

PENCIL FOUNDATION  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2024 AND 2023

PENCIL FOUNDATION  
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AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2024 AND 2023

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PENCIL FOUNDATION

LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2024

PENCIL FOUNDATION BOARD OF TRUSTEES

Chuck Abbott	Brittany Adams Davis
Kfir Alexandroni	Libby Berman
Herbert Brown	Elizabeth Garza Bumpas
Britney Cline	Leslie Cowell
Kenny Crapse	Kason Davis
Josh DePriest	Kirsten Dodson
John Doerge	Flynne Dowdy
Shani Dowell	Jose Ferreira
Todd Figler	Robert Fisher
Joan Fleming-Ridley	Jessies Garcia Knowles
Jacky Gomez	Jeff Gregg
Lila Hall	Mike Harris
Rachel Hawksworth	Jacqueline Hayes
Herman Hicks	Brandon Hill
Olivia Hill	Colleen Hoy
Kaitlyn Jones	Meredith Jones Long
Whitney Kalb	Nicole Keefe
Amani Kelly	Emily Lauritson-Gruening
Devin Lintzenich	Johari Matthews
Blake McDaniel	Norman L. Merrifield
Hasina Mohyuddin	Perry Moulds
P. Danielle Nellis	Elliot Noble-Holt
Brandyn Payne	Wesley Payne
Kendrick Robinson	Nicole Robinson-Hamilton
Yanet Rodriguez	Sue Spickard
Rachael Terrell	Jennifer Wade
Juan Williams	Robyn Williams
Adrienne Battle, Ex-Officio	Ali Buchanan, Ex-Officio
Christiane Buggs, Ex-Officio	Ryan Flanagan, Ex-Officio
Chris Henson, Ex-Officio	Will Parrott, Ex-Officio
Connor McCormick, Vanderbilt Owen Fellow	Jessica Turcasso, Ex-Officio
Tanishka Parker, Vanderbilt Owen Fellow	



## 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, 2024 and 2023, 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, 2024 and 2023, 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 November 4, 2024 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  
November 4, 2024

PENCIL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,075,751	\$ 16,479
Contributions, grants and other receivables, net	4,094,906	1,574,404
Inventory	490,958	808,735
Prepaid expenses and other assets	82,012	109,336
Investments	751,953	702,681
Endowment:		
Cash and cash equivalents	14,140	27,025
Contributions receivable	2,404	3,378
Investments	769,553	534,414
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	62,464	59,605
Property and equipment, net	<u>145,765</u>	<u>197,401</u>
 TOTAL ASSETS	 <u>\$ 8,489,906</u>	 <u>\$ 4,033,458</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 43,520	\$ 71,395
Grants payable	5,354,930	676,709
Line of credit	-	290,000
Payroll liabilities	<u>82,777</u>	<u>63,021</u>
 TOTAL LIABILITIES	 <u>5,481,227</u>	 <u>1,101,125</u>
 <u>NET ASSETS</u>		
Without donor restrictions:		
Board-designated	973,810	930,520
Undesignated	<u>1,068,309</u>	<u>1,076,877</u>
Total without donor restrictions	2,042,119	2,007,397
With donor restrictions	<u>966,560</u>	<u>924,936</u>
 TOTAL NET ASSETS	 <u>3,008,679</u>	 <u>2,932,333</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 8,489,906</u>	 <u>\$ 4,033,458</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUES AND SUPPORT</b>			
Government grants and contracts	\$ 2,923,980	\$ 200,000	\$ 3,123,980
Corporate and foundation contributions	630,521	631,635	1,262,156
Individual contributions	387,566	4,196,340	4,583,906
Program project funding	109,764	111,000	220,764
United Way	65,839	-	65,839
In-kind contributions	2,994,761	-	2,994,761
Special events	494,683	147,804	642,487
Other revenue	11,932	-	11,932
Investment income	198,583	12,774	211,357
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	5,873	-	5,873
Net assets released from restrictions	<u>5,257,929</u>	<u>(5,257,929)</u>	<u>-</u>
<b>TOTAL REVENUES AND SUPPORT</b>	<u>13,081,431</u>	<u>41,624</u>	<u>13,123,055</u>
<b>EXPENSES</b>			
Program services	12,171,937	-	12,171,937
Supporting services:			
Management and general	128,184	-	128,184
Fundraising	<u>746,588</u>	<u>-</u>	<u>746,588</u>
<b>TOTAL EXPENSES</b>	<u>13,046,709</u>	<u>-</u>	<u>13,046,709</u>
<b>CHANGE IN NET ASSETS</b>	34,722	41,624	76,346
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>2,007,397</u>	<u>924,936</u>	<u>2,932,333</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,042,119</u>	<u>\$ 966,560</u>	<u>\$ 3,008,679</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>
<b>REVENUES AND SUPPORT</b>			
Government grants and contracts	\$ 2,150,916	\$ -	\$ 2,150,916
Corporate and foundation contributions	1,329,627	508,351	1,837,978
Individual contributions	390,926	43,657	434,583
Program project funding	(33,907)	118,000	84,093
United Way	66,000	-	66,000
In-kind contributions	4,168,299	-	4,168,299
Special events	422,464	22,000	444,464
Other revenue	1,095	-	1,095
Investment income	84,226	40,317	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>529,475</u>	<u>(529,475)</u>	<u>-</u>
<b>TOTAL REVENUES AND SUPPORT</b>	<u>9,113,851</u>	<u>202,850</u>	<u>9,316,701</u>
<b>EXPENSES</b>			
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>
<b>TOTAL EXPENSES</b>	<u>8,942,959</u>	<u>-</u>	<u>8,942,959</u>
<b>CHANGE IN NET ASSETS</b>	170,892	202,850	373,742
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>1,836,505</u>	<u>722,086</u>	<u>2,558,591</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 2,007,397</u>	<u>\$ 924,936</u>	<u>\$ 2,932,333</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2024

