

**Grant contract between the Metropolitan Government of Nashville and Davidson County and PENCIL Foundation, Contract # \_\_\_\_\_**

**GRANT CONTRACT  
BETWEEN THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY  
AND  
PENCIL Foundation**

This Grant Contract issued and entered into pursuant to RS2023-\_\_\_\_\_, by and between the Metropolitan Government of Nashville and Davidson County ("Metro"), and PENCIL Foundation, ("Recipient"), is for the provision of services pertaining to enhancement of student engagement in career development, as further defined in the "SCOPE OF PROGRAM". The Recipient's annual report and audit are incorporated herein by reference.

**A. SCOPE OF PROGRAM:**

A.1. The Recipient will use the funds to:

1. Allow three thousand (3,000) Metro Nashville Public School ("MNPS") students to receive exposure to science, technology, engineering, arts, and mathematics ("STEAM") careers through engagement with hands-on activities via the LP STEAM lending library;
2. Allow two thousand (2,000) MNPS students to engage in personal experiences with career professionals through PENCIL Connect;
3. Create a pilot program at four selected middle schools in which eighth grade students will participate in a mock interview experience, explore a partner's website with a focus on career awareness, learn how to find job postings, and create an understanding of how to apply for open positions;
4. Support FY23 year-end celebrations in partnership with MNPS Community Achieves; PENCIL will create workplans with all interested MNPS schools for FY24 community engagement focused on student celebration, teacher appreciation, and family engagement; and
5. Assist in funding several positions of the Partnership Team, employed by Recipient, who will oversee and execute the scope of the grant program.

The aforementioned outcomes will define success for this initiative in MNPS. Recipient will focus first year implementation in higher needs middle schools and ensure that equity is considered and addressed at every step of the process.

Recipient shall comply with the following requirements:

- Collaborate with the MNPS STEAM director;
- Create a calendar of focused opportunities for volunteer and partnership experiences to share with Recipient's hundreds of industry and business professionals partners in order to pull these resources into the middle school tier;
- Expand the LP STEAM lending library in conjunction with PENCIL Connect (on-line engagement platform) to create connections between middle school classrooms and industry professionals, creating more in-depth career exploration opportunities for students while they experience hands-on STEAM learning opportunities
- Use Salesforce and PENCIL Me In to track and measure the level of input and engagement from the business community with middle school career exploration, while

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also helping to guide MNPS data collection systems to track and understand the success of getting these resources to the students who most need them.

- A.2. The Recipient must spend these funds consistent with the Grant Spending Plan, attached and incorporated herein as Attachment 1. The Recipient must collect data to evaluate the effectiveness of their services and must provide those results to Metro upon request.
- A.3. The Recipient will only utilize these funds for services the Recipient provides to documented residents of Davidson County. Documentation of residency may be established with a recent utility bill; voter's registration card; driver's license or other government issued-ID; current record from a school showing address; affidavit by landlord; or affidavit by a nonprofit treatment, shelter, half-way house, or homeless assistance entity located within Davidson County. Recipient agrees that it will not use Metro funding for services to non-Davidson County residents.
- A.4. Additionally, the Recipient must collect data on the primary county of residence of the clients it serves and provide that data to Metro upon request.

**B. GRANT CONTRACT TERM:**

- B.1. **Grant Contract Term.** The term of this Grant will commence on May 3, 2023 and end on June 30, 2023. Metro will have no obligation for services rendered by the Recipient that are not performed within this term.

**C. PAYMENT TERMS AND CONDITIONS:**

- C.1. **Maximum Liability.** In no event will Metro's maximum liability under this Grant Contract exceed one hundred thousand dollars (\$100,000). The Grant Spending Plan will constitute the maximum amount to be provided to the Recipient by Metro for all of the Recipient's obligations hereunder. The Grant Spending Plan line items include, but are not limited to, all applicable taxes, fees, overhead, and all other direct and indirect costs incurred or to be incurred by the Recipient.

Subject to modification and amendments as provided in section D.2 of this agreement, this amount will constitute the Grant Amount and the entire compensation to be provided to the Recipient by Metro.

- C.2. **Payment Methodology.** The Recipient will only be compensated for actual costs based upon the Grant Spending Plan, not to exceed the maximum liability established in Section C.1.

Recipient must send all invoices via email to Diane Treadway (Diane.Treadway@nashville.gov), Office Manager / Executive Assistant to the Office of Mayor John Cooper.

Final invoices for the contract period should be received by Metro Payment Services by July 14, 2023. Any invoice not received by the deadline date will not be processed and all remaining grant funds will expire.

- C.3. **Annual Expenditure Report.** The Recipient must submit a final grant Annual Expenditure Report, to be received by the Mayor's Office of John Cooper via email to Diane Treadway (Diane.Treadway@nashville.gov), within 45 days of the end of the Grant Contract. Said report must be in form and substance acceptable to Metro and must be prepared by a Certified Public Accounting Firm or the Chief Financial Officer of the Recipient Organization.

- C.4. **Payment of Invoice.** The payment of any invoice by Metro will not prejudice Metro's right to object to the invoice or any other related matter. Any payment by Metro will neither be construed

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PENCIL Foundation, Contract # \_\_\_\_\_**

as acceptance of any part of the work or service provided nor as an approval of any of the costs included therein.

C.5. **Unallowable Costs.** The Recipient's invoice may be subject to reduction for amounts included in any invoice or payment theretofore made which are determined by Metro, on the basis of audits or monitoring conducted in accordance with the terms of this Grant Contract, to constitute unallowable costs. Utilization of Metro funding for services to non-Davidson County residents is not allowed.

C.6. **Deductions.** Metro reserves the right to adjust any amounts which are or become due and payable to the Recipient by Metro under this or any Contract by deducting any amounts which are or become due and payable to Metro by the Recipient under this or any Contract.

C.7. **Travel Compensation.** Payment to the Recipient for travel, meals, or lodging is subject to amounts and limitations specified in Metro's Travel Regulations and subject to the Grant Spending Plan.

C.8. **Electronic Payment.** Metro requires as a condition of this contract that the Recipient have on file with Metro a completed and signed "ACH Form for Electronic Payment". If Recipient has not previously submitted the form to Metro or if Recipient's information has changed, Recipient will have thirty (30) days to complete, sign, and return the form. Thereafter, all payments to the Recipient, under this or any other contract the Recipient has with Metro, must be made electronically.

**D. STANDARD TERMS AND CONDITIONS:**

D.1. **Required Approvals.** Metro is not bound by this Grant Contract until it is approved by the appropriate Metro representatives as indicated on the signature page of this Grant.

D.2. **Modification and Amendment.** This Grant Contract may be modified only by a written amendment that has been approved in accordance with all Metro procedures and by appropriate legislation of the Metropolitan Council.

D.3. **Termination for Cause.** Metro shall have the right to terminate this Grant Contract immediately if Metro determines that Recipient, its employees or principals have engaged in conduct or violated any federal, state or local laws which affect the ability of Recipient to effectively provide services under this Grant Contract. Should the Recipient fail to properly perform its obligations under this Grant Contract or if the Recipient violates any terms of this Grant Contract, Metro will have the right to immediately terminate the Grant Contract and the Recipient must return to Metro any and all grant monies for services or programs under the grant not performed as of the termination date. The Recipient must also return to Metro any and all funds expended for purposes contrary to the terms of the Grant Contract. Such termination will not relieve the Recipient of any liability to Metro for damages sustained by virtue of any breach by the Recipient.

D.4. **Termination for Convenience.** Either party may terminate this Contract at any time upon thirty (30) days written notice to the other party. A termination for convenience shall not be a breach of this Contract by either party. Recipient shall not have any right to any actual general, special, consequential, incidental, or any other damages whatsoever of any description or amount for Metro's exercise of its right to terminate for convenience.

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D.5. **Termination for Funding.** In the event Metro, in its sole discretion, does not or cannot obtain or continue the funding for this Contract from any source or sources to allow for payment of the Work, Metro may exercise one of the following alternatives:

- a. Terminate this Contract effective upon a date specified in a Termination Notice; or
- b. Continue this Contract by reducing, through written notice to Recipient, the amount of this Contract and the scope of work, consistent with the nature, amount, and circumstances of the loss of funding.

