



PENCIL

**REPORT TO THE BOARD OF DIRECTORS
RESULTS OF JUNE 30, 2023 AUDIT**

October 25, 2023

To the Board of Directors
PENCIL Foundation
Nashville, Tennessee

We are pleased to present this report related to our audit of the financial statements of PENCIL Foundation (“PENCIL”) as of and for the year ended June 30, 2023. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for PENCIL’s financial reporting process.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to PENCIL Foundation.



KraftCPAs PLLC



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REQUIRED COMMUNICATIONS

Auditing standards generally accepted in the United States of America (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance reporting process.

<u>Area</u>	<u>Comments</u>
Our Responsibilities With Regard to the Financial Statement and Compliance Audit	Our responsibilities under auditing standards generally accepted in the United States of America and <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, and requirements prescribed by the Comptroller of the Treasury, State of Tennessee, have been described to you in our arrangement letter dated July 6, 2023. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication dated July 7, 2023 regarding the planned scope and timing of our audit and identified significant risks.
Accounting Policies and Practices	<p>Preferability of Accounting Policies and Practices</p> <p>Under accounting principles generally accepted in the United States of America, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies</p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by PENCIL. PENCIL did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.</p> <p>Significant Accounting Policies</p> <p>We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p>



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REQUIRED COMMUNICATIONS (CONTINUED)

Accounting Policies and Practices (Continued)

Significant Unusual Transactions

We did not identify any significant unusual transactions.

Management's Judgments and Accounting Estimates

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Significant Accounting Estimates.

Audit Adjustments

Audit adjustments, other than those that are clearly trivial, recorded by PENCIL are shown on the attached list of Recorded Audit Adjustments.

Uncorrected Misstatements

Uncorrected misstatements are summarized in the attached list of Uncorrected Misstatements. Uncorrected misstatements or matters underlying these uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if we have concluded that the uncorrected misstatements are immaterial to the financial statements under audit.

Disagreement with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements

Consultations with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or were the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Difficult or Contentious Matters That Required Consultation

We did not encounter any significant and difficult or contentious matters that required consultation outside the engagement team.



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REQUIRED COMMUNICATIONS (CONTINUED)

Shared Responsibilities for Independence

Independence is a **joint responsibility** and is managed most effectively when management, audit committees (or their equivalents), and audit firms work together in considering compliance with American Institute of Certified Public Accountants (AICPA) and *Government Accountability Office* (GAO) independence rules. For KraftCPAs PLLC (Kraft) to fulfill its professional responsibility to maintain and monitor independence, management, the audit committee, and Kraft each play an important role.

Our Responsibilities

- AICPA and GAO rules require independence both of mind and in appearance when providing audit and other attestation services. Kraft is to ensure that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement.
- Maintain a system of quality control over compliance with independence rules and firm policies.

PENCIL's Responsibilities

- Timely inform Kraft, before the effective date of transactions or other business changes, of the following:
- New affiliates, directors, officers, or person in financial reporting and compliance oversight roles.
- Changes in the reporting entity impacting affiliates such as partnerships, related entities, investments, joint ventures, etc.
- Provide necessary affiliate information such as new or updated structure charts, as well as financial information required to perform materiality calculations needed for making affiliate determinations.
- Understand and conclude on the permissibility, prior to PENCIL and its affiliates, officers, directors, or persons in a decision-making capacity, engaging in business relationships with Kraft.
- Not entering into arrangements of nonaudit services resulting in Kraft being involved in making management decisions on behalf of PENCIL.
- Not entering into relationships resulting in Kraft, Kraft covered persons or their close family members, temporarily or permanently acting as an officer, director, or person in an accounting, financial reporting or compliance oversight role at PENCIL.



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REQUIRED COMMUNICATIONS (CONTINUED)

Internal Control and Compliance Matters

We have separately communicated a material weakness in internal control identified during our audit of PENCIL's major awards, as required by *Government Auditing Standards, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* at 2 CFR 200 (Uniform Guidance). This communication is included in the Schedule of Findings and Questioned Costs in PENCIL's Uniform Guidance Reports.

Significant Written Communications Between Management and Our Firm

Copies of significant written communications between our firm and the management of PENCIL, including the representation letter provided to us by management, are attached as Exhibit A.