	<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	\$ 2,013,637	\$ 90,369	\$ 416,625	\$ 506,994	\$ 2,520,631
Equipment	56,753	4,086	12,498	16,584	73,337
Depreciation	45,463	2,205	3,968	6,173	51,636
Travel	5,997	1,727	1,100	2,827	8,824
Professional services	191,322	9,477	22,258	31,735	223,057
Professional services - donated	2,200	-	2,600	2,600	4,800
Program expenses	196,587	1,716	555	2,271	198,858
Grants to Metro Nashville Public Schools	6,454,050	-	-	-	6,454,050
Supplies	2,580	231	274	505	3,085
Supplies - donated	2,934,207	-	-	-	2,934,207
Facility expenses	42,378	1,869	4,776	6,645	49,023
Occupancy - donated	166,964	7,186	17,315	24,501	191,465
Communications	16,806	952	9,634	10,586	27,392
Commercial insurance	18,109	915	3,036	3,951	22,060
Staff development and community events	14,457	2,682	2,643	5,325	19,782
Donor cultivation	-	244	1,254	1,498	1,498
Events	5,295	4,500	135,786	140,286	145,581
Events - donated	-	-	87,871	87,871	87,871
Fees and bank charges	5,132	25	24,395	24,420	29,552
<b>TOTAL EXPENSES</b>	<b>\$ 12,171,937</b>	<b>\$ 128,184</b>	<b>\$ 746,588</b>	<b>\$ 874,772</b>	<b>\$ 13,046,709</b>

See accompanying notes to financial statements.

PENCIL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2023

	Program Services	Supporting Services		Total Supporting Services	Total
		Management and General	Fundraising		
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 and bank charges	6,306	7,465	8,560	16,025	22,331
<b>TOTAL EXPENSES</b>	<b>\$ 8,109,505</b>	<b>\$ 184,222</b>	<b>\$ 649,232</b>	<b>\$ 833,454</b>	<b>\$ 8,942,959</b>

See accompanying notes to financial statements.

PENCIL FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 76,346	\$ 373,742
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	51,636	52,604
Net realized and unrealized gains on investments	(163,556)	(92,967)
Allowance for uncollectible accounts	(375,500)	-
Grant received from agency endowment fund	3,014	3,524
Contributions restricted for endowment	(137,522)	(57,908)
Change in value of beneficial interest in agency endowment fund	(5,873)	(4,730)
(Increase) decrease in:		
Contributions, grants and other receivables	(2,145,002)	(219,081)
Inventory	317,777	(296,010)
Prepaid expenses and other assets	27,324	(8,996)
Increase (decrease) in:		
Accounts payable	(27,875)	(535,992)
Grants payable	4,678,221	-
Payroll liabilities	19,756	(85,985)
<b>TOTAL ADJUSTMENTS</b>	<u>2,242,400</u>	<u>(1,245,541)</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>2,318,746</u>	<u>(871,799)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale or maturity of investments	385,342	317,043
Purchases of investments	(506,197)	(460,271)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(120,855)</u>	<u>(143,228)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on line of credit	(290,000)	-
Proceeds from line of credit	-	290,000
Proceeds from contributions restricted for investment in endowment	138,496	59,144
<b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<u>(151,504)</u>	<u>349,144</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,046,387	(665,883)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>43,504</u>	<u>709,387</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,089,891</u>	<u>\$ 43,504</u>
<b>OTHER CASH FLOW DISCLOSURES:</b>		
Cash paid for interest	<u>\$ 4,787</u>	<u>\$ 5,929</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

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, 2024 AND 2023

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, 2024.

