

Pencils of Promise Inc.

Financial Statements

December 31, 2020 and 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors Pencils of Promise Inc.

We have audited the accompanying financial statements of Pencils of Promise Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 Pencils of Promise Inc. as of December 31, 2020 and 2019, 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.

PKF O'Connor Davies, LLP

September 30, 2021

Pencils of Promise Inc.

Statements of Financial Position

| | December 31, | |
|---|---------------------|---------------------|
| | 2020 | 2019 |
| ASSETS | | |
| Cash | \$ 3,620,392 | \$ 2,614,280 |
| Contributions receivable, net | 849,400 | 1,916,687 |
| Prepaid expenses and other current assets | 29,367 | 35,709 |
| Security deposit | 8,000 | 30,000 |
| Property and equipment, net | <u>126,879</u> | <u>217,686</u> |
| | <u>\$ 4,634,038</u> | <u>\$ 4,814,362</u> |
| | | |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 22,705 | \$ 99,617 |
| Paycheck Protection Program loan | <u>240,497</u> | <u>-</u> |
| Total Liabilities | <u>263,202</u> | <u>99,617</u> |
| | | |
| Net Assets | | |
| Without donor restrictions | 3,662,336 | 3,406,345 |
| With donor restrictions | <u>708,500</u> | <u>1,308,400</u> |
| Total Net Assets | <u>4,370,836</u> | <u>4,714,745</u> |
| | <u>\$ 4,634,038</u> | <u>\$ 4,814,362</u> |

See Notes to Financial Statements

Pencils of Promise Inc.

Statements of Activities

| | Year Ended December 31, 2020 | | | Year Ended December 31, 2019 | | |
|--|----------------------------------|-------------------------------|---------------------|----------------------------------|-------------------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| | | | | | | |
| PUBLIC SUPPORT | | | | | | |
| Contributions | \$ 4,402,177 | \$ 400,000 | \$ 4,802,177 | \$ 4,825,496 | \$ 849,789 | \$ 5,675,285 |
| In-kind contributions | - | - | - | 3,586 | - | 3,586 |
| Special events, net of direct donor benefit expenses of \$132,155 and \$593,734 | 540,698 | - | 540,698 | 942,265 | - | 942,265 |
| Merchandise sales | 109 | - | 109 | 1,246 | - | 1,246 |
| Other income | 184 | - | 184 | 761 | - | 761 |
| Net assets released from restriction | <u>934,900</u> | <u>(934,900)</u> | <u>-</u> | <u>1,197,298</u> | <u>(1,197,298)</u> | <u>-</u> |
| Total Revenue | <u>5,878,068</u> | <u>(534,900)</u> | <u>5,343,168</u> | <u>6,970,652</u> | <u>(347,509)</u> | <u>6,623,143</u> |
| OPERATING EXPENSES | | | | | | |
| Program services | | | | | | |
| School building | 2,139,844 | - | 2,139,844 | 1,979,440 | - | 1,979,440 |
| Teacher support | 1,264,336 | - | 1,264,336 | 3,089,781 | - | 3,089,781 |
| WASH | 514,660 | - | 514,660 | 588,062 | - | 588,062 |
| Other program services | <u>492,558</u> | <u>-</u> | <u>492,558</u> | <u>25,651</u> | <u>-</u> | <u>25,651</u> |
| Total Program Services | 4,411,398 | - | 4,411,398 | 5,682,934 | - | 5,682,934 |
| Management and general | 487,743 | - | 487,743 | 484,018 | - | 484,018 |
| Fundraising | <u>539,620</u> | <u>-</u> | <u>539,620</u> | <u>869,962</u> | <u>-</u> | <u>869,962</u> |
| Total Expenses | <u>5,438,761</u> | <u>-</u> | <u>5,438,761</u> | <u>7,036,914</u> | <u>-</u> | <u>7,036,914</u> |
| Deficiency of Operating Revenue Over Expenses | <u>439,307</u> | <u>(534,900)</u> | <u>(95,593)</u> | <u>(66,262)</u> | <u>(347,509)</u> | <u>(413,771)</u> |
| NONOPERATING ACTIVITIES | | | | | | |
| Loss on foreign currency exchange | (6,797) | - | (6,797) | (5,639) | - | (5,639) |
| Loss for uncollectible pledges receivable | (186,334) | (65,000) | (251,334) | - | - | - |
| Gain on sale of fixed assets | <u>9,815</u> | <u>-</u> | <u>9,815</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Nonoperating Activities | <u>(183,316)</u> | <u>(65,000)</u> | <u>(248,316)</u> | <u>(5,639)</u> | <u>-</u> | <u>(5,639)</u> |
| Change in Net Assets | 255,991 | (599,900) | (343,909) | (71,901) | (347,509) | (419,410) |
| NET ASSETS | | | | | | |
| Beginning of the year | <u>3,406,345</u> | <u>1,308,400</u> | <u>4,714,745</u> | <u>3,478,246</u> | <u>1,655,909</u> | <u>5,134,155</u> |
| End of the year | <u>\$ 3,662,336</u> | <u>\$ 708,500</u> | <u>\$ 4,370,836</u> | <u>\$ 3,406,345</u> | <u>\$ 1,308,400</u> | <u>\$ 4,714,745</u> |