Any termination or reduction of this Contract pursuant to this subsection shall not affect any obligations or liabilities of either Party accruing prior to such termination or reduction. Metro shall not face any liability or penalty as a result of such termination or reduction of this Contract.

D.6. **Subcontracting.** The Recipient may not assign this Grant Contract or enter into a subcontract for any of the services performed under this Grant Contract without obtaining the prior written approval of Metro. Notwithstanding any use of approved subcontractors, the Recipient will be considered the prime Recipient and will be responsible for all work performed.

D.7. **Conflicts of Interest.** The Recipient warrants that no part of the total Grant Amount will be paid directly or indirectly to an employee or official of Metro as wages, compensation, or gifts in exchange for acting as an officer, agent, employee, subcontractor, or consultant to the Recipient in connection with any work contemplated or performed relative to this Grant Contract.

D.8. **Nondiscrimination.** The Recipient hereby agrees, warrants, and assures that no person will be excluded from participation in, be denied benefits of, or be otherwise subjected to discrimination in the performance of this Grant Contract or in the employment practices of the Recipient on the grounds of disability, age, race, color, religion, sex, national origin, or any other classification which is in violation of applicable laws. The Recipient must, upon request, show proof of such nondiscrimination and must post in conspicuous places, available to all employees and applicants, notices of nondiscrimination.

D.9. **Records.** The Recipient must maintain documentation for all charges to Metro under this Grant Contract. The books, records, and documents of the Recipient, insofar as they relate to work performed or money received under this Grant Contract, must be maintained for a period of three (3) full years from the date of the final payment or until the Recipient engages a licensed independent public accountant to perform an audit of its activities. The books, records, and documents of the Recipient insofar as they relate to work performed or money received under this Grant Contract are subject to audit at any reasonable time and upon reasonable notice by Metro or its duly appointed representatives. Records must be maintained in accordance with the standards outlined in the Metro Nonprofit Grants Manual. The financial statements must be prepared in accordance with generally accepted accounting principles.

D.10. **Monitoring.** The Recipient's activities conducted and records maintained pursuant to this Grant Contract are subject to monitoring and evaluation by The Metropolitan Office of Financial Accountability or Metro's duly appointed representatives. The Recipient must make all audit, accounting, or financial records, notes, and other documents pertinent to this grant available for review by the Metropolitan Office of Financial Accountability, Internal Audit or Metro's representatives, upon request, during normal working hours.

D.11. **Reporting.** The Recipient must submit an Interim Program Report, to be received by Chief of Staff, Jennifer Rasmussen-Sagan, via email [Jennifer.Rasmussen-Sagan@nashville.gov](mailto:Jennifer.Rasmussen-Sagan@nashville.gov), by no later than June 1, 2023, and a Final Program Report, to be received by Office of Grants and Accountability (OGA), within 45 [forty-five] days of the end of the Grant Contract. Said reports shall detail the outcome of the activities funded under this Grant Contract.

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- D.12. **Strict Performance.** Failure by Metro to insist in any one or more cases upon the strict performance of any of the terms, covenants, conditions, or provisions of this agreement is not a waiver or relinquishment of any such term, covenant, condition, or provision. No term or condition of this Grant Contract is considered to be waived, modified, or deleted except by a written amendment by the appropriate parties as indicated on the signature page of this Grant.
- D.13. **Insurance.** The Recipient agrees to carry adequate public liability and other appropriate forms of insurance, and to pay all applicable taxes incident to this Grant Contract.
- D.14. **Metro Liability.** Metro will have no liability except as specifically provided in this Grant Contract.
- D.15. **Independent Contractor.** Nothing herein will in any way be construed or intended to create a partnership or joint venture between the Recipient and Metro or to create the relationship of principal and agent between or among the Recipient and Metro. The Recipient must not hold itself out in a manner contrary to the terms of this paragraph. Metro will not become liable for any representation, act, or omission of any other party contrary to the terms of this paragraph.
- D.16. **Indemnification and Hold Harmless.**
- (a) Recipient agrees to indemnify, defend, and hold harmless Metro, its officers, agents and employees from any claims, damages, penalties, costs and attorney fees for injuries or damages arising, in part or in whole, from the negligent or intentional acts or omissions of Recipient, its officers, employees and/or agents, including its sub or independent contractors, in connection with the performance of the contract, and any claims, damages, penalties, costs and attorney fees arising from any failure of Recipient, its officers, employees and/or agents, including its sub or independent contractors, to observe applicable laws, including, but not limited to, labor laws and minimum wage laws.
- (b) Metro will not indemnify, defend or hold harmless in any fashion the Recipient from any claims, regardless of any language in any attachment or other document that the Recipient may provide.
- (c) Recipient will pay Metro any expenses incurred as a result of Recipient's failure to fulfill any obligation in a professional and timely manner under this Contract.
- (d) Recipient's duties under this section will survive the termination or expiration of the grant.
- D.17. **Force Majeure.** "Force Majeure Event" means fire, flood, earthquake, elements of nature or acts of God, wars, riots, civil disorders, rebellions or revolutions, acts of terrorism or any other similar cause beyond the reasonable control of the party. Except as provided in this Section, any failure or delay by a party in the performance of its obligations under this Grant Contract arising from a Force Majeure Event is not a breach under this Grant Contract. The non-performing party will be excused from performing those obligations directly affected by the Force Majeure Event, and only for as long as the Force Majeure Event continues, provided that the party continues to use diligent, good faith efforts to resume performance without delay. Recipient will promptly notify Metro within forty-eight (48) hours of any delay caused by a Force Majeure Event and will describe in reasonable detail the nature of the Force Majeure Event.
- D.18. **State, Local and Federal Compliance.** The Recipient agrees to comply with all applicable federal, state and local laws and regulations in the performance of this Grant Contract. Metro shall have the right to terminate this Grant Contract at any time for failure of Recipient to comply with applicable federal, state or local laws in connection with the performance of services under this Grant Contract.

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- D.19. **Governing Law and Venue.** The validity, construction and effect of this Grant Contract and any and all extensions and/or modifications thereof will be governed by and construed in accordance with the laws of the State of Tennessee. The venue for legal action concerning this Grant Contract will be in the courts of Davidson County, Tennessee.
- D.20. **Completeness.** This Grant Contract is complete and contains the entire understanding between the parties relating to the subject matter contained herein, including all the terms and conditions of the parties' agreement. This Grant Contract supersedes any and all prior understandings, representations, negotiations, and agreements between the parties relating hereto, whether written or oral.
- D.21. **Headings.** Section headings are for reference purposes only and will not be construed as part of this Grant Contract.
- D.22. **Metro Interest in Equipment.** The Recipient will take legal title to all equipment and to all motor vehicles, hereinafter referred to as "equipment," purchased totally or in part with funds provided under this Grant Contract, subject to Metro's equitable interest therein, to the extent of its *pro rata* share, based upon Metro's contribution to the purchase price. "Equipment" is defined as an article of nonexpendable, tangible, personal property having a useful life of more than one year and an acquisition cost which equals or exceeds \$5,000.00.

The Recipient agrees to be responsible for the accountability, maintenance, management, and inventory of all property purchased totally or in part with funds provided under this Grant Contract. Upon termination of the Grant Contract, where a further contractual relationship is not entered into, or at any time during the term of the Grant Contract, the Recipient must request written approval from Metro for any proposed disposition of equipment purchased with Grant funds. All equipment must be disposed of in such a manner as parties may agree as appropriate and in accordance with any applicable federal, state or local laws or regulations.

