



Audited Financial Statements

December 31, 2020

Independent Auditor's Report

To the Board of Directors of
Pencil, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Pencil, Inc. ("Pencil"), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

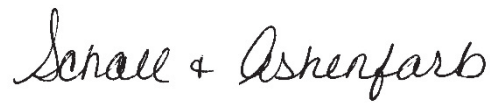
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pencil, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Pencil's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 2, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.


Schall & Ashenfarb
Certified Public Accountants, LLC

March 23, 2021

PENCIL, INC.
STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2020
(With comparative totals at December 31, 2019)

	<u>12/31/20</u>	<u>12/31/19</u>
Assets		
Cash and cash equivalents	\$509,667	\$345,312
Investments (Note 3)	1,392,003	1,439,187
Government grants receivable	44,605	156,246
Pledges receivable	181,029	230,420
Security deposit	42,667	42,667
Fixed assets, net (Note 4)	<u>15,671</u>	<u>14,379</u>
 Total assets	 <u><u>\$2,185,642</u></u>	 <u><u>\$2,228,211</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$44,624	\$17,134
Government grant advance	37,800	0
Deferred rent	19,281	15,440
Total liabilities	<u>101,705</u>	<u>32,574</u>
Net assets:		
Without donor restrictions	1,652,937	1,777,237
With donor restrictions (Note 5)	431,000	418,400
Total net assets	<u>2,083,937</u>	<u>2,195,637</u>
 Total liabilities and net assets	 <u><u>\$2,185,642</u></u>	 <u><u>\$2,228,211</u></u>

The attached notes and auditor's report are an integral part of these financial statements.

PENCIL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2020
(With comparative totals for the year ended December 31, 2019)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total 12/31/20	Total 12/31/19
Public support and revenue:				
Contributions	\$1,579,215	\$614,000	\$2,193,215	\$1,189,245
Government grants	247,607		247,607	628,000
Forgiveness of Paycheck Protection Program loan (Note 6)	377,840		377,840	0
Special events (net of expenses with a direct benefit to donor) (Note 7)			0	994,434
In-kind contributions (Note 8)	215,277		215,277	113,788
Interest and other income	9,985		9,985	22,142
Net assets released from restrictions	601,400	(601,400)	0	0
Total public support and revenue	<u>3,031,324</u>	<u>12,600</u>	<u>3,043,924</u>	<u>2,947,609</u>
Expenses:				
Program services	2,248,194		2,248,194	2,077,706
Supporting services:				
Management and general	404,620		404,620	335,948
Fundraising	517,133		517,133	665,824
Total supporting services	<u>921,753</u>	<u>0</u>	<u>921,753</u>	<u>1,001,772</u>
Total expenses	<u>3,169,947</u>	<u>0</u>	<u>3,169,947</u>	<u>3,079,478</u>
Change in net assets from operating activities	<u>(138,623)</u>	<u>12,600</u>	<u>(126,023)</u>	<u>(131,869)</u>
Non-operating activities:				
Gain/(loss) on sale of investments	3,165		3,165	(195)
Unrealized gain on investments	11,158		11,158	26,634
Total non-operating activities	<u>14,323</u>	<u>0</u>	<u>14,323</u>	<u>26,439</u>
Change in net assets	(124,300)	12,600	(111,700)	(105,430)
Net assets - beginning of year	<u>1,777,237</u>	<u>418,400</u>	<u>2,195,637</u>	<u>2,301,067</u>
Net assets - end of year	<u>\$1,652,937</u>	<u>\$431,000</u>	<u>\$2,083,937</u>	<u>\$2,195,637</u>

The attached notes and auditor's report are an integral part of these financial statements.