See Notes to Financial Statements

Pencils of Promise Inc.

Statement of Functional Expenses
Year Ended December 31, 2020

| | Program Services | | | | | Management and General | Fundraising | Direct Donor Benefits | Total |
|----------------------------------|---------------------|---------------------|-------------------|------------------------------|------------------------------|------------------------------|-------------------|-----------------------------|---------------------|
| | School Building | Teacher Support | WASH | Other Program Services | Total Program Services | | | | |
| EXPENSES | | | | | | | | | |
| Construction and planning costs | \$ 539,904 | \$ 8,190 | \$ 3,452 | \$ 9,295 | \$ 560,841 | \$ - | \$ - | \$ - | \$ 560,841 |
| Salary and related expenses | 1,331,080 | 640,995 | 318,504 | 330,254 | 2,620,833 | 211,900 | 361,305 | - | 3,194,038 |
| Marketing | - | - | - | - | - | - | 4,996 | - | 4,996 |
| Occupancy | 41,254 | 23,144 | 9,756 | 16,815 | 90,969 | 74,637 | 40,874 | - | 206,480 |
| Travel, meals, and accommodation | 32,036 | 26,948 | 9,383 | 20,402 | 88,769 | 15,796 | 6,428 | 111,332 | 222,325 |
| Entertainment | - | - | - | - | - | - | - | 20,665 | 20,665 |
| Professional | 93,620 | 52,470 | 22,111 | 38,258 | 206,459 | 112,092 | 53,826 | - | 372,377 |
| Outreach | - | - | - | - | - | 34 | 9,987 | - | 10,021 |
| Office expense | 2,310 | 1,296 | 546 | 942 | 5,094 | 59,020 | 7,406 | - | 71,520 |
| Postage and printing | 446 | 250 | 105 | 182 | 983 | 56 | 264 | - | 1,303 |
| Registration fees and filing | 3,149 | 1,766 | 745 | 1,283 | 6,943 | 3,950 | 1,865 | - | 12,758 |
| Insurance | 15,302 | 8,585 | 3,619 | 6,237 | 33,743 | 746 | 3,527 | - | 38,016 |
| Online processing fees | - | - | - | - | - | - | 44,454 | - | 44,454 |
| Depreciation | 25,425 | 55,393 | 9,989 | - | 90,807 | - | - | - | 90,807 |
| Miscellaneous | 13,265 | 7,442 | 3,137 | 5,407 | 29,251 | 9,512 | 4,688 | 158 | 43,609 |
| Program materials | 28,837 | 412,017 | 130,188 | 58,096 | 629,138 | - | - | - | 629,138 |
| Program monitoring & evaluation | - | 18,426 | - | - | 18,426 | - | - | - | 18,426 |
| Repairs | 13,216 | 7,414 | 3,125 | 5,387 | 29,142 | - | - | - | 29,142 |
| | <u>2,139,844</u> | <u>1,264,336</u> | <u>514,660</u> | <u>492,558</u> | <u>4,411,398</u> | <u>487,743</u> | <u>539,620</u> | <u>132,155</u> | <u>5,570,916</u> |
| Direct donor benefits | - | - | - | - | - | - | - | (132,155) | (132,155) |
| Total Expenses | <u>\$ 2,139,844</u> | <u>\$ 1,264,336</u> | <u>\$ 514,660</u> | <u>\$ 492,558</u> | <u>\$ 4,411,398</u> | <u>\$ 487,743</u> | <u>\$ 539,620</u> | <u>\$ -</u> | <u>\$ 5,438,761</u> |