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, 2024 has been estimated to be approximately \$1,140,000 (\$674,000 for the year ended June 30, 2023). 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, 2024 AND 2023

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, 2024 consists of the following:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 2,075,751	\$ 16,479
Endowment cash and cash equivalents	<u>14,140</u>	<u>27,025</u>
Total cash and cash equivalents shown in the statements of cash flows	<u>\$ 2,089,891</u>	<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, an allowance for uncollectible contributions of \$375,500 was necessary as of June 30, 2024. No allowance for uncollectible contributions was necessary as of June 30, 2023.

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, 2024 or 2023.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments consist of certificates of deposit, bonds, mutual funds, and exchange traded funds. Certificates of deposit are carried at cash value plus accrued interest. Bonds, mutual funds, 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 2028. These certificates of deposits have an average yield of 4.13% as of June 30, 2024 (3.34% as of June 30, 2023).

Agency Endowment Fund

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

Property and Equipment

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

Fair Value Measurements

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

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



PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

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

*Investments* - Mutual funds 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, 2024 or 2023.

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.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds (continued)

*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:

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, 2024 AND 2023

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 MNPS educator is invited to shop once a month at our West Nashville location throughout the school year. In addition, PENCIL staff and volunteers provide broad educator 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 aims to provide elementary and middle school students with equitable access to STEAM resources. STEAM kits are available for teachers to check out through the DG PENCIL Box.

Grants and sponsored projects for MNPS aims to support projects that are critical to the MNPS strategic plan. 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 K-3.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Services (continued)

In 2024, PENCIL entered into a Memorandum of Understanding with MNPS to secure contributed funding for the Reimagining Community Spaces project. The project includes funding to expand the planned playtoriums to full gymnasiums at Lakeview Elementary, Paragon Mills Elementary, and Percy Priest Elementary schools. Fundraising commitments, along with corresponding grant commitments to MNPS of approximately \$5,000,000 have been recognized in the financial statements.

The 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.

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.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

In 2023, Financial Accounting Standards Board (“FASB”) Accounting Standards Board (“ASU”) 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, became effective for PENCIL. The standard modifies the measurement of expected credit losses on certain financial instruments. PENCIL follows described policies to account for potential allowance for uncollectible accounts. The potential impacts of adopting ASU 2016-13 were evaluated and determined to be immaterial.

Reclassifications

Certain reclassifications were made to the 2023 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, 2024 and November 4, 2024, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

NOTE 3 - LIQUIDITY AND AVAILABILITY

The following reflects PENCIL's financial assets at June 30, 2024 and 2023, reduced by amounts not available for general use within one year of the statement of financial position date. 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>2024</u>	<u>2023</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 2,089,891	\$ 43,504
Contributions, grants and other receivables	4,097,310	1,577,782
Investments	<u>1,521,506</u>	<u>1,237,095</u>
Total financial assets	<u>7,708,707</u>	<u>2,858,381</u>
Less: amounts not available to be used within one year:		
Donor-restricted endowment	587,320	437,747
Board designations	973,810	930,520
Purpose restrictions	151,786	163,930
Fiscal sponsorship with MNPS payable	4,640,600	-
Reimbursement grants payable	<u>714,330</u>	<u>676,709</u>
	<u>7,067,846</u>	<u>2,208,906</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 640,861</u>	<u>\$ 649,475</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, 2024 AND 2023

NOTE 4 - CONTRIBUTIONS, GRANTS AND OTHER RECEIVABLES

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

	<u>2024</u>	<u>2023</u>
Contributions receivable	\$ 24,986	\$ 17,546
Contributions receivable - Reimagining Community Spaces	3,283,100	-
Grants receivable	1,154,772	1,548,878
Other receivables	<u>7,548</u>	<u>7,980</u>
	4,470,406	1,574,404
Less: allowance for uncollectible accounts	<u>(375,500)</u>	<u>-</u>
	<u>\$ 4,094,906</u>	<u>\$ 1,574,404</u>

As of June 30, 2024 and 2023, all contributions receivable, including those for the endowment, are due within one year. Contribution receivables related to Reimagining Community Spaces are all due by December 31, 2025.

