

PENCIL FOUNDATION
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2023 AND 2022

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PENCIL FOUNDATION

LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2023

PENCIL FOUNDATION BOARD OF TRUSTEES

Chuck Abbott
Kfir Alexandroni
Stephanie Bonner, Ex Officio
Thomas Burns
Britney Cline
Kason Davis
Josh DePriest
John Doerge
Shani Dowell
Rachael Anne Elrod, Ex Officio
Jose Ferreira
Robert Fisher
Jacky Gomez
Jeff Gregg
Rachel Hawksworth
Chris Henson, Ex Officio
Olivia Hill
Meredith Jones-Long
Whitney Kalb
Amani Kelly
Emily Lauritson-Gruening
Conner McCormick, Ex Officio
John McCoy
Candice McQueen
Raul Miranda
Perry Moulds
Tanishka Parker, Ex Officio
Wesley Payne, Chair
Nicole Provonchee
Nicole Robinson-Hamilton
Sue Spickard
Rachael Terrell
Jennifer Wade

Robyn Williams
Brittany Adams Davis
Dr. Adrienne Battle, Ex Officio
Herbert Brown
Connor Byrd, Ex Officio
Kenny Crapse
Allen DeCuyper
Kirsten Dodson
Flynn Dowdy
Haley Eakin
Rebecca Fair
Todd Figler
Joan Fleming
LeShane Greenhill
Lila Hall
Jacqueline Hayes
Herman Hicks
Colleen Hoy
Kaitlyn Jones
Nicole Keefe
Mary Lindsay Krebs, Ex Officio
Devin Lintzenich
Blake McDaniel
Norman L. Merrifield
Hasina Mohyuddin
Elliot Noble-Holt
Elizabeth Papel
Brandyn Payne
Kendrick Robinson
Mike Russell
Zulfat Suara
Jacquie Thomas
Don Walker

INDEPENDENT AUDITOR’S REPORT

To the Board of Directors
PENCIL Foundation
Nashville, Tennessee

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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, 2023 and 2022, 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, 2023 and 2022, 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibility under those standards is further described in the Auditor’s Responsibilities for the Audit of 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 and *Government Auditing Standards* 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, intentional 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 and *Government Auditing Standards*, 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.

OTHER INFORMATION

Management is responsible for the other information included in the report. The other information comprises the list of principal officials on page i but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2023, on our consideration of PENCIL's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of PENCIL's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PENCIL's internal control over financial reporting and compliance.

Kraft+CPAs PLLC

Nashville, Tennessee
October 25, 2023

PENCIL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 16,479	\$ 709,387
Contributions, grants and other receivables	1,574,404	1,355,323
Inventory	808,735	512,725
Prepaid expenses and other assets	109,336	100,340
Investments	702,681	564,454
Endowment:		
Cash and cash equivalents	27,025	-
Contributions receivable	3,378	4,614
Investments	534,414	436,446
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	59,605	58,399
Property and equipment, net	<u>197,401</u>	<u>250,005</u>
 TOTAL ASSETS	 <u>\$ 4,033,458</u>	 <u>\$ 3,991,693</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts and grants payable	\$ 748,104	\$ 1,284,096
Line of credit	290,000	-
Payroll liabilities	<u>63,021</u>	<u>149,006</u>
 TOTAL LIABILITIES	 <u>1,101,125</u>	 <u>1,433,102</u>
 <u>NET ASSETS</u>		
Without donor restrictions:		
Board-designated	930,520	914,150
Undesignated	<u>1,076,877</u>	<u>922,355</u>
Total without donor restrictions	2,007,397	1,836,505
With donor restrictions	<u>924,936</u>	<u>722,086</u>
 TOTAL NET ASSETS	 <u>2,932,333</u>	 <u>2,558,591</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 4,033,458</u>	 <u>\$ 3,991,693</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2023