PENCIL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

(With comparative totals for the year ended December 31, 2019)

	Supporting Services			Total Supporting Services	Total Expenses 12/31/20	Total Expenses 12/31/19
	Program Services	Management and General	Fundraising			
Salaries	\$1,367,914	\$191,504	\$339,947	\$531,451	\$1,899,365	\$1,773,881
Payroll taxes and benefits	338,928	45,024	79,925	124,949	463,877	462,925
Occupancy	274,121	38,376	68,123	106,499	380,620	392,489
Supplies, materials and office expenses (including in-kind)(Note 8)	1,302	182	324	506	1,808	15,003
Travel, training and meetings (including in-kind)(Note 8)	23,991	400	759	1,159	25,150	66,208
Telephone and information technology	59,033	8,264	14,671	22,935	81,968	66,995
Equipment	18,404	2,577	4,574	7,151	25,555	33,146
Depreciation	6,922	969	1,720	2,689	9,611	8,962
Professional fees (including in-kind)(Note 8)		72,589		72,589	72,589	52,043
Consulting (including in-kind)(Note 8)	87,954	9,599		9,599	97,553	111,678
Insurance	18,818	2,634	4,677	7,311	26,129	24,694
Bank charges and administrative fees		6,315		6,315	6,315	10,300
Video and event production (including in-kind) (Note 8)	50,000		2,299	2,299	52,299	156,854
Bad debt expense		25,500		25,500	25,500	0
Other expenses	807	687	114	801	1,608	16,892
Total expenses	2,248,194	404,620	517,133	921,753	3,169,947	3,192,070
Less: direct special event expenses netted with revenue				0	0	(112,592)
Total expenses for statement of activities	\$2,248,194	\$404,620	\$517,133	\$921,753	\$3,169,947	\$3,079,478

The attached notes and auditor's report are an integral part of these financial statements.

PENCIL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
(With comparative totals for the year ended December 31, 2019)

	<u>12/31/20</u>	<u>12/31/19</u>
Cash flows from operating activities:		
Change in net assets	(\$111,700)	(\$105,430)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized (gain)/loss on sale of investments	(3,165)	195
Unrealized gain on investments	(11,158)	(26,634)
Depreciation	9,611	8,962
Changes in assets and liabilities:		
Government grants receivable	111,641	1,254
Pledges receivable	49,391	209,355
Prepaid expenses and other assets	0	3,864
Accounts payable and accrued expenses	27,490	(474)
Government grant advance	37,800	0
Deferred rent	3,841	10,134
Net cash flows provided by operating activities	<u>113,751</u>	<u>101,226</u>
Cash flows from investing activities:		
Proceeds from the sale of investments	464,723	187,951
Purchase of investments	(403,216)	(260,511)
Purchases of fixed assets	(10,903)	(10,047)
Net cash flows provided by/(used for) investing activities	<u>50,604</u>	<u>(82,607)</u>
Net increase in cash and cash equivalents	164,355	18,619
Cash and cash equivalents - beginning of year	<u>345,312</u>	<u>326,693</u>
Cash and cash equivalents - end of year	<u><u>\$509,667</u></u>	<u><u>\$345,312</u></u>
Supplemental information:		
Interest and taxes paid	<u><u>\$0</u></u>	<u><u>\$0</u></u>

The attached notes and auditor's report are an integral part of these financial statements.

PENCIL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

Note 1 - Organization

Pencil, Inc. (“Pencil”) was founded in 1995 to develop and coordinate meaningful corporate and community involvement in New York City public education. These financial statements do not reflect programs created by Pencil, Inc. or the contributions raised for those programs as they are run directly by the New York City schools. Pencil, Inc. derives its revenue from soliciting contributions from the general public in New York City.

Pencil was incorporated in the State of New York and has been notified by the Internal Revenue Service that it is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and has not been determined to be a private foundation as defined in Section 509(a).