- D. 23. **Assignment—Consent Required.** The provisions of this contract will inure to the benefit of and will be binding upon the respective successors and assignees of the parties hereto. Except for the rights of money due to Recipient under this contract, neither this contract nor any of the rights and obligations of Recipient hereunder may be assigned or transferred in whole or in part without the prior written consent of Metro. Any such assignment or transfer will not release Recipient from its obligations hereunder. Notice of assignment of any rights to money due to Recipient under this Contract must be sent to the attention of the Metro Department of Finance.
- D.24. **Gratuities and Kickbacks.** It will be a breach of ethical standards for any person to offer, give or agree to give any employee or former employee, or for any employee or former employee to solicit, demand, accept or agree to accept from another person, a gratuity or an offer of employment in connection with any decision, approval, disapproval, recommendation, preparations of any part of a program requirement or a purchase request, influencing the content of any specification or procurement standard, rendering of advice, investigation, auditing or in any other advisory capacity in any proceeding or application, request for ruling, determination, claim or controversy in any proceeding or application, request for ruling, determination, claim or controversy or other particular matter, pertaining to any program requirement of a contract or subcontract or to any solicitation or proposal therefore. It will be a breach of ethical standards for any payment, gratuity or offer of employment to be made by or on behalf of a subcontractor under a contract to the prime contractor or higher tier subcontractor or a person associated therewith, as an inducement for the award of a subcontract or order. Breach of the provisions of this paragraph is, in addition to a breach of this contract, a breach of ethical standards which may result in civil or criminal sanction and/or debarment or suspension from participation in Metropolitan Government contracts.

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D.25. **Communications and Contacts.** All instructions, notices, consents, demands, or other communications from the Recipient required or contemplated by this Grant Contract must be in writing and must be made by facsimile transmission, or by first class mail, addressed to the respective party at the appropriate facsimile number or address as set forth below or to such other party, facsimile number, or address as may be hereafter specified by written notice.

Metro:

For contract-related matters:  
Office of Mayor John Cooper  
Chief of Staff, Jennifer Rasmussen-Sagan  
Jennifer.Rasmussen-Sagan@nashville.gov

For enquiries regarding invoices:  
Office of Mayor John Cooper  
Chief of Staff, Jennifer Rasmussen-Sagan  
Jennifer.Rasmussen-Sagan@nashville.gov

Recipient:

PENCIL Foundation  
Angie Adams, CEO  
Aadams@pencil615.org  
(615) 594 - 5305  
7199 Cockrill Bend Blvd  
Nashville, TN 37209  
(615) 242 - 3167

D.26. **Lobbying.** The Recipient certifies, to the best of its knowledge and belief, that:

- a. No federally appropriated funds have been paid or will be paid, by or on behalf of the Recipient, to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress in connection with the awarding of any federal contract, the making of any federal grant, the making of any federal loan, and entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any federal contract, grant, loan, or cooperative agreement.
- b. If any funds other than federally appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this grant, loan, or cooperative agreement, the Recipient must complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.
- c. The Recipient will require that the language of this certification be included in the award documents for all sub-awards at all tiers (including sub-grants, subcontracts, and contracts under grants, loans, and cooperative agreements) and that all subcontractors of federally appropriated funds shall certify and disclose accordingly.

D.27. **Certification Regarding Debarment and Convictions.**

- a. Recipient certifies that Recipient, and its current and future principals:
  - i. are not presently debarred, suspended, or proposed for debarment from participation in any federal or state grant program;
  - ii. have not within a three (3) year period preceding this Grant Contract been convicted of fraud, or a criminal offence in connection with obtaining, attempting to obtain, or performing a public (federal, state, or local) grant;

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- iii. have not within a three (3) year period preceding this Grant Contract been convicted of embezzlement, obstruction of justice, theft, forgery, bribery, falsification or destruction of records, making false statements, or receiving stolen property; and
  - iv. are not presently indicted or otherwise criminally charged by a government entity (federal, state, or local) with commission of any of the offenses detailed in sections D.25(a)(ii) and D.25(a)(iii) of this certification.
- b. Recipient shall provide immediate written notice to Metro if at any time Recipient learns that there was an earlier failure to disclose information or that due to changed circumstances, its principals fall under any of the prohibitions of Section D.25(a).

**D.28. Criminal Background Checks.** Recipient shall comply, and shall assure that any of its subcontractors performing work under this Contract comply, with Public Chapter 587 of 2007, as codified in Tennessee Code Annotated Section 49-5-413, which requires all contractors to facilitate a criminal history records check conducted by the Tennessee Bureau of Investigation and the Federal Bureau of Investigation for each employee prior to permitting the employee to have contact with students or enter school grounds when students are present.

When applying for the background check defined above, Recipient's employees and subcontractors must specify the appropriate ORI code for results reporting and provide Metro with the green light letter per employee.

- If Recipient and any of its subcontractors performing work under this Contract will have direct contact with MNPS students, MNPS ORI code (TN930050Z) shall be used.
- If Recipient and any of its subcontractors performing work under this Contract will not have direct contact with MNPS students (e.g. roofers, electricians, welders, etc.), Recipient's own ORI code (TNCC19251) shall be used.

The requirement stated in the preceding paragraph does not apply to a person whose contract is for the performance of a service at a school-sponsored activity, assembly or event at which school officials or employees are present when the service is performed and where the activity, assembly or event is conducted under the supervision of school officials or employees.

**D.29. Effective Date.** This contract will not be binding upon the parties until it has been signed first by the Recipient and then by the authorized representatives of the Metropolitan Government and has been filed in the office of the Metropolitan Clerk. When it has been so signed and filed, this contract will be effective as of the date first written above.

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**THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON  
COUNTY:**

APPROVED AS TO AVAILABILITY OF  
FUNDS:

Kelly Flannery/mjw  
Director of Finance

**RECIPIENT: PENCIL Foundation**

By: Angie Adams

Name: Angie Adams

Title: CEO

Date: 4-20-23

APPROVED AS TO FORM AND  
LEGALITY

Courtney Mohan  
Metropolitan Attorney

FILED IN THE OFFICE OF THE CLERK:

\_\_\_\_\_  
Metropolitan Clerk

**METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY  
GRANT SPENDING PLAN**

<b>RECIPIENT NAME:</b>	PENCIL Foundation
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<b>THE FOLLOWING IS APPLICABLE TO EXPENSES PLANNED TO BE INCURRED DURING THE CONTRACT GRANT PERIOD: 5/3/2023 through 6/30/2023</b>				
	<b>EXPENSE OBJECT LINE-ITEM CATEGORY</b>	<b>METRO GRANT FUNDS</b>	<b>RECIPIENT MATCH (participation)</b>	<b>TOTAL PROJECT</b>
	Salaries and Wages	\$82,600.00		\$82,600.00
	Benefits and Taxes (20%)	\$16,000.00		\$16,000.00
	Professional Fees			\$0.00
	Supplies			\$0.00
	Communications			\$0.00
	Postage and Shipping			\$0.00
	Occupancy			\$0.00
	Equipment Rental and Maintenance			\$0.00
	Printing and Publications			\$0.00
	Travel/ Conferences and Meetings	\$750.00		\$750.00
	Insurance			\$0.00
	Specific Assistance to Individuals			\$0.00
	Other Non-Personnel	\$650.00		\$650.00
	<b>GRAND TOTAL</b>	<b>\$100,000.00</b>	<b>\$0.00</b>	<b>\$100,000.00</b>



P.O. Box 2508, Room 4010  
Cincinnati OH 45201

In reply refer to: 4077952422  
Aug. 14, 2019 LTR 4168C 0  
58-1475675 000000 00

00031447  
BODC: TE

PENCIL FOUNDATION  
ANGELA U ADAMS CEO  
7199 COCKRILL BEND BLVD  
NASHVILLE TN 37209-1005

010251

Employer ID number: 58-1475675  
Form 990 required: Yes

Dear Taxpayer:

We're responding to your request dated July 16, 2019, about your tax-exempt status.

We issued you a determination letter in August 1982, recognizing you as tax-exempt under Internal Revenue Code (IRC) Section 501(c)(3).

We also show you're not a private foundation as defined under IRC Section 509(a) because you're described in IRC Sections 509(a)(1) and 170(b)(1)(A)(vi).

Donors can deduct contributions they make to you as provided in IRC Section 170. You're also qualified to receive tax deductible bequests, legacies, devises, transfers, or gifts under IRC Sections 2055, 2106, and 2522.