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
Government grants and contracts	\$ 2,150,916	\$ -	\$ 2,150,916
Corporate and foundation contributions	1,638,167	199,811	1,837,978
Individual contributions	401,526	33,057	434,583
Program project funding	33,093	51,000	84,093
United Way	66,000	-	66,000
In-kind contributions	4,168,299	-	4,168,299
Special events	434,009	10,455	444,464
Other revenue	1,095	-	1,095
Investment income	86,907	37,636	124,543
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	4,730	-	4,730
Net assets released from restrictions	<u>129,109</u>	<u>(129,109)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>9,113,851</u>	<u>202,850</u>	<u>9,316,701</u>
EXPENSES			
Program services	8,109,505	-	8,109,505
Supporting services:			
Management and general	184,222	-	184,222
Fundraising	<u>649,232</u>	<u>-</u>	<u>649,232</u>
TOTAL EXPENSES	<u>8,942,959</u>	<u>-</u>	<u>8,942,959</u>
CHANGE IN NET ASSETS	170,892	202,850	373,742
NET ASSETS - BEGINNING OF YEAR	<u>1,836,505</u>	<u>722,086</u>	<u>2,558,591</u>
NET ASSETS - END OF YEAR	<u>\$ 2,007,397</u>	<u>\$ 924,936</u>	<u>\$ 2,932,333</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>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	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 FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2023

		<u>Supporting Services</u>			
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total</u>
Personnel	\$ 1,741,992	\$ 99,089	\$ 369,136	\$ 468,225	\$ 2,210,217
Equipment	229,998	13,014	14,181	27,195	257,193
Depreciation	46,430	2,205	3,969	6,174	52,604
Travel	9,214	102	692	794	10,008
Professional services	442,403	21,504	37,490	58,994	501,397
Professional services - donated	3,660	-	-	-	3,660
Program expenses	212,058	13,664	1,042	14,706	226,764
Grants to Metro Nashville Public Schools	1,617,072	2,250	-	2,250	1,619,322
Supplies	-	4,422	505	4,927	4,927
Supplies - donated	3,531,391	-	-	-	3,531,391
Facility expenses	40,538	2,209	7,407	9,616	50,154
Occupancy - donated	145,272	8,376	24,515	32,891	178,163
Communications	31,908	2,181	11,358	13,539	45,447
Commercial insurance	16,163	864	2,808	3,672	19,835
Staff development and community events	33,449	5,477	1,722	7,199	40,648
Donor cultivation	1,072	1,100	1,393	2,493	3,565
Events	579	300	87,356	87,656	88,235
Events - donated	-	-	77,098	77,098	77,098
Fees & bank charges	6,306	7,465	8,560	16,025	22,331
TOTAL EXPENSES	<u>\$ 8,109,505</u>	<u>\$ 184,222</u>	<u>\$ 649,232</u>	<u>\$ 833,454</u>	<u>\$ 8,942,959</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

	<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	\$ 1,227,722	\$ 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
Grants 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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 373,742	\$ 143,974
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	52,604	51,394
Net realized and unrealized (gains) losses on investments	(92,967)	175,283
Grant received from agency endowment fund	3,524	3,524
Contributions restricted for endowment	(57,908)	(248,950)
Change in value of beneficial interest in agency endowment fund	(4,730)	8,097
(Increase) decrease in:		
Contributions, grants and other receivables	(219,081)	(1,107,332)
Inventory	(296,010)	(55,789)
Prepaid expenses and other assets	(8,996)	(12,988)
Increase (decrease) in:		
Accounts and grants payable	(535,992)	1,257,340
Payroll liabilities	(85,985)	54,998
TOTAL ADJUSTMENTS	<u>(1,245,541)</u>	<u>125,577</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(871,799)</u>	<u>269,551</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(23,193)
Proceeds from sale or maturity of investments	317,043	63,816
Purchases of investments	(460,271)	(333,937)
NET CASH USED IN INVESTING ACTIVITIES	<u>(143,228)</u>	<u>(293,314)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	290,000	-
Proceeds from contributions restricted for investment in endowment	59,144	250,523
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>349,144</u>	<u>250,523</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(665,883)	226,760
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>709,387</u>	<u>482,627</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 43,504</u>	<u>\$ 709,387</u>
OTHER CASH FLOW DISCLOSURES:		
Cash paid for interest	<u>\$ 5,929</u>	<u>\$ -</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

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, 2023 AND 2022

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. PENCIL had no consulting revenue for the year ended June 30, 2023.