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting, which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

b. Basis of Presentation

Pencil reports information regarding their financial position and activities in the following classes of net assets:

- *Net Assets Without Donor Restrictions* – represents all activity without donor-imposed restrictions as well as activity with donor-imposed restrictions, which expire within the same period.
- *Net Assets With Donor Restrictions* – relates to contributions of cash and other assets with donor stipulations that make clear the assets restriction, either due to a program nature or by passage of time.

c. Revenue recognition

Pencil follows the Financial Accounting Standards Board’s (FASB) Accounting Standards Update (“ASU”) No. 2018-08 (“Topic 605”) for recording contributions. Contributions are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions are recorded in the net asset classes referred to above depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified as without donor restrictions.

Pencil records promises to give as revenue in the period they become unconditional. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Long-term pledges are recorded at fair value using an interest-free discount rate, when deemed material. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At December 31, 2020, all pledges receivables were due within one year.

Contributions of non-cash assets are recorded at fair value.

Pencil's government and private grants are primarily conditional, non-exchange transactions and fall under Topic 605. Revenue from these transactions is recognized when qualifying expenditures are incurred, performance related outcomes are achieved, and other conditions under the agreements are met. Payments received in advance of conditions being met are recorded as deferred revenue.

All receivables are assessed for collectability. Based on a review of several factors, including the credit worthiness of the donor and historical experience, no allowance for doubtful accounts has been established.

d. Cash and Cash Equivalents

Cash and cash equivalents include cash held in checking accounts and money market funds, but exclude cash held as part of the investment portfolio.

e. Concentration of Credit Risk

Financial instruments which potentially subject Pencil to concentration of credit risk consist of cash, money market accounts, and investment securities which are placed with financial institutions that management deems to be creditworthy. The market value of investments is subject to market fluctuations.

Management believes that the investment policy is prudent for the long-term welfare of Pencil. At year end and at certain times during the year, a significant portion of the funds were in excess of federally insured levels; however, Pencil has not experienced any losses from these accounts due to the failure of any financial institution.

f. Investments

Investments are recorded at fair value, which refers to the price that would be received to sell an asset or paid to transfer a liability (i.e., "exit price") in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses are recognized in the statement of activities.

g. Fixed Assets

Purchases of furniture, equipment, and leasehold improvements that are greater than \$1,000 and have a useful life greater than one year are capitalized at cost or, if donated, at their fair value at the date of the gift. Property and equipment are depreciated using the straight-line method over the estimated useful life of the asset.

h. Deferred Rent

Pencil records rent expense using the straight-line method and recognizes deferred rent for the cumulative amount that expenses exceed actual payments. In latter stages of the lease, deferred rent will be reduced as the amounts of the payments exceed the expense recorded.

i. In-Kind Contributions

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided in-kind. Donated materials are recorded at the estimated fair value at the date of donation (See Note 8).

Board members and other individuals volunteer their time and perform a variety of tasks that assist Pencil. These services have not been recorded in the financial statements, as they do not meet the criteria outlined above.

j. Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Pencil's audited financial statements for the year ended December 31, 2019, from which the summarized information was derived.

k. Advertising

The cost of advertising is expensed as incurred.

l. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

m. Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The following expenses were allocated using time and effort as the basis:

- Salaries, payroll taxes and benefits
- Occupancy
- Supplies, materials and office expenses
- Telephone and information technology
- Equipment
- Depreciation
- Consulting
- Insurance
- Other expenses

All other expenses have been charged directly to the applicable program or supporting services.

n. Accounting for Uncertainty of Income Taxes

Pencil does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending December 31, 2017 and later are subject to examination by applicable taxing authorities.

o. New Accounting Pronouncements

FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which becomes effective for the December 31, 2022 year with early adoption permitted. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires a separate line-item presentation on the statement of activities and additional disclosures.

FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the December 31, 2022 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding “right to use asset” on the statement of financial position.

Pencil is in the process of evaluating the impact these standards will have on future financial statements.