In the heading of this letter, we indicated whether you must file an annual information return. If you're required to file a return, you must file one of the following by the 15th day of the 5th month after the end of your annual accounting period:

- Form 990, Return of Organization Exempt From Income Tax
- Form 990EZ, Short Form Return of Organization Exempt From Income Tax
- Form 990-N, Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or Form 990-EZ
- Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Trust Treated as Private Foundation

According to IRC Section 6033(j), if you don't file a required annual information return or notice for 3 consecutive years, we'll revoke your tax-exempt status on the due date of the 3rd required return or notice.

You can get IRS forms or publications you need from our website at [www.irs.gov/forms-pubs](http://www.irs.gov/forms-pubs) or by calling 800-TAX-FORM (800-829-3676).

If you have questions, call 877-829-5500 between 8 a.m. and 5 p.m.,

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00031448

PENCIL FOUNDATION  
ANGELA U ADAMS CEO  
7199 COCKRILL BEND BLVD  
NASHVILLE TN 37209-1005

local time, Monday through Friday (Alaska and Hawaii follow Pacific time).

Thank you for your cooperation.

Sincerely yours,

*Stephen A. Martin*

Stephen A. Martin  
Director, EO Rulings & Agreements



**AMENDED AND RESTATED BYLAWS  
OF  
PENCIL FOUNDATION**

These Bylaws shall regulate the business and affairs of PENCIL Foundation (the "Company"), subject to the provisions of the Charter of the Company (as amended or restated from time to time, the "Charter") and any applicable provisions of the Tennessee Nonprofit Corporation Act (as amended, the "Act"). These Amended and Restated Bylaws amend and restate in their entirety the By-Laws of the Company dated March 2009.

**ARTICLE I. OFFICES**

1.1 Principal Office. The principal office of the Company shall be located at 4805 Park Avenue, Suite 101, Nashville, TN 37209, or such other address listed in the Company's Charter. The Company may have such other offices, either within or without the State of Tennessee, as its Board of Directors may designate or as the business of the Company may require from time to time.

1.2 Registered Office. The registered office of the Company required by the Act to be maintained in the State of Tennessee may, but need not, be identical to the principal office in the State of Tennessee; and the address of the registered office may be changed from time to time by its Board of Directors.

**ARTICLE II. CHARITABLE PURPOSES**

2.1 Purposes. The purpose of the Company shall be to link community resources with Nashville Public Schools to help young people achieve academic success and prepare for life. In order fully to effectuate the provisions of this section, the Corporation shall adopt such procedures, and shall otherwise adhere to such administrative requirements as may from time to time be necessary, in order fully to comply with all applicable federal tax laws and regulations.

2.2 Prohibitions on Private Inurement. The Company is not formed for financial or pecuniary gain; and no part of the assets, income, or profits of the Company shall be distributable to, or inure to, the benefit of its directors, officers or any other private person, except that the Company may provide reimbursements for reasonable expenses incurred on behalf of the Company, and may also make payments and distributions in furtherance of the charitable purposes of the Company, as set forth in the Charter.

2.3 No Legislative or Political Activity. No substantial part of the activities of the Company shall be the carrying on of propaganda or otherwise attempting to influence legislation; and the Company shall not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of (or in opposition to) any candidate for public office.

2.4 Private Foundation Limitations. If the Company is a private foundation within the meaning of § 509 of the Internal Revenue Code of 1986, as amended (the “Code”), for a taxable year, the Company:

(a) Shall not engage in any act of self-dealing, as defined in § 4941(d) of the Code;

(b) Shall not retain any excess business holdings, as defined in § 4943(c) of the Code, which would subject the Company to tax under § 4943 of the Code;

(c) Shall not make any investments that would subject the Company to tax under § 4944 of the Code;

(d) Shall not make any taxable expenditures, as defined in § 4945(d) of the Code; and

(e) Shall distribute the income of the Company for each taxable year at such times and in such manner as not to become subject to the tax on undistributed income imposed by § 4942 of the Code.

2.5 Termination of the Company. The Board of Directors of the Company shall have the authority to dissolve the Company at any time that, by an affirmative vote of a majority of the Board of Directors, it deems such dissolution appropriate or advisable. Upon the dissolution of the Company, after paying or making provision for payment of all liabilities of the Company then outstanding and unpaid, the Board of Directors shall distribute the assets of the Company to one or more organizations then described in §§ 501(c)(3) and 170(c) of the Code, or any corresponding provisions of any future federal tax laws, as the Board of Directors shall determine. Any assets not so disposed of by the Board of Directors shall be disposed of by a court having equity jurisdiction in the county in which the principal office of the Company is then located, with the distribution of assets to be made to such organization or organizations which are organized and operated exclusively for charitable purposes within the meaning of §§ 501(c)(3) and 170(c) of the Code, or any corresponding provisions of any future federal tax laws, as such court shall determine.

### **ARTICLE III. MEMBERSHIP**

The Company shall not have members.

### **ARTICLE IV. DIRECTORS**

4.1 General Powers. The business and affairs of the Company shall be supervised by its Board of Directors (the “Board”), which shall exercise in the name of and on behalf of the Company all of the rights and privileges legally exercisable by the Company as a corporate entity, except as may otherwise be provided by law, the Charter, or these Bylaws. In addition, without limiting the foregoing, the Board shall be authorized and empowered:

(a) To employ such persons as in its opinion are needed for the administration of the Company and to pay reasonable compensation for services and expenses thereof;

(b) To receive, accept, administer, invest and distribute on behalf of the Company property gifted or bequeathed to the Company; and

(c) To make distributions of income and principal in furtherance of the Company's charitable purposes in such amounts and proportions as the Board, in its discretion, shall determine from time to time.

4.2 Number and Tenure. There shall be at least twelve (12) Directors of the Company and no more than sixty (60) Directors. Each elected Director shall hold office for a term of three (3) years, or until such director's earlier resignation, removal from office, or death. Each elected Director may serve a maximum of two (2) consecutive three (3) year terms, except when a Director is elected to an officer position with a term that goes beyond the expiration of such Director's second (2<sup>nd</sup>) three (3) year term, in which case such Director's term shall expire contemporaneously with the expiration of such Director's term as an officer. Notwithstanding the foregoing, Directors having served two (2) consecutive three (3) year terms may serve for additional consecutive three (3) year terms upon request to, and approval by, the Executive Committee. Former Directors having served two (2) consecutive three (3) year terms may be re-elected to the Board, so long as one (1) year has lapsed since the date the Director last served as Director. Any vacancies on the Board shall be filled by the affirmative vote of a majority of the Directors then in office as provided in Section 4.10. Any Director's term may be extended by the affirmative vote of a majority of the Directors. Notwithstanding the limitation on each Director's duration of service as a Director, the Directors hereby confer ex-officio, non-voting Lifetime Director status to Sue Spickard, in recognition and honor of the dedication she committed to the establishment and perpetuation of the Company.

4.3 Limited Personal Liability. No person who is or was a Director of the Company, nor such person's heirs, executors or administrators (hereinafter collectively referred to for purposes of this Section as a "Director"), shall be personally liable to the Company for monetary damages for breach of fiduciary duty as a Director. However, this provision shall not eliminate or limit the liability of a Director:

(a) for any breach of a Director's duty of loyalty to the Company;

(b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; or

(c) under § 48-58-304 of the Act.

If the Act hereafter is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a Director of the Company, in addition to the limitation on personal liability provided herein, shall be limited to the full extent permitted by the amended Act. No repeal or modification of the provisions of this Section, either directly or by the adoption of a

provision inconsistent with the provisions of this Section, shall adversely affect any right or protection, as set forth herein, existing in favor of a particular individual at the time of such repeal or modification.

4.4 Annual Meeting. The annual meeting of the Board shall be held within or without the State of Tennessee at such time and date as shall be determined by the Board. The purpose of the annual meeting shall be to elect officers and transact such other business as may properly be brought before the meeting in accordance with the Act. If the Directors and officers are not elected on the day herein designated for any annual meeting of the Board, or at any adjournment thereof, the Board shall cause a special meeting of the Board to be held as soon thereafter as may be convenient for such purpose.

