <u>Level 3 Inputs</u> | <u>Total Value</u> |
|--|---------------------------|---------------------------|---------------------------|------------------------|
| Bonds | \$ - | \$ 51,692 | \$ - | \$ 51,692 |
| Mutual Funds | 193,195 | - | - | 193,195 |
| Equities | 85,076 | - | - | 85,076 |
| Exchange Traded Funds | <u>514,833</u> | <u>-</u> | <u>-</u> | <u>514,833</u> |
| Total Investments | <u>\$ 793,104</u> | <u>\$ 51,692</u> | <u>\$ -</u> | <u>\$ 844,796</u> |
| Beneficial interest in agency endowment fund | <u>\$ -</u> | <u>\$ 70,020</u> | <u>\$ -</u> | <u>\$ 70,020</u> |

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 9 - LINE OF CREDIT

PENCIL has a \$100,000 revolving line of credit maturing in January 2023. Interest is payable monthly at a variable rate of Prime + 1.00% (5.75% at June 30, 2022), with the outstanding principal balance payable at maturity. The line is secured by PENCIL's investments. As of June 30, 2022 and 2021, there was no outstanding balance under this line of credit.

NOTE 10 - LEASES

PENCIL leases certain office equipment a under non-cancelable operating lease which expires in February 2025.

Lease expense paid was \$11,620 for the year ended June 30, 2022 (\$21,480 for the year ended June 30, 2021).

A summary of future minimum lease payments for equipment as of June 30, 2021, follows:

Year ending June 30,

| | |
|------|------------------|
| 2023 | \$ 9,648 |
| 2024 | 9,648 |
| 2025 | <u>6,432</u> |
| | <u>\$ 25,728</u> |

PENCIL receives rent-free office and warehouse space under a lease that expires in October 2027. Either party may terminate the lease upon 90 days advance written notice. The estimated fair market value of the space is \$19,426 per month and is recorded as an in-kind contribution.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 11 - NET ASSETS

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

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|---------------------|
| Education of future healthcare providers | \$ 5,209 | \$ 5,710 |
| Reserve fund | 850,542 | 1,037,013 |
| Beneficial interest in agency endowment fund | 58,399 | 70,020 |
| Capacity campaign | <u>-</u> | <u>26,453</u> |
| | <u>\$ 914,150</u> | <u>\$ 1,139,196</u> |

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

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| <i>Temporary in nature - subject to expenditure for specified time or purpose:</i> | | |
| Future year partnerships | \$ 234,435 | \$ 220,004 |
| DG (formerly LP) PENCIL Box | 127,500 | 65,000 |
| Back to School Breakfast | 11,545 | 17,552 |
| Eyecare | 1,692 | 7,373 |
| Clean Clothes for Kids | <u>4,711</u> | <u>4,691</u> |
| | <u>379,883</u> | <u>314,620</u> |
| <i>Temporary in nature - endowment- subject to appropriation:</i> | | |
| General use | <u>(20,294)</u> | <u>9,912</u> |
| | <u>(20,294)</u> | <u>9,912</u> |
| <i>Perpetual in nature - endowment:</i> | | |
| Sue Spickard Endowment Fund | <u>362,497</u> | <u>113,545</u> |
| | <u>362,497</u> | <u>113,545</u> |
| | <u>\$ 722,086</u> | <u>\$ 438,077</u> |

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 12 - ENDOWMENT FUNDS

The endowment net asset composition by type of fund is as follows as of June 30:

| <u>2022</u> | <u>Net Assets Without Donor Restrictions</u> | <u>Net Assets With Donor Restrictions</u> | <u>Total</u> |
|----------------------------------|--|---|--------------|
| Donor-restricted endowment funds | \$ - | \$ 338,461 | \$ 338,461 |

| <u>2021</u> | <u>Net Assets Without Donor Restrictions</u> | <u>Net Assets With Donor Restrictions</u> | <u>Total</u> |
|----------------------------------|--|---|--------------|
| Donor-restricted endowment funds | \$ - | \$ 117,272 | \$ 117,272 |

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). PENCIL has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law. At June 30, 2022, endowment funds with deficiencies of \$20,294 were reported in net assets with donor restrictions. There were no underwater endowments as of June 30, 2021.

A summary of changes in endowments follows for the year ended June 30:

| <u>2022</u> | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|-------------------------------------|---------------------------------------|------------------------------------|--------------|
| Endowment net assets, July 1, 2021 | \$ - | \$ 117,272 | \$ 117,272 |
| Dividends | - | 3,575 | 3,575 |
| Interest | - | 529 | 529 |
| Realized gain on investments | - | 884 | 884 |
| Unrealized gain on investments | - | (34,322) | (34,322) |
| Contributions | - | 250,523 | 250,523 |
| Endowment net assets, June 30, 2022 | \$ - | \$ 338,461 | \$ 338,461 |

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 12 - ENDOWMENT FUNDS (CONTINUED)

| <u>2021</u> | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|-------------------------------------|---------------------------------------|------------------------------------|-----------------------------|
| Endowment net assets, July 1, 2020 | \$ - | \$ - | \$ - |
| Dividends | - | 752 | 752 |
| Interest | - | 231 | 231 |
| Realized gain on investments | - | 27 | 27 |
| Unrealized gain on investments | - | 9,290 | 9,290 |
| Contributions | - | 107,360 | 107,360 |
| Professional fees | - | (388) | (388) |
| | <u> </u> | <u> </u> | <u> </u> |
| Endowment net assets, June 30, 2021 | <u>\$ -</u> | <u>\$ 117,272</u> | <u>\$ 117,272</u> |

NOTE 13 - IN-KIND CONTRIBUTIONS

PENCIL received the following in-kind contributions for the years ended June 30:

| | <u>2022</u> | <u>2021</u> |
|---|-----------------------------|-----------------------------|
| Supplies | \$ 3,008,424 | \$ 2,591,682 |
| Facilities | 249,448 | 209,943 |
| Special events - venue, food, prizes, other | 122,981 | 60,940 |
| Auction items | 69,652 | 35,542 |
| | <u> </u> | <u> </u> |
| | <u>\$ 3,450,505</u> | <u>\$ 2,898,107</u> |

Donated supplies received by PENCIL are recorded as in-kind contribution revenue with a corresponding increase to inventory. Such goods are valued at the price that would be paid for similar products. Supplies are distributed at no cost to recipients through the DG PENCIL Box program.

As discussed in Note 10, PENCIL receives office and warehouse space at no cost for its program operations and supporting services. Donated space is valued at average price per square foot of rental listings in the same area.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 13 - IN-KIND CONTRIBUTIONS (CONTINUED)

PENCIL hosts certain special events during the year for which they receive venue usage, food, prizes for giveaways and various other items at no cost. These items are valued at the price that would otherwise be paid for such items. In connection with these events, items are received by PENCIL to be sold at auction. Contributed auction items were sold and valued at the gross selling price received.

There are no donor-imposed restrictions associated with any of the gifts in-kind.

NOTE 14 - 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 \$34,097 in 2022 (\$24,458 in 2021).

NOTE 15 - 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 \$1,185,000, or 40%, of total contribution revenue received for the year ended June 30, 2022. There were no contribution concentrations for the year ended June 30, 2021.

NOTE 16 - RELATED PARTIES

PENCIL receives support from and, at times, purchase goods or services from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the Board of Directors. All related party transactions are subject to PENCIL's Conflict of Interest Policy. In addition, PENCIL receives free rent from a related party (see Note 10 for lease details).