Note 3 - Investments

Investments are recorded at fair value. Accounting standards have established a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable data.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that Pencil has the ability to access.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Investments can be summarized as follows:

	<u>December 31, 2020</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Certificates of deposit	\$0	\$302,378	\$302,378
Mutual funds	251,978	0	251,978
Exchange traded funds:			
Short-term bonds	441,820	0	441,820
Corporate fixed income:			
Energy	0	25,188	25,188
Consumer cyclical	0	166,642	166,642
Healthcare	0	59,493	59,493
Industrial	<u>0</u>	<u>34,230</u>	<u>34,230</u>
Subtotal	693,798	587,931	1,281,729
Money market funds and other cash	<u>0</u>	<u>110,274</u>	<u>110,274</u>
Total	<u>\$693,798</u>	<u>\$698,205</u>	<u>\$1,392,003</u>

	<u>December 31, 2019</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Certificates of deposit	\$0	\$148,384	\$148,384
Mutual funds	475,673	0	475,673
Exchange traded funds:			
Short-term bonds	433,260	0	433,260
Corporate fixed income:			
Communication services	0	25,072	25,072
Energy	0	25,761	25,761
Consumer cyclical	0	77,706	77,706
Healthcare	0	50,781	50,781
Industrial	<u>0</u>	<u>50,106</u>	<u>50,106</u>
Subtotal	908,933	377,810	1,286,743
Money market funds and other cash	<u>0</u>	<u>152,444</u>	<u>152,444</u>
Total	<u>\$908,933</u>	<u>\$530,254</u>	<u>\$1,439,187</u>

Level 1 securities are valued at the closing price reported on the active market they are traded on. Level 2 securities are valued using observable market inputs for securities that are similar to those owned. This method produces a fair value calculation that may not be indicative of net realizable value or reflective of future values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements.

Note 4 - Fixed Assets

Fixed assets can be summarized as follows:

	<u>12/31/20</u>	<u>12/31/19</u>
Computer hardware and software (5 years)	\$56,450	\$45,547
Furniture and equipment (5 years)	25,056	25,056
Leasehold improvements (5 years)	<u>591,669</u>	<u>591,669</u>
	673,175	662,272
Less: accumulated depreciation	<u>(657,504)</u>	<u>(647,893)</u>
Total fixed assets, net	<u>\$15,671</u>	<u>\$14,379</u>

Note 5 - Net Assets With Donor Restrictions

Net assets with donor restrictions can be summarized as follows:

	<u>December 31, 2020</u>			
	Balance <u>1/1/20</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>12/31/20</u>
Program restrictions:				
Partnership Program	\$345,900	\$519,000	(\$503,900)	\$361,000
Internship Program	<u>72,500</u>	<u>95,000</u>	<u>(97,500)</u>	<u>70,000</u>
Total	<u>\$418,400</u>	<u>\$614,000</u>	<u>(\$601,400)</u>	<u>\$431,000</u>
	<u>December 31, 2019</u>			
	Balance <u>1/1/19</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>12/31/19</u>
Program restrictions:				
Partnership Program	\$250,500	\$486,400	(\$391,000)	\$345,900
Internship Program	<u>210,000</u>	<u>47,500</u>	<u>(185,000)</u>	<u>72,500</u>
Total	<u>\$460,500</u>	<u>\$533,900</u>	<u>(\$576,000)</u>	<u>\$418,400</u>

Note 6 - Forgiveness of Paycheck Protection Program Loan

During the year ended December 31, 2020, Pencil obtained a loan from the SBA through the Paycheck Protection Program. Terms of the loan indicated that if certain conditions were met, which included maintaining average work forces during periods subsequent to receipt of the loan funds that are not less than pre-determined historical periods, that the loan, or a portion thereof, could be forgiven.

Pencil accounts for the PPP loan in accordance with Topic 605. On November 2, 2020, full forgiveness was approved by the SBA and this was recognized as revenue, as all conditions have been met.