4.5 Special Meetings. Special meetings of the Board may be called by the Chair or at the request of any two (2) members of the Board.

4.6 Notices. Notice of the time and place of each annual or special meeting shall be given to each Director by the Chair or by the person or persons calling such meeting. Notice of each annual and special meeting shall be given at least two (2) days prior thereto. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened. Notices may be sent by electronic transmission or any technological evolution thereof.

4.7 Quorum and Participation. A majority of the total number of Directors in office shall constitute a quorum for the transaction of business at any meeting of the Board. The members of the Board, or any committee designated by the Board, may participate in a meeting of the Board, or of such committee, by means of conference telephone or similar remote communications equipment by means of which all persons participating in the meeting can hear one another; and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. The Board shall be promptly furnished a copy of the minutes of the meetings of the Board. At the invitation of the Chair or Board of Directors, the Board of Directors may include ex-officio, non-voting, members.

4.8 Manner of Acting. Each Director shall be entitled to one (1) vote upon any matter properly submitted for a vote to the Board. The act of a majority of the Directors present at a meeting at which a quorum is present (including present by means of remote communication) shall be the act of the Board, except as may otherwise be specifically provided by law, by the Charter, or by these Bylaws. Members of the Board absent from any meeting shall not be permitted to vote at such meeting by written proxies. The Chair shall preside over all meetings of the Board. If the Chair is not able to attend a meeting of the Board, then he or she shall appoint another Board member to preside over such meeting.

4.9 Action Without a Meeting. Any action required or permitted to be taken at a meeting by the Board, or by any committee thereof, may be taken without a meeting if all voting members of



the Board or committee thereof as the case may be, consent in writing to taking such action without a meeting. If all members entitled to vote on the action shall consent in writing to taking such action without a meeting, the affirmative vote of the number of votes that would be necessary to authorize or take such action at a meeting shall be the act of the Board or committee thereof as the case may be. The action must be evidenced by one (1) or more written consents describing the action taken, signed in one (1) or more counterparts by each member entitled to vote on the action, indicating each signing member's vote or abstention on the action taken. All such written consents and actions shall be filed with the minutes of the proceedings of the Board, or committee thereof. A consent signed under this Section shall have the same force and effect as a meeting vote of the Board, or any committee thereof, and may be described as such in any document.

4.10 Vacancies. Any vacancy occurring in the Board shall be filled by the affirmative vote of a majority of the Directors then in office. If a vacancy is not filled within ninety (90) days after the event which resulted in there being fewer directors than required by the Bylaws or Charter, any Director may apply to a court having equity jurisdiction in the county in which the Company has its principal office to have such court appoint a sufficient number of directors so that the Company will have the number of directors required by its Bylaws or Charter, whichever number is greater.

4.11 Presumption of Assent. A Director of the Company who is present at a meeting of the Board at which action on any Company matter is taken shall be presumed to have assented to the action taken, unless such Director's dissent shall be entered in the minutes of the meeting, or unless he or she shall forward such dissent by certified mail to the Chair immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

4.12 Removal. Any Director may be removed, with or without cause, by the unanimous vote of the other Directors.

4.13 Resignation. A Director may resign his or her membership at any time by tendering his or her resignation in writing to the Chair or, in the case of the resignation of the Chair, to the Chief Executive Officer. A resignation shall become effective upon the date specified in such notice or, if no date is specified, upon receipt of the resignation by the Company at its principal place of business.

## ARTICLE V. OFFICERS

5.1 Number. The Company shall have a President and Secretary, each of whom shall be elected in accordance with the provisions of this Article. The Board may also elect such other officers and assistant officers as the Board may from time to time deem necessary or appropriate, including Chair, Vice Chair, Immediate Past Chair, Vice President and Treasurer. Any two or more offices may be held simultaneously by the same person, except for the office of President and Secretary.

5.2 Election and Term of Office. The officers of the Company shall be elected annually by the Board at its annual meeting. Each officer shall hold office for a term of one (1) year or until

his or her earlier death, resignation or removal from office in the manner hereinafter provided. A retiring officer may succeed himself or herself.

5.3 Chief Executive Officer. Chief Executive Officer (the “Chief Executive Officer”) shall be the principal executive officer of the Company, and shall have the same powers bestowed upon a president under the Act and all of the authority incident to the office of the chief executive officer of a corporation, as well as such other duties as may from time to time be prescribed by the Board. The Chief Executive Officer may sign or any other proper officer thereunto authorized by the Board: deeds, mortgages, bonds, contracts or other instruments which the Board has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board or these Bylaws to some other officer or agent of the Company or shall be required by law to be otherwise signed or executed.

5.4 Chair. The Chair shall be the President of the Company and shall, when present, preside at all meetings of the Board. The Chair may sign, with the Chief Executive Officer or any other proper officer thereunto authorized by the Board: deeds, mortgages, bonds, contracts or other instruments which the Board has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board or these Bylaws to some other officer or agent of the Company or shall be required by law to be otherwise signed or executed.

5.5 Secretary. The Secretary shall keep the minutes of the proceedings of the Board in one or more books provided for that purpose; see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; be custodian of the corporate records and of the seal, if any, of the Company; see that the seal is affixed to all documents, the execution of which is duly authorized on behalf of the Company under its seal; keep a register of the post office address of each member of the Board, which address shall be furnished to the Secretary by each director; and in general, perform all duties incident to the office of Secretary and such other duties as may from time to time be assigned to him or her by the Chief Executive Officer, the Chair or by the Board.

5.6 Removal. The Board may remove any officer when, in its judgment, the best interests of the Company will be served thereby. Such removal may be with or without cause by an affirmative vote of the majority of the Board.

5.7 Vacancies. A vacancy in any office held by an officer, because of death, resignation, removal, disqualification or otherwise, may be filled by the Board.

5.8 Resignation. An officer may resign such officer’s position at any time by tendering such resignation in writing to the Chair or, in the case of the resignation of the Chair, to the Chief Executive Officer. A resignation shall become effective upon the date specified in such notice, or, if no date is specified, upon receipt of the resignation by the Company at its principal place of business.

5.9 Voting Securities. Unless otherwise ordered by the Board, the Chief Executive Officer shall have full power and authority on behalf of the Company to attend and to act and vote at any meetings of security holders, partnerships or corporations in which the Company may hold

securities, and at such meetings shall possess and may execute any and all rights and powers incident to the ownership of such securities which the Company might have possessed and exercised if it had been present. The Board may from time to time by a resolution confer like powers upon any other person or persons.

## ARTICLE VI. COMMITTEES

6.1 Standing Committees. The Board of Directors may maintain such standing committees as it may determine from time to time to be necessary or desirable for its proper functioning. Such committees shall consist of two (2) or more members, shall be under the control and serve at the pleasure of the Board of Directors, shall have charge of such duties as may be assigned to them by the Board of Directors or these Bylaws, shall maintain a permanent record of their actions and proceedings, and shall regularly submit a report of their actions to the Board of Directors. The Chief Executive Officer, and, at his or her election, the Chair, shall serve on each committee as an ex-officio, non-voting, member. Such standing committees shall have such authority as may be stipulated by the Board of Directors. The Nominating and Governance Committee shall be a standing committee.

6.2 Ad Hoc Committees. The Chief Executive Officer, with the approval of the Board of Directors as evidenced by resolution, or the Chair, may from time to time create such ad hoc committees as he or she believes necessary or desirable to investigate matters or advise the Board of Directors. Ad hoc committees shall limit their activities to the accomplishment of the tasks for which created and shall have no power to act except as specifically conferred by resolution of the Board of Directors. Such committees shall operate until their tasks have been accomplished or until earlier discharged by the Board of Directors. Ad Hoc Committees may include individuals other than members of the Board of Directors, and members of the Board of Directors invited by the committee chair, the Chief Executive Officer or the Chair.