See Notes to Financial Statements

Pencils of Promise Inc.

Statement of Functional Expenses
Year Ended December 31, 2019

| | Program Services | | | | | Management and General | Fundraising | Direct Donor Benefits | Total |
|----------------------------------|---------------------|---------------------|-------------------|------------------------------|------------------------------|------------------------------|-------------------|-----------------------------|---------------------|
| | School Building | Teacher Support | WASH | Other Program Services | Total Program Services | | | | |
| EXPENSES | | | | | | | | | |
| Construction and planning costs | \$ 1,205,783 | \$ 16,060 | \$ 5,353 | \$ - | \$ 1,227,196 | \$ - | \$ - | \$ - | \$ 1,227,196 |
| Salary and related expenses | 487,402 | 1,645,987 | 349,658 | 11,402 | 2,494,449 | 231,579 | 403,971 | - | 3,129,999 |
| Marketing | - | - | - | - | - | - | 79,959 | - | 79,959 |
| Occupancy | 48,816 | 153,474 | 24,950 | 1,142 | 228,382 | 23,194 | 40,460 | - | 292,036 |
| Travel, meals, and accommodation | 86,250 | 156,384 | 27,053 | 386 | 270,073 | 7,836 | 17,169 | 467,615 | 762,693 |
| Event production | - | - | - | - | - | - | - | 43,039 | 43,039 |
| Entertainment | - | - | - | - | - | - | - | 83,080 | 83,080 |
| Professional | 28,155 | 88,517 | 14,390 | 659 | 131,721 | 122,934 | 130,652 | - | 385,307 |
| Outreach | 5,143 | 23,684 | 5,082 | 3 | 33,912 | 13,397 | 43,221 | - | 90,530 |
| Office expense | 23,027 | 72,389 | 11,769 | 539 | 107,724 | 63,675 | 32,018 | - | 203,417 |
| Postage and printing | 87 | - | - | - | 87 | 2,489 | 9,305 | - | 11,881 |
| Merchandise | - | - | - | - | - | - | 7,968 | - | 7,968 |
| Registration fees and filing | - | - | - | - | - | 12,672 | - | - | 12,672 |
| Insurance | 4,122 | 12,961 | 2,107 | 11,373 | 30,563 | 1,959 | 3,417 | - | 35,939 |
| Online processing fees | - | - | - | - | - | - | 89,953 | - | 89,953 |
| Conferences and meetings | 5,569 | 17,510 | 2,847 | 130 | 26,056 | 2,951 | 4,616 | - | 33,623 |
| Depreciation | 32,964 | 71,813 | 12,950 | - | 117,727 | - | - | - | 117,727 |
| Miscellaneous | 6,765 | 18,795 | 2,257 | 17 | 27,834 | 1,332 | 6,997 | - | 36,163 |
| Program materials | - | 764,772 | 129,646 | - | 894,418 | - | 256 | - | 894,674 |
| Program monitoring & evaluation | - | 21,244 | - | - | 21,244 | - | - | - | 21,244 |
| Repairs | 45,357 | - | - | - | 45,357 | - | - | - | 45,357 |
| Student enrollment kits/fees | - | 26,191 | - | - | 26,191 | - | - | - | 26,191 |
| | <u>1,979,440</u> | <u>3,089,781</u> | <u>588,062</u> | <u>25,651</u> | <u>5,682,934</u> | <u>484,018</u> | <u>869,962</u> | <u>593,734</u> | <u>7,630,648</u> |
| Direct donor benefits | - | - | - | - | - | - | - | (593,734) | (593,734) |
| Total Expenses | <u>\$ 1,979,440</u> | <u>\$ 3,089,781</u> | <u>\$ 588,062</u> | <u>\$ 25,651</u> | <u>\$ 5,682,934</u> | <u>\$ 484,018</u> | <u>\$ 869,962</u> | <u>\$ -</u> | <u>\$ 7,036,914</u> |