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, 2023 has been estimated to be approximately \$674,000 (\$724,000 for the year ended June 30, 2022). 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, 2023 AND 2022

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.

Cash and cash equivalents as of June 30, 2023 consists of the following:

Cash and cash equivalents	\$ 16,479
Endowment cash and cash equivalents	<u>27,025</u>
Total cash and cash equivalents shown in the statements of cash flows	<u>\$ 43,504</u>

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, 2023 and 2022.

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. There was no provision as of June 30, 2023 or 2022.

Investments

Investments consist of certificates of deposit, bonds, mutual funds, equities and exchange traded funds. 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 2024. These certificates of deposits have an average yield of 3.34% as of June 30, 2023 (2.20% as of June 30, 2022).

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Agency Endowment Fund

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

Property and Equipment

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

Fair Value Measurements

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

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

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.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

There have been no changes in the valuation methodologies used at June 30, 2023 or 2022.

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.

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.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (continued)

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.

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

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

Program Services

Program services consist of the following:

PENCIL 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. By leveraging our wide network of business contacts and comprehensive knowledge of Nashville schools, PENCIL connects businesses and schools in customized, meaningful ways that directly help Metro students achieve success in school and in life. We manage these relationships by facilitating communication, providing activity ideas, supporting volunteer management, and helping the school and Partner develop a year-long action plan. In addition, PENCIL hosts the PENCILMeIn615.org website where schools, Partners, and individuals log their volunteer hours and in-kind gifts.

We continue to grow PENCIL Connect, an online platform where community members can register for school-based service opportunities that celebrate students, demonstrate appreciation for teachers, and engage families, as well as connect industry experts to students for career exploration experiences.

The DG PENCIL Box exists to remove barriers to learning for Metro students by ensuring classrooms are stocked with necessary supplies - and so teachers do not have to spend their own funds on supplies. Through generous donations from businesses, organizations and individuals, the Box is stocked with items such as pencils, pens, notebooks, crayons, scissors, reading books, manipulatives, backpacks and much more. Every Metro teacher is invited to shop once a month at our West Nashville location throughout the school year. In addition, PENCIL staff and volunteers provide broad teacher access to supplies through direct-to-school deliveries, pop-ups, giveaways, and large-scale teacher appreciation projects including Together 4 Teachers and Thanks a Million.

The LP STEAM Lending Library is a new element available to teachers that is part of the DG PENCIL Box and aims to provide elementary and middle school students with equitable access to STEAM resources.

Grants to MNPS - PENCIL continues to be a grantmaking partner to MNPS by passing-through significant funds that support the Accelerating Scholars initiative and its focus on high-impact tutoring, particularly literacy tutoring for students in grades 1-3. Our grantmaking partnership work will continue to evolve as we support the strategic plan of MNPS by recruiting financial resources to support key initiatives that directly and positively impact students.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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, depreciation, program expenses, 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.

New Accounting Pronouncements

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 right-of-use 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. The new standard did not have a significant impact on the financial statements.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain reclassifications were made to the 2022 financial statements to conform to the current year presentation. Such reclassifications had no impact on the change in net assets previously reported.

