

PENCIL Foundation

Financial Statements

June 30, 2025 and 2024

PENCIL Foundation

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PENCIL Foundation

List of Principal Officials
June 30, 2025

PENCIL Foundation Board of Trustees

Chuck Abbott	Brittany Adams-Davis
Kfir Alexandroni	Lamar Allen
Liberty Berman	Brent Binns
Lillian Blackshear	Herbert Brown
Elizabeth Garza Bumpas	Britney Cline
Melissa Cornejo-Nell	Leslie Cowell
Kenneth Crapse	Kason Davis
Josh DePriest	Kirsten Dodson
John Doerge	Christina Feagins
Jose Ferreira	Todd Figler
Nicole Flynn	Jessie Garcia Knowles
Sharon Gentry	Kia Goodwin
Jeff Gregg	Lila Hall
Taneisha Harvey	Jacqueline Hayes
Herman Hicks	Brandon Hill
Colleen Hoy	Kaitlyn Jones
Meredith Jones Long	Minh Le
Emmanuel LeGrair	Devin Lintzenich
Johari Matthews	Blake McDaniel
James McIntyre	Norman Merrifield
Hasina Mohyuddin	P. Danielle Nellis
Will Parrott	Sam Reed
Kendrick Robinson	Nicole Robinson-Hamilton
Yanet Rodriguez	Nicole Sims
Rachael Terrell	Jennifer Wade
Juan Williams Sr	Robyn Williams
Adrienne Battle - Ex-Officio	Shay Coplin - Ex-Officio
Patrick Dooley - Ex-Officio	Erica Griffith - Ex-Officio
Chris Henson - Ex-Officio	Watechia Lawless - Ex-Officio
Katlin Pendleton - Ex-Officio	Sue Spickard - Ex-Officio
Jaimi Swann - Ex-Officio	Obinna Udeh - Ex-Officio

Independent Auditors' Report

To the Board of Directors of
PENCIL Foundation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of PENCIL Foundation (the Organization), which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year 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 the Organization as of June 30, 2025, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of PENCIL Foundation as of and for the year ended June 30, 2024 were audited by another auditor who expressed an unmodified opinion on those financial statements on November 4, 2024.

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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 the Organization'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.

Additional Information

Management is responsible for the accompanying introductory section on page i (the additional information), which is presented for purposes of additional analysis and is not a required part of the basic financial statements. Our opinion on the financial statements does not cover the additional information, and we do not express an opinion or any form of assurance thereon.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2026 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Nashville, Tennessee
February 2, 2026

PENCIL Foundation

Statements of Financial Position

June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Assets		
Cash and cash equivalents	\$ 3,990,552	\$ 2,075,751
Contributions, grants and other receivables, net	2,107,673	3,844,906
Inventory	847,535	490,958
Prepaid expenses and other assets	258,436	82,012
Investments	795,485	751,953
Endowment:		
Cash and cash equivalents	198	14,140
Contributions receivable	-	2,404
Investments	875,672	769,553
Beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	65,658	62,464
Operating ROU asset	7,529	-
Property and equipment, net	97,670	145,765
	<u>9,046,408</u>	<u>8,239,906</u>
Total assets	<u>\$ 9,046,408</u>	<u>\$ 8,239,906</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 40,570	\$ 43,520
Grants payable	4,474,573	5,104,930
Payroll liabilities	147,579	82,777
Lease liability	8,618	-
Deferred revenue	142,050	-
	<u>4,813,390</u>	<u>5,231,227</u>
Total liabilities	<u>4,813,390</u>	<u>5,231,227</u>
Net Assets		
Without donor restrictions:		
Board-designated	1,371,306	973,810
Undesignated	1,483,108	1,068,309
	<u>2,854,414</u>	<u>2,042,119</u>
Total without donor restrictions	<u>2,854,414</u>	<u>2,042,119</u>
With donor restrictions	<u>1,378,604</u>	<u>966,560</u>
Total net assets	<u>4,233,018</u>	<u>3,008,679</u>
Total liabilities and net assets	<u>\$ 9,046,408</u>	<u>\$ 8,239,906</u>