See Notes to Financial Statements

Pencils of Promise Inc.

Statements of Cash Flows

| | Year Ended December 31, | |
|--|-------------------------|--------------|
| | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (343,909) | \$ (419,410) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation | 90,807 | 117,727 |
| Gain on disposal of fixed assets | (9,815) | - |
| Loss for uncollectible contributions receivable | 251,334 | - |
| Changes in operating assets and liabilities | | |
| Contributions receivable, net | 815,953 | (163,314) |
| Prepaid expenses and other current assets | 6,342 | 26,152 |
| Security deposit | 22,000 | 10,000 |
| Accounts payable and accrued expenses | (76,912) | (50,260) |
| Deferred revenue | - | (25,000) |
| Net Cash from Operating Activities | 755,800 | (504,105) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of property and equipment | 9,815 | - |
| Net Cash from Investing Activities | 9,815 | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from Paycheck Protection Program loan | 240,497 | - |
| Net Change in Cash | 1,006,112 | (504,105) |
| CASH | | |
| Beginning of year | 2,614,280 | 3,118,385 |
| End of year | \$ 3,620,392 | \$ 2,614,280 |

See Notes to Financial Statements

Pencils of Promise Inc.

Notes to Financial Statements
December 31, 2020 and 2019

1. The Organization

Pencils of Promise Inc. (the "Organization") was formed in 2008, and is a non-profit organization that believes that every child should have access to quality education. The Organization creates schools, programs and global communities around this common goal of education for all.

Internationally, in 2020, the Organization continued its work in Laos, Guatemala and Ghana expanding both its geographic and programmatic reach within the regions it operates. In each country, it identified several new communities in need of new and improved educational facilities, sanitation and health programming, teacher support programs and scholarship programs for students. To date, the Organization has broken ground on 567 schools and impacted over 115,000 students across all geographies (unaudited).

Domestically, the Organization continued to focus its efforts on supporting a new generation of philanthropists and empowering them to spread social good. Together with the Organization's guidance, these individuals believe that the ripple effect of individual efforts can create a movement that will lead to lasting impact and sustainable global change. Through a successful year round communications strategy spread world-wide and an ever growing digital and social media presence, this movement of supporters has grown to over 600,000 dedicated followers and supporters (unaudited).

Pursuant to a determination letter received from the Internal Revenue Service, the Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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 revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, estimated using a present value technique. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

An allowance for uncollectible receivables is estimated based on a combination of write-off history, aging analysis and any specific known troubled accounts.

Pencils of Promise Inc.

Notes to Financial Statements
December 31, 2020 and 2019

2. Summary of Significant Accounting Policies (*continued*)

Property, Equipment and Depreciation

Property and equipment are recorded at cost, or if received by donation, at estimated fair value at the time such items are received. Depreciation is provided using the straight-line method over estimated useful lives of the assets which range from five to seven years.

Website Development Costs

The Organization accounts for website development costs in accordance with U.S. GAAP guidance. These costs are included in property and equipment and are amortized on a straight-line basis over a three-year period. As of December 31, 2020 and 2019, the website development costs were fully amortized.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's mission to create schools, programs and global communities around a common goal of education for all. Non-operating activities are limited to gains and losses on foreign currency exchange, the sale of property and equipment, loss for uncollectible pledges receivable, and other activities considered to be of a more unusual or non-recurring nature.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Contributions

The Organization recognizes contributions when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give – that is, those with a measurable performance or other barrier and right of return – are not recognized until the conditions on which they depend have been met.