Events Occurring After Reporting Date

PENCIL has evaluated events and transactions that occurred between June 30, 2023 and October 25, 2023, 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, 2023 and 2022, 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>2023</u>	<u>2022</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 43,504	\$ 709,387
Contributions, grants and other receivables	1,577,782	1,359,937
Investments	<u>1,237,095</u>	<u>1,000,900</u>
Total financial assets	<u>2,858,381</u>	<u>3,070,224</u>
Less amounts not available to be used within one year:		
Donor-restricted endowment	437,747	342,203
Board designations	930,520	914,150
Purpose restrictions	163,930	134,166
For use in fiscal year 2025	20,375	-
Reimbursement grants payable	<u>676,709</u>	<u>1,191,221</u>
	<u>2,229,281</u>	<u>2,581,740</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 629,100</u>	<u>\$ 488,484</u>

In addition, PENCIL has a \$350,000 line of credit available to meet cash flow needs.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 4 - CONTRIBUTIONS, GRANTS AND OTHER RECEIVABLES

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

	<u>2023</u>	<u>2022</u>
Contributions receivable	\$ 17,546	\$ 40,693
Grants receivable	1,548,878	1,278,279
Other receivables	<u>7,980</u>	<u>36,351</u>
	<u>\$ 1,574,404</u>	<u>\$ 1,355,323</u>

As of June 30, 2023 and 2022, all contributions receivable, including those for the endowment, are due within one year.

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Certificates of deposit	\$ 44,081	\$ 45,044
Bonds	123,431	46,840
Mutual funds	104,875	186,997
Equities	-	36,027
Exchange traded funds	<u>964,708</u>	<u>685,992</u>
	<u>\$ 1,237,095</u>	<u>\$ 1,000,900</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Equipment	\$ 35,532	\$ 35,532
Software	20,000	20,000
Leasehold improvements	<u>430,090</u>	<u>430,090</u>
	485,622	485,622
Less: Accumulated depreciation	<u>(288,221)</u>	<u>(235,617)</u>
	<u>\$ 197,401</u>	<u>\$ 250,005</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, 2023 and 2022 follows:

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 58,399	\$ 70,020
Grants paid to the agency	(3,524)	(3,524)
Change in value of beneficial interest in agency endowment fund	<u>4,730</u>	<u>(8,097)</u>
Ending balance	<u>\$ 59,605</u>	<u>\$ 58,399</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

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>2023</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Value</u>
Bonds	\$ -	\$ 123,431	\$ -	\$ 123,431
Mutual funds	104,875	-	-	104,875
Exchange traded funds	964,708	-	-	964,708
Total investments	<u>\$ 1,069,583</u>	<u>\$ 123,431</u>	<u>\$ -</u>	<u>\$ 1,193,014</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 59,605</u>	<u>\$ -</u>	<u>\$ 59,605</u>

<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	685,992	-	-	685,992
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>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 9 - LINE OF CREDIT

PENCIL has a \$350,000 revolving line of credit maturing in December 2024. Interest is payable monthly at a variable rate of Prime + 1.00% (8.5% at June 30, 2023), with the outstanding principal balance payable at maturity. The line is secured by PENCIL's investments. As of June 30, 2023 there was a balance of \$290,000 under this line of credit. As of June 30, 2022, there was no outstanding balance under this line of credit.

NOTE 10 - NET ASSETS

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

	<u>2023</u>	<u>2022</u>
Education of future healthcare providers	\$ 1,548	\$ 5,209
Reserve fund	743,169	752,557
Board designated endowment	126,198	97,985
Beneficial interest in agency endowment fund	<u>59,605</u>	<u>58,399</u>
	<u>\$ 930,520</u>	<u>\$ 914,150</u>