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Significant Accounting Estimates Year Ended June 30, 2023

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following summarizes the significant accounting estimates reflected in PENCIL's June 30, 2023 financial statements:

Area	Accounting Policy	Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
In-kind donations of services, supplies and facilities	Recorded at estimated fair value.	Based on cost that would be paid by PENCIL for the services or supplies, if purchased, or facility usage, if leased.	We considered this information in the scope of our audit and determined this estimate to reasonable.
Allocation of functional expenses	Significant functional expenses are allocated based on management's estimate of the percentage of expenditures incurred for each function or category.	Expenses are allocated to each function based on management's best estimates of utilization, including factors such as time, space, and other criteria. If applicable, the expenses are charged directly to the functional expense category to which they apply.	We considered this information in the scope of our audit and determined this estimate to reasonable.



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Recorded Audit Adjustments Year Ended June 30, 2023

Management corrected the following material misstatements that were identified as a result of our audit procedures.

	EFFECT				
	INCREASE (DECREASE)	(INCREASE) DECREASE			INCREASE (DECREASE)
DESCRIPTION	ASSETS	LIABILITIES	NET ASSETS	REVENUE	EXPENSES
To adjust balance of beneficial interest in Community Foundation of Middle Tennessee	\$ 4,730	\$ -	\$ -	\$ (4,730)	\$ -
NET CURRENT YEAR MISSTATEMENTS	<u>\$ 4,730</u>	<u>\$ -</u>	<u>-</u>	<u>\$ (4,730)</u>	<u>\$ -</u>
CURRENT YEAR EFFECT ON NET ASSETS			<u>(4,730)</u>		
TOTAL EFFECT			<u>\$ (4,730)</u>		



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Unrecorded Misstatements Year Ended June 30, 2023

We identified the following uncorrected misstatements that management has concluded are not, individually or in the aggregate, material to the financial statements. We agree with management's conclusion in that regard.

DESCRIPTION	EFFECT				
	INCREASE (DECREASE)	(INCREASE) DECREASE			INCREASE (DECREASE)
	ASSETS	LIABILITIES	NET ASSETS	REVENUE	EXPENSES
To record adoption of new lease standard	\$ 15,725	\$ (15,725)	\$ -		\$ -
NET CURRENT YEAR MISSTATEMENTS	\$ 15,725	\$ (15,725)	-	\$ -	\$ -
CURRENT YEAR EFFECT ON NET ASSETS			-		-
TOTAL EFFECT			\$ -		\$ -



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**Exhibit A - Certain Written Communications between
Management and Our Firm**



October 25, 2023

KraftCPAs PLLC
555 Great Circle Road
Nashville, TN 37228

This representation letter is provided in connection with your audits of the financial statements of PENCIL Foundation 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 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of October 25, 2023:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated July 6, 2023 for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of controls to prevent and detect fraud.
4. The methods, data and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in the context of U.S. GAAP, and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. We have informed you of all uncorrected misstatements.
9. With respect to proposing adjustments to the trial balance, when necessary, and drafting the financial statements services performed in the course of the audit:
 - a. We have made all management decisions and performed all management functions;
 - b. We assigned an appropriate individual to oversee the services;
 - c. We evaluated the adequacy and results of the services performed, and made an informed judgment on the results of the services performed;
 - d. We have accepted responsibility for the results of the services;
 - e. We have accepted responsibility for all significant judgments and decisions that were made.

As of and for the year ended June 30, 2023, we believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

	EFFECT				
	INCREASE (DECREASE)	(INCREASE) DECREASE			INCREASE (DECREASE)
DESCRIPTION	ASSETS	LIABILITIES	NET ASSETS	REVENUE	EXPENSES
To record adoption of new lease standard	\$ 15,725	\$ (15,725)	\$ -		\$ -
NET CURRENT YEAR MISSTATEMENTS	\$ 15,725	\$ (15,725)	-	\$ -	\$ -
CURRENT YEAR EFFECT ON NET ASSETS			-		-
TOTAL EFFECT			\$ -		\$ -

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audits.
 - c. Unrestricted access to persons within PENCIL from whom you determined it necessary to obtain audit evidence.
 - d. We certify that for the period from July 1, 2023 to October 25, 2023, there have been no:
 - i. Amendments to the governing documents of PENCIL.
 - ii. Changes in net asset classifications.