Contributions of property and equipment with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise the contributions are recorded as net assets without donor restrictions.

Pencils of Promise Inc.

Notes to Financial Statements
December 31, 2020 and 2019

2. Summary of Significant Accounting Policies (*continued*)

Contributed Goods and Services

Contributions of donated non-cash assets are recorded at their fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received.

For the years ended December 31, 2020 and 2019, donated goods and services unrelated to special events totaled \$0 and \$3,586. Such goods and services are included in the financial statements as in-kind donations along with the corresponding asset or expense. Additionally, in 2020 and 2019, in-kind revenue and expenses of \$0 and \$184,692 were included in net special event income. For the years ended December 31, 2020 and 2019, a substantial number of volunteers have contributed their time to the Organization's program and supporting services, none of which meet the requirements for financial statement recognition.

Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Occupancy expense is allocated based on each program's share of the square footage of the leased space. The remaining expenses that are allocated include salaries and related expenses, professional fees, travel and hospitality, office expenses, depreciation, insurance, telephone, and other administrative expenses which are allocated on the basis of employee time and effort spent on each functional area.

Major Programs

Major programs consist of the following:

Teacher support – The Organization is changing the way teachers are supported and trained on an on-going basis to ensure that students are learning effectively. The Organization uses innovative teaching methods and technologies such as Digital Learning to create engaging, child-centered learning environments in full alignment with national curricula and standards.

School building – The Organization builds two to six room school buildings in Guatemala, Ghana, and Laos in communities that would not otherwise have the resources to finance and construct the buildings.

WASH (Water, Sanitation & Hygiene) – The Organization provides children with access to clean water, private bathrooms and good hygiene practices to foster the growth and development of students.

Other – The Organization also operated a Global Communities and Scholarship program.

Pencils of Promise Inc.

Notes to Financial Statements
December 31, 2020 and 2019

2. Summary of Significant Accounting Policies *(continued)*

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of tax positions when they are more likely than not to be sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition or disclosure. The Organization is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2017.

Foreign Currency Translation

Cash held in foreign currencies and liabilities payable in foreign currencies are translated at year-end exchange rates. Revenue earned and expenses incurred in foreign currencies are translated at the average exchange rates during the year. Gains and losses from foreign currency translation for the period are included in the statement of activities. Cash held in foreign currencies were less than 1% and 3% of cash reported on the statements of financial position for the years ended December 31, 2020 and 2019.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 30, 2021.

3. Contributions Receivable

Contributions receivable as of December 31 are as follows:

| | 2020 | 2019 |
|--|-------------------|---------------------|
| Contributions receivable due in less than one year | \$ 753,400 | \$ 1,441,687 |
| Contributions receivable due in one to five years | 100,000 | 540,000 |
| | 853,400 | 1,981,687 |
| Unamortized discount on contributions receivable | (4,000) | (15,000) |
| Allowance for uncollectible contributions receivable | - | (50,000) |
| Contributions Receivable, Net | <u>\$ 849,400</u> | <u>\$ 1,916,687</u> |

The aforementioned contributions receivable have been included in the following net asset categories at December 31:

| | 2020 | 2019 |
|---------------------------------------|-------------------|---------------------|
| Net assets without donor restrictions | \$ 165,900 | \$ 608,287 |
| Net assets with donor restrictions | 683,500 | 1,308,400 |
| | <u>\$ 849,400</u> | <u>\$ 1,916,687</u> |

Pencils of Promise Inc.

Notes to Financial Statements
December 31, 2020 and 2019

3. Contributions Receivable (*continued*)

Net assets without donor restrictions contributions receivable represent promises to give to fund current operations of the Organization for which payment was due as of December 31, 2020. Net assets with donor restrictions contributions receivable are restricted by time or purpose.