6.3 Executive Committee. The Executive Committee shall consist of the Officers of the Company, the Immediate Past Chair, the Chair, the Vice Chair, the Chief Executive Officer, the chairs of any then existing committees and up to three (3) Directors appointed by the Chair. Such committee will meet at such time and place as determined by the Chair. The terms of Sections 4.7, 4.8 and 4.9 shall govern the meetings of the Executive Committee, to the extent applicable. Any action taken by the Executive Committee shall be reported to the Board of Directors at its next meeting. Except as expressly limited by the Act or the Charter, the Executive Committee shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Company between the meetings of the Board of Directors. The Executive Committee shall keep a record of its acts and proceedings, which shall form a part of the records of the Company in the custody of the Chair, and all actions of the Executive Committee shall be reported to the Board of Directors at the next meeting of the Board of Directors. Except as expressly provided in this Section, the Executive Committee shall fix its own rules of procedure.

## ARTICLE VII. CONTRACTS, LOANS, CHECKS, DEPOSITS, INVESTMENTS

7.1 Contracts and Employment of Agents. The Board may authorize any officer or agent to enter into any contract, or execute and deliver any instrument, in the name of and on behalf of the Company. The Board shall be specifically authorized, in its sole discretion, to employ and to pay the compensation of such agents, accountants, custodians, experts, consultants and other counsel, legal, investment or otherwise, as the Board shall deem advisable, and to delegate discretionary powers to, and rely upon information furnished by, such individuals or entities. Such authority may be general or confined to specific instances. The Chief Executive Officer is authorized to enter into contracts, and execute instruments, on behalf of the Company, in amounts up to \$50,000.

7.2 Loans. No loans shall be contracted on behalf of the Company, and no evidences of indebtedness shall be issued in its name, unless authorized by a resolution of the Board. Such authority may be general or confined to specific instances.

7.3 Checks. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Company shall be signed by such officer or officers, agent or agents of the Company and in such manner as shall from time to time be determined by resolution of the Board.

7.4 Deposits. All funds of the Company not otherwise employed shall be deposited from time to time to the credit of the Company with such banks, trust companies, brokerage accounts, investment managers, or other depositories as the Board may from time to time select.

7.5 Investment Authority. The Board shall be authorized to retain assets distributed to it, even though such assets may constitute an over-concentration in one or more similar investments. Further, the Board shall have the authority to make investments in unproductive property or to hold unproductive property to the extent necessary until it can be converted into productive property at an appropriate time, provided the retention of such property is in the best interest of the Company and does not jeopardize the tax-exempt status of the Company.

## ARTICLE VIII. STANDARDS OF CONDUCT

8.1 Standards of Conduct. A Director or an officer of the Company shall discharge his or her duties as a Director or as an officer, including duties as a member of a committee:

- (a) in good faith;
- (b) with the care an ordinarily prudent person in a like position would exercise under similar circumstances; and
- (c) in a manner he or she reasonably believes to be in the best interest of the Company.

8.2 Reliance on Third Parties. In discharging his or her duties, a Director or officer is entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, if prepared or presented by:

(a) one or more officers or employees of the Company whom the Director or officer reasonably believes to be reliable and competent in the matters presented;

(b) legal counsel, public accountants, or other persons as to matters the Director or officer reasonably believes are within the person's professional or expert competence; or

(c) with respect to a Director, a committee of the Board of which the Director is not a member, as to matters within its jurisdiction, if the Director or officer reasonably believes the committee merits confidence.

8.3 Bad Faith. A Director or officer is not acting in good faith if he or she has knowledge concerning the matter in question that makes reliance otherwise permitted by Section 8.2 unwarranted.

8.4 No Liability. A Director or officer is not liable for any action taken, or any failure to take action, as a Director or officer, if such Director or officer performs the duties of his or her office in compliance with the provisions of this Article, or if such Director or officer is immune from suit under the provisions of § 48-58-601 of the Act or any successor statutory provision.

8.5 No Fiduciary Duty. No Director or officer shall be deemed to be a fiduciary with respect to the Company or with respect to any property held or administered by the Company, including, without limitation, property that may be subject to restrictions imposed by the donor or transferor of such property.

8.6 Prohibition on Loans. No loans or guarantees shall be made by the Company to its Directors or officers. Any Director who assents to or participates in the making of any such loan shall be liable to the Company for the amount of such loan until the repayment thereof.

## **ARTICLE IX. CONFLICTS OF INTEREST**

9.1 Purpose. The Company shall have a Conflict of Interest Policy as provided in this Article. The purpose of this Conflict of Interest Policy is to protect the Company's interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Company or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflicts of interest applicable to nonprofit and charitable organizations.

## 9.2 Definitions.

(a) Interested Person. Any director, principal officer, or member of a committee with governing board delegated powers, who has a direct or indirect financial interest, as defined below, is an interested person.

(b) Financial Interest. A person has a financial interest if the person has, directly or indirectly, through business, investment, or family:

(i) An ownership or investment interest in any entity with which the Company has a transaction or arrangement,

(ii) A compensation arrangement with the Company or with any entity or individual with which the Company has a transaction or arrangement, or

(iii) A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Company is negotiating a transaction or arrangement.

Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial. A financial interest is not necessarily a conflict of interest. Under Subsection 9.3(b) below, a person who has a financial interest may have a conflict of interest only if the appropriate governing board or committee decides that a conflict of interest exists.

## 9.3 Procedures.

(a) Duty to Disclose. In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement.

(b) Determining Whether a Conflict of Interest Exists. After disclosure of the financial interest and all material facts, and after any discussion with the interested person, the interested person shall leave the governing board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee members shall decide if a conflict of interest exists.

(c) Procedures for Addressing the Conflict of Interest.

(i) An interested person may make a presentation at the governing board or committee meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.

(ii) The chairperson of the governing board or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

(iii) After exercising due diligence, the governing board or committee shall determine whether the Company can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.

(iv) If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Company's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

(d) Violations of the Conflict of Interest Policy.

(i) If the governing board or committee has reasonable cause to believe a member has failed to disclose actual or possible conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.

(ii) If, after hearing the member's response and after making further investigation as warranted by the circumstances, the governing board or committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

9.4 Records of Proceedings. The minutes of the governing board and all committees with board delegated powers shall contain:

(a) The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the governing board's or committee's decision as to whether a conflict of interest in fact existed.

(b) The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

9.5 Compensation.

(a) A voting member of the governing board who receives compensation, directly or indirectly, from the Company for services is precluded from voting on matters pertaining to that member's compensation.

(b) A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Company for services is precluded from voting on matters pertaining to that member's compensation.

(c) No voting member of the governing board or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Company, either individually or collectively, is prohibited from providing information to any committee regarding compensation.

9.6 Annual Statements. Each director, principal officer and member of a committee with governing board delegated powers shall annually sign a statement which affirms such person:

(a) Has received a copy of the conflicts of interest policy,

(b) Has read and understands the policy,

(c) Has agreed to comply with the policy, and

(d) Understands the Company is charitable and in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

9.7 Periodic Reviews. To ensure the Company operates in a manner consistent with charitable purposes and does not engage in activities that could jeopardize its tax-exempt status, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects:

(a) Whether compensation arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining.

(b) Whether partnerships, joint ventures, and arrangements with management organizations conform to the Company's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further charitable purposes and do not result in inurement, impermissible private benefit or in an excess benefit transaction.

9.8 Use of Outside Experts. When conducting the periodic reviews as provided for in Section 9.7, the Company may, but need not, use outside advisors. If outside experts are used, their use shall not relieve the governing board of its responsibility for ensuring periodic reviews are conducted.