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

	<u>2024</u>	<u>2023</u>
Certificates of deposit	\$ 119,124	\$ 44,081
Bonds	29,882	123,431
Mutual funds	61	104,875
Exchange traded funds	<u>1,372,439</u>	<u>964,708</u>
	<u>\$ 1,521,506</u>	<u>\$ 1,237,095</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2024</u>	<u>2023</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>(339,857)</u>	<u>(288,221)</u>
	<u>\$ 145,765</u>	<u>\$ 197,401</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, 2024 and 2023 follows:

	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 59,605	\$ 58,399
Grants paid to the agency	(3,014)	(3,524)
Change in value of beneficial interest in agency endowment fund	<u>5,873</u>	<u>4,730</u>
Ending balance	<u>\$ 62,464</u>	<u>\$ 59,605</u>



PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

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>2024</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Value</u>
Bonds	\$ -	\$ 29,882	\$ -	\$ 29,882
Mutual funds	61	-	-	61
Exchange traded funds	<u>1,372,439</u>	<u>-</u>	<u>-</u>	<u>1,372,439</u>
Total investments	<u>\$ 1,372,500</u>	<u>\$ 29,882</u>	<u>\$ -</u>	<u>\$ 1,402,382</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 62,464</u>	<u>\$ -</u>	<u>\$ 62,464</u>

  

<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	<u>964,708</u>	<u>-</u>	<u>-</u>	<u>964,708</u>
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>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

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% (9.25% at June 30, 2024), with the outstanding principal balance payable at maturity. The line is secured by PENCIL's investments. As of June 30, 2024, there was no outstanding balance under this line of credit. As of June 30, 2023 there was a balance of \$290,000 under this line of credit.

NOTE 10 - NET ASSETS

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

	<u>2024</u>	<u>2023</u>
Education of future healthcare providers	\$ 1,548	\$ 1,548
Reserve fund	711,021	743,169
Board designated endowment	198,777	126,198
Beneficial interest in agency endowment fund	62,464	59,605
	<u>\$ 973,810</u>	<u>\$ 930,520</u>

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

	<u>2024</u>	<u>2023</u>
<i>Temporary in nature - subject to expenditure for specified time or purpose:</i>		
Future year operations	\$ 187,454	\$ 195,759
DG (formerly LP) PENCIL Box	40,000	127,500
Grants to MNPS	-	19,800
Event sponsorships	140,615	140,000
Student eye care	1,692	1,692
Clean Clothes for Kids	9,479	2,438
	<u>379,240</u>	<u>487,189</u>
<i>Temporary in nature - endowment- subject to appropriation:</i>		
General use	29,392	17,342
	<u>29,392</u>	<u>17,342</u>
<i>Perpetual in nature - endowment:</i>		
Angie Adams Endowment Fund	101,183	-
Sue Spickard Endowment Fund	456,745	420,405
	<u>557,928</u>	<u>420,405</u>
	<u>\$ 966,560</u>	<u>\$ 924,936</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

NOTE 11 - ENDOWMENT FUNDS

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

<u>2024</u>	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Endowment funds	\$ <u>198,777</u>	\$ <u>587,320</u>	\$ <u>786,097</u>

  

<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>

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, 2024 and 2023.

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

<u>2024</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, July 1, 2023	\$ 126,198	\$ 435,241	\$ 561,439
Dividends	784	347	1,131
Interest	8,505	12,999	21,504
Realized and unrealized gain on investments	61,323	1,934	63,257
Contributions	1,967	137,523	139,490
Professional fees	<u>-</u>	<u>(724)</u>	<u>(724)</u>
Endowment net assets, June 30, 2024	\$ <u>198,777</u>	\$ <u>587,320</u>	\$ <u>786,097</u>

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

NOTE 11 - ENDOWMENT FUNDS (CONTINUED)

<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 and unrealized gain on investments	7,568	32,541	40,109
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>

NOTE 12 - IN-KIND CONTRIBUTIONS

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

	<u>2024</u>	<u>2023</u>
Supplies	\$ 2,587,029	\$ 3,808,401
Facilities	191,465	178,163
Special events - venue, food, prizes, other	119,471	107,759
Auction items	<u>96,796</u>	<u>73,976</u>
	<u>\$ 2,994,761</u>	<u>\$ 4,168,299</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 \$15,955 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, 2024 AND 2023

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. For the year ended June 30, 2024, PENCIL recognized \$2,624,051 of grant revenue from the grant. Subsequent to year end, the Connected Literacy Project contract was extended through May 31, 2025 along with an additional award of \$1,461,013. As of June 30, 2024, PENCIL has a remaining available balance of approximately \$1,594,000 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 \$29,257 in 2024 (\$36,114 in 2023).

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2024 AND 2023

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 \$1,010,000 and \$869,000, or 16% and 38%, of total individual, corporation, and foundation contribution revenue received for the year ended June 30, 2024 and 2023. Government grants and contracts revenue from one source totaled approximately \$2,624,051 and \$1,914,287 or 84% and 89% of total government grants and contracts revenue received for the year ended June 30, 2024 and 2023. Grants receivables from one source amounted to approximately \$1,061,514 and \$1,440,995 at June 30, 2024 and 2023.

NOTE 16 - RELATED PARTIES

PENCIL receives support from and, at times, purchased 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).