Discount rates on contributions receivable ranged from 3.5% to 4.0% for 2020 and 2019.

4. Concentrations of Credit Risk and Related Party Transactions

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and contributions receivable. Management believes that the Organization is not exposed to any significant credit risk.

The Organization maintains cash balances in several banks. Balances held in banks located in the United States of America ("U.S. Banks") are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, cash balances may be in excess of the balances insured by the FDIC. As of December 31, 2020, the uninsured deposits held in U.S. Banks were approximately \$3,120,395.

Cash held in foreign banks was approximately \$49,000 and \$59,000 as of December 31, 2020 and 2019.

At December 31, 2020, approximately 76% of contributions receivable were from four donors. At December 31, 2019, 20% of contributions receivable were due from one individual.

For the year ended December 31, 2020, one donor represented approximately 16% of contributions.

Related Party Transactions

For the years ended December 31, 2020 and 2019, the Organization received contributions and gross special events revenues from members of the Board of Directors (the "Board") totaling approximately \$329,000 and \$375,000 representing 5% and 5% of total contribution and special event revenues. As of December 31, 2020, four Board members accounted for 76% of contributions receivable. As of December 31, 2019, one Board member accounted for 20% of contributions receivable and additional Board members accounted for another 8% of contributions receivable.

Pencils of Promise Inc.

Notes to Financial Statements
December 31, 2020 and 2019

5. Property and Equipment

At December 31, property and equipment and related accumulated depreciation consisted of the following:

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Website (fully amortized) | \$ 351,903 | \$ 351,903 |
| Vehicles | 568,714 | 593,639 |
| Computer equipment | 72,239 | 72,239 |
| Furniture and fixtures | 60,207 | 60,207 |
| | <u>1,053,063</u> | <u>1,077,988</u> |
| Accumulated depreciation and amortization | <u>(926,184)</u> | <u>(860,302)</u> |
| | <u>\$ 126,879</u> | <u>\$ 217,686</u> |

6. Paycheck Protection Program Loan

On May 2, 2020, the Organization received loan proceeds in the amount of \$240,497 under the Paycheck Protection Program (the "PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times their 2019 average monthly payroll expenses of the qualifying entity. On March 5, 2021, the Organization received loan proceeds in the amount of \$266,312 under Second Draw provisions of the PPP as authorized by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the "Economic Aid Act"). The Second Draw provisions of the Economic Aid Act provides for loans to qualifying entities for amounts up to 2.5 times their 2019 or 2020 average monthly payroll expenses. The PPP loans bear an interest rate of 1% per annum. All or a portion of the PPP loans principal and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, as described in the CARES Act as amended by the Economic Aid Act, over a period between eight to twenty-four weeks from the date the loan proceeds are received (the "Covered Period"). The amount of loan forgiveness could be reduced if the borrower terminates employees or reduces salaries above a certain threshold during the Covered Period and does not qualify for certain safe harbors. The unforgiven portion of the First Draw PPP Loan, if any, is payable within two years from the date of the PPP loan with a deferral of payments of principal or interest until the amount of loan forgiveness is approved by the SBA. The unforgiven portion of the Second Draw PPP Loan, if any, is payable within five years from the date of the PPP loan with a deferral of payments of principal or interest until the amount of loan forgiveness is approved by the SBA. If the Organization does not apply for forgiveness, payments begin approximately 16 months after the loan date.

As of December 31, 2020, the first draw PPP loan is recognized as debt on the statement of financial position. The Organization will recognize the income from the forgiveness of the PPP loans when it receives the notification of forgiveness from SBA in accordance with Accounting Standards Codification ("ASC") 470, Debt. Although, the Organization believes these loans will be substantially or fully forgiven, there can be no guarantee that the United States Small Business Administration ("SBA") will approve the loan forgiveness.