Note 7 - Special Event

Pencil typically hosts an annual fundraising event, however, due to the COVID-19 pandemic, the annual event scheduled for 2020 was cancelled. The special event proceeds and related expenses for 2019 are summarized as follows:

	<u>12/31/19</u>
Gross revenue	\$1,107,026
Less: expenses with a direct benefit to donors	<u>(112,592)</u>
	994,434
Less: other event expenses	<u>(105,414)</u>
Total	<u><u>\$889,020</u></u>

Note 8 - In-Kind Contributions

In-kind contributions were allocated as follows:

	<u>December 31, 2020</u>			
	Management and			
	<u>Programs</u>	<u>General</u>	<u>Fundraising</u>	<u>Total</u>
Video production	\$50,000	\$0	\$0	\$50,000
Travel, training and meetings	14,144	0	0	14,144
Professional fees	0	53,589	0	53,589
Consulting	<u>87,948</u>	<u>9,596</u>	<u>0</u>	<u>97,544</u>
Total	<u>\$152,092</u>	<u>\$63,185</u>	<u>\$0</u>	<u>\$215,277</u>
	<u>December 31, 2019</u>			
	Management and			
	<u>Programs</u>	<u>General</u>	<u>Fundraising</u>	<u>Total</u>
Office supplies	\$0	\$4,500	\$0	\$4,500
Travel, training and meetings	19,675	4,700	9,850	34,225
Professional fees	0	34,543	0	34,543
Consulting	<u>29,500</u>	<u>6,020</u>	<u>5,000</u>	<u>40,520</u>
Total	<u>\$49,175</u>	<u>\$49,763</u>	<u>\$14,850</u>	<u>\$113,788</u>

Note 9 - Retirement Plan

Pencil has adopted a tax deferred 401(k) retirement plan for their employees. All employees are eligible to participate and can designate a percentage of their salaries subject to regulatory limits, to be contributed to the plan on a pre-tax basis. Effective, April 1, 2017, Pencil began providing matching contributions by contributing up to 1% of an employee's salary to the plan. As of February 1, 2020, Pencil increased the matching contribution rate to 2%. During 2020 and 2019 Pencil made contributions totaling \$29,773 and \$28,515 to the plan, respectively.

Note 10 - Commitments

Pencil has a lease for office space which was initially set to expire on July 31, 2020 and was extended until 2023. Total rent expense was \$365,096 and \$356,922 for 2020 and 2019, respectively. Future minimum payments are as follows:

Year ending:	December 31, 2021	\$327,376
	December 31, 2022	333,923
	December 31, 2023	<u>197,042</u>
Total		<u>\$858,341</u>

Note 11 - Liquidity and Availability of Financial Resources

Pencil maintains cash on hand to be available for its general expenditures, liabilities, and other obligations for on-going operations. In addition, Pencil has a goal of maintaining a reserve in short-term investments to cover five to six months of normal operating expenses. As part of its liquidity management plan, Pencil operates its programs within a balanced budget and relies on grants and contributions to fund its operations and program activities. Ongoing operations include restricted funds for training and development activities of the Partnership and Internship Programs. The following reflects Pencil's financial assets available to meet cash needs for general expenditures within one year at December 31, 2020:

Cash and cash equivalents	\$509,667
Investments	1,392,003
Government grants receivable	44,605
Pledges receivable due in less than one year	<u>181,029</u>
Total	<u>\$2,127,304</u>

Note 12 - Related Party Transactions

All donated legal services were performed by two law firms of which two members of the Board of Directors are partners.

Note 13- Subsequent Events

Management has evaluated the impact of all subsequent events through March 23, 2021, which is the date that the financial statements were available to be issued. All events that have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements have been made.

Note 14- Other Matters

On January 30, 2020, the World Health Organization declared a novel coronavirus (COVID-19) outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to

have an adverse impact on the economies and financial markets of many countries, including the geographical area in which Pencil operates. It is unknown how long these conditions will last and what the complete financial effect will be. Management continues to monitor the outbreak; however, as of the date of these financial statements the potential impact cannot be quantified.