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

	<u>2023</u>	<u>2022</u>
<i>Temporary in nature - subject to expenditure for specified time or purpose:</i>		
Future year operations	\$ 195,759	\$ 149,435
DG (formerly LP) PENCIL Box	127,500	127,500
Grants to MNPS	19,800	-
Event sponsorships	140,000	96,545
Student eye care	1,692	1,692
Clean Clothes for Kids	<u>2,438</u>	<u>4,711</u>
	<u>487,189</u>	<u>379,883</u>
<i>Temporary in nature - endowment- subject to appropriation:</i>		
General use	<u>17,342</u>	<u>(20,294)</u>
	<u>17,342</u>	<u>(20,294)</u>
<i>Perpetual in nature - endowment:</i>		
Sue Spickard Endowment Fund	<u>420,405</u>	<u>362,497</u>
	<u>420,405</u>	<u>362,497</u>
	<u>\$ 924,936</u>	<u>\$ 722,086</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 11 - ENDOWMENT FUNDS

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

<u>2023</u>	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Endowment funds	<u>\$ 126,198</u>	<u>\$ 435,241</u>	<u>\$ 561,439</u>

<u>2022</u>	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Endowment funds	<u>\$ 97,985</u>	<u>\$ 338,461</u>	<u>\$ 436,446</u>

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. There were no underwater endowments as of June 30, 2023. At June 30, 2022, endowment funds with deficiencies of \$20,294 were reported in net assets with donor restrictions.

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

<u>2023</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, July 1, 2022	\$ 97,985	\$ 338,461	\$ 436,446
Dividends	1,746	6,526	8,272
Interest	331	1,247	1,578
Realized gain on investments	139	517	656
Unrealized gain on investments	7,429	32,024	39,453
Contributions	19,249	59,144	78,393
Professional fees	<u>(681)</u>	<u>(2,678)</u>	<u>(3,359)</u>
Endowment net assets, June 30, 2023	<u>\$ 126,198</u>	<u>\$ 435,241</u>	<u>\$ 561,439</u>

PENCIL FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

NOTE 11 - ENDOWMENT FUNDS (CONTINUED)

<u>2022</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, July 1, 2021	\$ 114,788	\$ 117,272	\$ 232,060
Dividends	2,833	3,575	6,408
Interest	486	529	1,015
Realized gain on investments	709	884	1,593
Unrealized loss on investments	(19,815)	(34,322)	(54,137)
Contributions	-	250,523	250,523
Professional fees	(1,016)	-	(1,016)
Endowment net assets, June 30, 2022	<u>\$ 97,985</u>	<u>\$ 338,461</u>	<u>\$ 436,446</u>

NOTE 12 - IN-KIND CONTRIBUTIONS

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

	<u>2023</u>	<u>2022</u>
Supplies	\$ 3,808,401	\$ 3,008,424
Facilities	178,163	249,448
Special events - venue, food, prizes, other	107,759	122,981
Auction items	73,976	69,652
	<u>\$ 4,168,299</u>	<u>\$ 3,450,505</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.

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 \$14,246 per month and is recorded as an in-kind contribution. 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, 2023 AND 2022

NOTE 12 - 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 13 - CONDITIONAL GRANTS

In August 2022, PENCIL was awarded a grant through the Tennessee Department of Education for the period August 11, 2022 - May 31, 2024 for the Connected Literacy Project. The award consists of \$4,670,875 of federal funding that will reimburse allowable costs incurred during the grant period. For the year ended June 30, 2023, PENCIL recognized \$1,914,287 of grant revenue from the grant. As of June 30, 2023, PENCIL has a remaining available balance of approximately \$2,757,000 that has not been recognized as revenue because qualifying expenditures have not been incurred and charged to the grant.

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 \$36,114 in 2023 (\$34,097 in 2022).

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 \$869,000 and \$1,185,000, or 38% and 40%, of total contribution revenue received for the year ended June 30, 2023 and 2022. Government grants and contracts revenue from one source totaled approximately \$1,914,287 or 89% of total government grants and contracts revenue received for the year ended June 30, 2023. There were no government grants and contracts concentrations for the year ended June 30, 2022. Grants receivables from one source amounted to approximately \$1,440,995 at June 30, 2023.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2023 AND 2022

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 12 for lease details).