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7. Line of Credit

On December 28, 2020, the Organization renewed its variable interest rate revolving line of credit ("Line of Credit") with a borrowing limit of \$750,000 that matures on December 12, 2021. The interest rate is based on the U.S. Prime Rate as published in the Wall Street Journal with a minimum interest rate of 3.25% per annum. The Line of Credit is secured by substantially all assets of the Organization. As of December 31, 2020, the Organization had no outstanding balance and has not drawn money from the Line of Credit during 2020.

8. Liquidity and Availability

The following reflects the Organization's available financial assets, reduced by amounts not available for general use within one year. Amounts not available for use within one year include financial assets received with donor restrictions that are designated for a specific purpose, timeline or contractual obligation, and have been earmarked as resources available for future years. In addition, the Organization maintains a line of credit with a borrowing limit of \$750,000 which could be drawn upon readily in the event of an unanticipated liquidity need.

Total financial assets available to meet cash needs for general expenditure within one year at December 31, 2020, are as follows:

| | |
|--|---------------------|
| Cash | \$ 3,620,392 |
| Contributions receivable within one year | <u>753,400</u> |
| Total financial assets available to meet cash needs for general expenditures within one year | <u>\$ 4,373,792</u> |

The principal source of liquidity is cash flow generated from contributions. As part of the Organization's liquidity strategy, management structures its financial assets, consisting of cash and receivables to be available as its general expenditures, liabilities and obligations come due within one year.

9. Restrictions of Net Assets

Net assets released from donor restrictions and disbursed during the years ended December 31 consist of the following:

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|---------------------|
| Contributions restricted for future periods | \$ 934,900 | \$ 900,000 |
| Teacher support | - | 47,298 |
| School constructions in Ghana, Guatemala, and Laos | - | 250,000 |
| | <u>\$ 934,900</u> | <u>\$ 1,197,298</u> |

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9. Restrictions of Net Assets *(continued)*

Donor restricted net assets as of December 31, 2020 and 2019 were available for the following purpose:

| | 2020 | 2019 |
|--|-------------------|---------------------|
| Contributions restricted for future periods | \$ 683,500 | \$ 1,308,400 |
| School constructions in Ghana, Guatemala, and Laos | 25,000 | - |
| | <u>\$ 708,500</u> | <u>\$ 1,308,400</u> |

10. Lease Commitments

The Organization leases various office space in the United States of America and in foreign countries. For the years ended December 31, 2020 and 2019, rent expense amounted to \$127,018 and \$235,684.

The Organization leases space under a lease that expires on February 23, 2023. The future minimum annual rental payments at December 31, 2020 under the lease obligations are as follows:

| | |
|------|-------------------|
| 2021 | \$ 100,000 |
| 2022 | 105,000 |
| 2023 | 17,640 |
| | <u>\$ 222,640</u> |

11. Pension Plan

On June 1, 2019, The Organization became a participant in the JustWorks Retirement Savings Plan which is a multiple-employer plan (the "Plan"). Multiple-employer plans are in substance an aggregation of single-employer plans that are combined to allow assets to be pooled for investment purposes and to reduce plan administration costs. Each employer participating in the Plan is required to account for its respective interest in the Plan as if that interest were a separate plan. Under the Plan, eligible employees of the Organization are allowed to make elective deferrals of their compensation to the Plan. The Organization can make discretionary contributions to the Plan. The Organization contributed \$40,532 and \$26,517 to the Plan in 2020 and 2019. In 2019, the Organization also sponsored the Pencils of Promise Incorporated 401(k) Plan (the "PoP Plan") which allowed eligible employees of the Organization to make elective deferrals of their compensation to the PoP Plan. The Organization could make discretionary contributions to the PoP Plan. The Organization contributed \$17,556 to the Plan in 2019. The PoP Plan was closed as of July 31, 2019.

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12. Significant Events – COVID-19 Pandemic

The global viral outbreak caused by coronavirus disease (“COVID-19”) has resulted in a public health emergency during 2020 and continuing into 2021. There have been resulting effects in the economy generally, that have and will likely continue to impact the Organization’s operations and financial condition. Due to the evolving nature and unknown duration of the COVID-19 pandemic, the ultimate impact to the Organization and its financial condition is presently unknown.