- iii. Mergers, reorganizations, business acquisitions or disposals, or formation or dissolutions of any business entities.
 - iv. Adoption or amendment of any employee benefit plan.
 - v. Changes in officers.
 - vi. New employment or other compensatory contracts.
 - vii. New pledging of PENCIL assets, PENCIL guarantees or PENCIL debt agreements.
11. All transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of allegations of fraud or suspected fraud, affecting PENCIL's financial statements involving:
- a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting PENCIL's financial statements received in communications from employees, former employees, regulators or others.
15. We have complied with all aspects of laws, regulations and provisions of contracts and agreements that would have a material effect on the financial statements in the event of noncompliance.
16. We are not aware of any pending or threatened litigation and claims whose effects were considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
17. We have disclosed to you the identity of PENCIL's related parties and all the related-party relationships and transactions of which we are aware.
18. We are aware of no significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect PENCIL's ability to record, process, summarize, and report financial data.
19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. We have received a determination from the Internal Revenue Service that we are exempt from federal income taxes as a Section 501(c)(3) not-for-profit corporation, and we have complied with the IRS regulations regarding this exemption.
21. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Compliance Considerations

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:

1. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
2. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the auditee.
3. Is not aware of any instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements.
4. Is responsible for the design, implementation and maintenance of internal control relevant to the preparation of and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
5. Acknowledges its responsibility for the design, implementation and maintenance of controls to prevent and detect fraud.
6. Is aware of no instances that have occurred, or are likely to have occurred, of waste or abuse that could be quantitatively or qualitatively material to the financial statements.
7. Has a process to track the status of audit findings and recommendations.
8. Is not aware of any investigations or legal proceedings that have been initiated with respect to the period under audit.
9. Has provided views on the auditor's reported findings, conclusions and recommendations, as well as management's planned corrective actions, for the report.
10. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

In connection with your audit of federal awards conducted in accordance with Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *Audit Manual* issued by the Comptroller of the Treasury of the State of Tennessee (Audit Manual), we confirm:

1. Management is responsible for complying, and has complied, with the requirements of Uniform Guidance and the Audit Manual.
2. Management is responsible for understanding and complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of its federal programs.
3. Management is responsible for establishing and maintaining, and has established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the terms and conditions of the federal award that could have a material effect on its federal programs.

4. Management is responsible for the preparation of the schedule of expenditures of federal awards, acknowledges and understands its responsibility for the presentation of the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with the Uniform Guidance and the Audit Manual; asserts that methods of measurement or presentation have not changed from those used in the prior period, or if the methods of measurement or presentation have changed, the response for such changes has been communicated; and is responsible for any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.
5. Management will make the audited financial statements readily available to the intended users of the schedule no later than the issuance date by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.
6. Management has identified and disclosed all of its government programs and related activities subject to the Uniform Guidance compliance audit.
7. Management has identified and disclosed to the auditor the requirements of federal statutes, regulations, and terms and conditions of federal awards that are considered to have a direct and material effect on each major program.
8. Management has made available all federal awards (including amendments, if any) and any other correspondence relevant to federal programs and related activities that have taken place with federal agencies or pass-through entities.
9. Management has identified and disclosed to the auditor all amounts questioned and all known noncompliance with the direct and material compliance requirements of federal awards or stated that there was no such noncompliance.
10. Management believes that the auditee has complied with the direct and material compliance requirements (except for noncompliance it has disclosed to the auditor).
11. Management has made available all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
12. Management has provided to the auditor its interpretations of any compliance requirements that are subject to varying interpretations.
13. Management is aware of no communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
14. There are no findings and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
15. Management is responsible for taking corrective action on audit findings of the compliance audit and has developed a corrective action plan that meets the requirements of the Uniform Guidance and the Audit Manual.
16. There are no subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

17. Management has disclosed all known noncompliance with direct and material compliance requirements occurring subsequent to the period covered by the auditor's report or stated that there were no such known instances.
18. Management has disclosed whether any changes in internal control over compliance or other factors that might significantly affect the entity's system of internal control, including any corrective action taken by management with regard to significant deficiencies and material weaknesses in internal control over compliance, have occurred subsequent to the period covered by the auditor's report.
19. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared.
20. The copies of federal program financial reports provided to the auditor are true copies of the reports submitted, or electronically transmitted, to the federal agency or pass-through entity, as applicable.
21. Management has charged costs to federal awards in accordance with applicable cost principles.
22. Management is responsible for, and has accurately prepared, the summary schedule of prior audit findings to include all findings required to be included by Uniform Guidance and Audit Manual.
23. The reporting package does not contain protected personally identifiable information.
24. Management will accurately complete the appropriate sections of the data collection form.

PENCIL Foundation



Angie Adams,, Chief Executive Officer