## ARTICLE X. INDEMNIFICATION

10.1 Mandatory Indemnification. To the maximum extent permitted by the provisions of §§ 48-58-501, et seq., of the Act, as amended from time to time (provided, however, that if an amendment to the Act in any way limits or restricts the indemnification rights permitted by law as of the date hereof, such amendment shall apply only to the extent mandated by law and only to activities of persons subject to indemnification under this Section 10.1 which occur subsequent to the effective date of such amendment), the Company shall indemnify and advance expenses to any person who is or was a Director or officer of the Company, or to such person's heirs, executors, administrators and legal representatives, for the defense of any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, or investigative, and whether formal or informal (any such action, suit or proceeding being hereinafter referred to for purposes of this Article as the "Proceeding"), to which such person was, is or is threatened to be made, a named defendant or respondent, which indemnification and advancement of expenses shall include counsel fees actually incurred as a result of the Proceeding or any appeal thereof, reasonable expenses actually incurred with respect to the Proceeding, and all fines, judgments, penalties and amounts paid in settlement thereof, subject to the following conditions:

(a) the Proceeding was instituted by reason of the fact that such person is or was a Director or officer of the Company; and

(b) the Director or officer conducted himself or herself in good faith, and he or she reasonably believed: (i) in the case of conduct in his or her official capacity with the Company, that his or her conduct was in its best interest; (ii) in all other cases, that his or her conduct was at least not opposed to the best interests of the Company; and (iii) in the case of any criminal proceeding, that he or she had no reasonable cause to believe his or her conduct was unlawful.

The termination of a Proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent is not, of itself, determinative that the Director or officer did not meet the standard of conduct herein described.

10.2 Permissive Indemnification. The Company may, to the maximum extent permitted by the provisions of § 48-58-501, et seq., of the Act, as amended from time to time (provided, however, that if an amendment to the Act in any way limits or restricts the indemnification rights permitted by law as of the date hereof, such amendment shall apply only to the extent mandated by law and only to activities of persons subject to indemnification under this Section which occur subsequent to the effective date of such amendment), indemnify and advance expenses in a Proceeding to any person who is or was an employee or agent of the Company, or to such person's heirs, executors, administrators and legal representatives, to the same extent as set forth in Section 10.1 above, provided that the Proceeding was instituted by reason of the fact that such person is or was an employee or agent of the Company and met the standards of conduct set forth in Subsection 10.1(b) above. The Company also may indemnify and advance expenses in a Proceeding to any person who is or was an employee or agent of the Company to the extent, consistent with public policy, as may

be provided by the Charter, by these Bylaws, by contract, or by general or specific action of the Board.

10.3 Non-Exclusive Application. The rights to indemnification and advancement of expenses set forth in Sections 10.1 and 10.2 above are contractual between the Company and the person being indemnified, as well as such person's heirs, executors, administrators and legal representatives, and are not exclusive of other similar rights of indemnification or advancement of expenses to which such person may be entitled, whether by contract, by law, by the Charter, by a resolution of the Board, by these Bylaws, by the purchase and maintenance by the Company of insurance on behalf of a Director, officer, employee or agent of the Company, or by an agreement with the Company providing for such indemnification, all of which means of indemnification and advancement of expenses are hereby specifically authorized.

10.4 Non-Limiting Application. The provisions of this Article 10 shall not limit the power of the Company to pay or reimburse expenses incurred by a Director, officer, employee or agent of the Company in connection with such person's appearing as a witness in a Proceeding at a time when such person has not been made a named defendant or respondent to the Proceeding.

10.5 Prohibited Indemnification. Notwithstanding any other provision of this Article 9, the Company shall not indemnify or advance expenses to or on behalf of any Director, officer, employee or agent of the Company, or such person's heirs, executors, administrators or legal representatives:

(a) if a judgment or other final adjudication adverse to such person establishes such person's liability for any breach of the duty of loyalty to the Company, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or under § 48-58-304 of the Act;

(b) in connection with a Proceeding by or in the right of the Company in which such person was adjudged liable to the Company; or

(c) in connection with any other Proceeding charging improper personal benefit to such person, whether or not involving action in his or her official capacity, in which such person was adjudged liable on the basis that personal benefit was improperly received by him or her.

10.6 Repeal or Modification Not Retroactive. No repeal or modification of the provisions of this Article 10, either directly or by the adoption of a provision inconsistent with the provisions of this Article, shall adversely affect any right or protection, as set forth herein, existing in favor of a particular individual at the time of such repeal or modification.

## ARTICLE XI. NOTICES AND WAIVER OF NOTICE

The notices provided for in these Bylaws shall be communicated in person, by telephone, facsimile, telegraph, teletype, or e-mail, or by mail or private carrier. Written notice is effective at the earliest of:

- (a) receipt;
- (b) five (5) days after its deposit in the United States mail, if mailed correctly addressed and with first-class postage affixed thereon;
- (c) on the date shown on the return receipt, if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the addressee.

Whenever any notice is required to be given to any Director, officer or committee member of the Company under the provisions of these Bylaws, the Charter, or the Act, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

## ARTICLE XII. AMENDMENTS

12.1 By The Board. These Bylaws and the Charter may be altered, amended or repealed, and a new Charter or new Bylaws adopted by a majority of the Board at any annual or special meeting of the Board, provided that the notice of such meeting shall state that the purpose, or one (1) of the purposes, of the meeting is to amend the Bylaws and/or the Charter and shall also contain a description of the amendment to be considered.

12.2 Limitation on Amendment. No alteration, amendment or repeal shall be made to the extent that such alteration, amendment or repeal is inconsistent with the charitable purposes of the Company as set forth in the Charter. No amendment shall authorize the Board to conduct the affairs of the Company in any manner or for any purpose contrary to the provisions of § 501(c)(3) and of the Code, as now in force or hereafter amended.

## ARTICLE XIII. EXEMPT STATUS

The Company has been organized and will be operated exclusively for exempt purposes within the meaning of § 501(c)(3) of the Code and, as such, will be exempt from taxation under § 501(a) of the Code. Any provision of these Bylaws or of the Charter which would in any manner adversely affect the Company's tax exempt status shall be void and shall be deleted or modified as necessary to comply with all applicable federal and state requirements for the maintenance of the Company's tax exempt status.

Effective: 2/16, 2017

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

PENCIL FOUNDATION  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2022 AND 2021

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
PENCIL Foundation  
Nashville, Tennessee

### OPINION

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PENCIL Foundation as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### BASIS FOR OPINION

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

### RESPONSIBILITIES OF MANAGEMENT FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PENCIL's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PENCIL's ability to continue as a going concern for a reasonable period of time.

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

*Kraft CPAs PLLC*

Nashville, Tennessee  
October 20, 2022

PENCIL FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2022 AND 2021

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

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 and other grants	66,000	-	66,000
In-kind contributions	3,445,505	5,000	3,450,505
Special events	313,013	-	313,013
Consulting services	14,969	-	14,969
Other revenue	6,499	-	6,499
Investment loss	(102,740)	(30,206)	(132,946)
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	(8,097)	-	(8,097)
Net assets released from restrictions	<u>158,873</u>	<u>(158,873)</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>7,089,419</u>	<u>284,009</u>	<u>7,373,428</u>
EXPENSES			
Program services	6,543,664	-	6,543,664
Supporting services:			
Management and general	107,104	-	107,104
Fundraising	<u>578,686</u>	<u>-</u>	<u>578,686</u>
TOTAL EXPENSES	<u>7,229,454</u>	<u>-</u>	<u>7,229,454</u>
CHANGE IN NET ASSETS	(140,035)	284,009	143,974
NET ASSETS - BEGINNING OF YEAR	<u>1,976,540</u>	<u>438,077</u>	<u>2,414,617</u>
NET ASSETS - END OF YEAR	<u>\$ 1,836,505</u>	<u>\$ 722,086</u>	<u>\$ 2,558,591</u>

See accompanying notes to financial statements.

PENCIL FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021

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

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

PENCIL FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2021

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

See accompanying notes to financial statements.

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

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

See accompanying notes to financial statements.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

NOTE 1 - GENERAL

PENCIL Foundation ("PENCIL") is a not-for-profit organization formed in 1982 to link community resources to Nashville public schools to help young people achieve academic success and prepare for life.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of PENCIL have been prepared in accordance with generally accepted accounting principles ("GAAP"), which require PENCIL to report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of PENCIL's management and the Board of Directors.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of PENCIL or by the passage of time. There are currently no donor restrictions that are perpetual in nature.

PENCIL reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue Recognition

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

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

*In-kind contributions* - PENCIL reports any gifts of property, equipment, or materials at the estimated fair value at the date of gift as support without donor restrictions unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as support with donor restrictions. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service. Donated services are recognized if they create or enhance non-financial assets, or the donated service requires specialized skills, were performed by a donor who possesses such skills, and would have been purchased by PENCIL if not donated. Such services are recognized at fair value as support and expense in the period the services are performed.

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

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

Donated Services

A substantial number of unpaid volunteers have made contributions of their time to serve as tutors, mentors, teacher supply store volunteers and in other capacities in order to serve Nashville public school students. The total value of time contributed by these volunteers for the year ended June 30, 2022 has been estimated to be approximately \$724,000 (\$728,000 for the year ended June 30, 2021). This amount has not been recorded in the accompanying financial statements as it does not meet GAAP recognition criteria.

Other individuals volunteer their time and perform a variety of tasks that assist PENCIL with program services and fundraising events. No amounts have been reflected in the financial statements for volunteer time since these donated services do not meet the criteria for recognition under GAAP.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

PENCIL considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Contributions Receivable

Unconditional contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. As of June 30, 2022, management deemed the discount to be insignificant. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received. Conditional promises to give are not included as support until such time as the conditions are substantially met.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible. In management's opinion, no allowance for uncollectible contributions was necessary as of June 30, 2022 and 2021.

Inventory

Inventory consists of donated school supplies received primarily from supply distributors and school supply drives. Inventory is recorded at its estimated fair value at the time the goods are received from the donor. Provision is made to reduce any excess, obsolete or slow-moving inventory to net realizable value.

Investments

Investments consist of money market funds, certificates of deposit, bonds, mutual funds, equities and exchange traded funds. Money market funds and certificates of deposit are carried at cash value plus accrued interest. Bonds, mutual funds, equities and exchange traded funds are carried at their quoted market value on the last business day of the reporting period. Interest and dividends, as well as changes in unrealized gains and losses are recognized currently in the statement of activities.

PENCIL has invested in certificates of deposit with a financial institution maturing in fiscal year 2023. These certificates of deposits have an average yield of 2.20% as of June 30, 2022 (2.35% as of June 30, 2021).

Agency Endowment Fund

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



PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

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

Fair Value Measurements

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

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

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

*Investments* - Mutual funds, equities and exchange traded funds are classified within Level 1 where quoted market prices are available in an active market for identical assets. If quoted market prices are unavailable, fair value is estimated using quoted market prices of investments with similar characteristics, and the investments are classified within Level 2. Bonds are valued on the basis of information provided by pricing services that employ valuation matrices that may incorporate both broker/dealer-supplied valuations as well as valuation models reflecting factors such as benchmark yields, reported trades, broker/dealer quotes, bid/offer data and other relevant elements, and are classified within Level 2 of the valuation hierarchy

*Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee* - The agency endowment fund held at the CFMT represents PENCIL's interest in pooled investments with other participants in the funds. The CFMT prepares a valuation of the fund based on the fair value of the underlying investments using quoted market prices and allocates income or loss to each participant based on market results. PENCIL reflects this asset within Level 2 of the valuation hierarchy.

There have been no changes in the valuation methodologies used at June 30, 2022 or 2021.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while PENCIL believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Funds

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

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

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

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

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

Income Taxes

PENCIL qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued)

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

Program and Supporting Services

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

Program Services

PENCIL Partners and PENCIL Academy Partners are businesses and organizations committed to student success through organized, coordinated activities that match the unique attributes of each Partner with the specific needs of each school or academy. Schools turn to us and our wide network of business contacts to help them find Partners that are a good match for their school. Businesses and organizations turn to us and our comprehensive knowledge of Nashville Public Schools when they want to connect with a school where they can help students. PENCIL also serves as the coordinator of these ongoing Partnership relationships. We facilitate communication, provide activity ideas, advise on volunteer management and help the school and Partner develop a year-long strategic plan. In addition, PENCIL hosts the [PENCILMeIn615.org](http://PENCILMeIn615.org) website where schools, Partners and individuals log their volunteer hours and in-kind gifts.

PENCIL's Family Resource Centers ("FRCs") act as a hub for community resources, helping families navigate outside agencies that can assist with social, emotional and physical needs. FRCs stock emergency food/clothing and develop services tailored to their school population, such as GED and English-language classes, parenting classes, eye exams and glasses, individual counseling and student leadership groups.

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program Services (continued)

The DG PENCIL Box makes sure students have the school supplies necessary for success in the classroom - and that teachers do not have to spend their own money to buy those supplies. Through generous donations from businesses, organizations and individuals, the Box is stocked with school supplies such as pencils, pens, notebooks, crayons, scissors, reading books, backpacks and much more. Every Metro teacher can make four shopping trips per school year for free supplies.

Supporting Services

Management and General relates to the overall direction of PENCIL. These expenses are not identifiable with a particular program or event, or with fundraising, but are indispensable to the conduct of those activities and are essential to PENCIL. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising includes costs of activities directed toward appeals for financial support, including special events. Other activities include the creation and distribution of fundraising materials.

Allocation of Functional Expenses

The costs of program and supporting service activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses presents the natural classification detail of expenses by function. Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include personnel, equipment, travel, professional services, supplies, facility expenses, occupancy, communications, commercial insurance, staff development and community events, donor cultivation, event expenses, fees and bank charges which are allocated on the basis of estimates of time and effort.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements

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

Recent Authoritative Accounting Guidance

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11 *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date.

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

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

Reclassifications

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

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

NOTE 3 - LIQUIDITY AND AVAILABILITY

The following reflects PENCIL's financial assets at June 30, 2022 and 2021, reduced by amounts not available for general use within one year of the statement of financial position date because of donor-imposed restrictions. Amounts not available include amounts set aside by the Board of Directors that could be drawn upon if the governing board approves that action.

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

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 4 - CONTRIBUTIONS, GRANTS AND OTHER RECEIVABLES

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

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

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

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

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30:

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

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

NOTE 7 - AGENCY ENDOWMENT FUND

PENCIL established and holds a beneficial interest in an agency endowment fund held by CFMT. PENCIL has granted variance power to CFMT, and CFMT has the ultimate authority and control over the Fund and the income derived therefrom. The Fund is charged a .4% administrative fee by CFMT annually. Upon request by PENCIL, income may be distributed to PENCIL annually.

A schedule of changes in PENCIL's beneficial interest in this fund for the years ended June 30, 2022 and 2021 follows:

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



PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 8 - FAIR VALUE MEASUREMENTS

The following table summarizes financial assets measured at fair value on a recurring basis, segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value as of June 30:

<u>2022</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total Value</u>
Bonds	\$ -	\$ 46,840	\$ -	\$ 46,840
Mutual Funds	186,997	-	-	186,997
Equities	36,027	-	-	36,027
Exchange Traded Funds	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>

  

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 9 - LINE OF CREDIT

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

NOTE 10 - LEASES

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

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

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

Year ending June 30,

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

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 11 - NET ASSETS

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

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

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

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 12 - ENDOWMENT FUNDS

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

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

  

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

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

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

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 12 - ENDOWMENT FUNDS (CONTINUED)

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

NOTE 13 - IN-KIND CONTRIBUTIONS

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

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

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

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

PENCIL FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 13 - IN-KIND CONTRIBUTIONS (CONTINUED)

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

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

NOTE 14 - RETIREMENT PLAN

PENCIL sponsors a Section 401(k) defined contribution plan for the benefit of eligible employees. The plan provides for PENCIL to make a matching contribution for each employee deferral contribution, subject to limitations. Total contributions by PENCIL to the plan amounted to \$34,097 in 2022 (\$24,458 in 2021).

NOTE 15 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject PENCIL to concentrations of credit risk consist principally of cash and cash equivalents, and various contributions, grants, contracts and related receivables. PENCIL maintains cash and cash equivalents and investments in certificates of deposit at reputable financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. PENCIL's balances may, at times, exceed statutory limits. PENCIL has not experienced any losses in these accounts and management considers this to be a normal business risk.

Contributions received from one source totaled approximately \$1,185,000, or 40%, of total contribution revenue received for the year ended June 30, 2022. There were no contribution concentrations for the year ended June 30, 2021.

NOTE 16 - RELATED PARTIES

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