See notes to financial statements

PENCIL FoundationStatement of Activities
Year Ended June 30, 2025

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Support			
Government grants and contracts	\$ 1,673,216	\$ -	\$ 1,673,216
Corporate and foundation contributions	839,136	427,500	1,266,636
Individual contributions	527,213	167,083	694,296
Program project funding	4,711	228,652	233,363
United Way	82,925	-	82,925
In-kind contributions	3,534,472	-	3,534,472
Special events	381,373	66,131	447,504
Other revenue	11,285	-	11,285
Investment income	124,535	119,785	244,320
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	6,406	-	6,406
Net assets released from restrictions	597,107	(597,107)	-
	<u>7,782,379</u>	<u>412,044</u>	<u>8,194,423</u>
Total revenues and support			
	<u>7,782,379</u>	<u>412,044</u>	<u>8,194,423</u>
Expenses			
Program services	6,134,398	-	6,134,398
Supporting services:			
Management and general	136,973	-	136,973
Fundraising	698,713	-	698,713
	<u>6,970,084</u>	<u>-</u>	<u>6,970,084</u>
Total expenses			
	<u>6,970,084</u>	<u>-</u>	<u>6,970,084</u>
Change in net assets	812,295	412,044	1,224,339
Net Assets, Beginning	<u>2,042,119</u>	<u>966,560</u>	<u>3,008,679</u>
Net Assets, Ending	<u>\$ 2,854,414</u>	<u>\$ 1,378,604</u>	<u>\$ 4,233,018</u>

See notes to financial statements

PENCIL FoundationStatement of Activities
Year Ended June 30, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Support			
Government grants and contracts	\$ 2,923,980	\$ 200,000	\$ 3,123,980
Corporate and foundation contributions	630,521	631,635	1,262,156
Individual contributions	387,566	3,946,340	4,333,906
Program project funding	109,764	111,000	220,764
United Way	65,839	-	65,839
In-kind contributions	2,994,761	-	2,994,761
Special events	494,683	147,804	642,487
Other revenue	11,932	-	11,932
Investment income	198,583	12,774	211,357
Change in value of beneficial interest in agency endowment fund held by the Community Foundation of Middle Tennessee	5,873	-	5,873
Net assets released from restrictions	5,007,929	(5,007,929)	-
	<u>12,831,431</u>	<u>41,624</u>	<u>12,873,055</u>
Total revenues and support			
	<u>12,831,431</u>	<u>41,624</u>	<u>12,873,055</u>
Expenses			
Program services	11,921,937	-	11,921,937
Supporting services:			
Management and general	128,184	-	128,184
Fundraising	746,588	-	746,588
	<u>12,796,709</u>	<u>-</u>	<u>12,796,709</u>
Total expenses			
	<u>12,796,709</u>	<u>-</u>	<u>12,796,709</u>
Change in net assets	34,722	41,624	76,346
Net Assets, Beginning	<u>2,007,397</u>	<u>924,936</u>	<u>2,932,333</u>
Net Assets, Ending	<u>\$ 2,042,119</u>	<u>\$ 966,560</u>	<u>\$ 3,008,679</u>

See notes to financial statements

PENCIL FoundationStatement of Functional Expenses
Year Ended June 30, 2025

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>	<u>Total</u>
		<u>Management and General</u>	<u>Fundraising</u>	<u>Supporting Services</u>	
Personnel	\$ 2,233,633	\$ 88,343	\$ 419,245	\$ 507,588	\$ 2,741,221
Equipment and rental	47,621	3,910	13,596	17,506	65,127
Depreciation	42,473	1,654	3,968	5,622	48,095
Travel	8,851	419	1,311	1,730	10,581
Professional services	247,467	21,262	25,334	46,596	294,063
Professional services, donated	7,400	-	-	-	7,400
Program expenses	238,962	1,570	1,010	2,580	241,542
Grants to Metro Nashville Public Schools	200,115	-	-	-	200,115
Supplies	2,810	982	246	1,228	4,038
Supplies, donated	2,800,487	-	-	-	2,800,487
Facility expenses	38,643	2,257	3,986	6,243	44,886
Occupancy, donated	189,812	8,183	19,579	27,762	217,574
Communications	14,940	852	11,473	12,325	27,265
Insurance	16,280	695	1,845	2,540	18,820
Staff development and community events	18,864	5,806	4,835	10,641	29,505
Donor cultivation	-	-	3,251	3,251	3,251
Events	25,344	424	64,391	64,815	90,159
Events, donated	-	-	103,009	103,009	103,009
Fees and bank charges	696	616	21,634	22,250	22,946
Total expenses	<u>\$ 6,134,398</u>	<u>\$ 136,973</u>	<u>\$ 698,713</u>	<u>\$ 835,686</u>	<u>\$ 6,970,084</u>

See notes to financial statements

PENCIL FoundationStatement of Functional Expenses
Year Ended June 30, 2024

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>	<u>Total</u>
		<u>Management and General</u>	<u>Fundraising</u>	<u>Supporting Services</u>	
Personnel	\$ 2,013,637	\$ 90,369	\$ 416,625	\$ 506,994	\$ 2,520,631
Equipment and rental	56,753	4,086	12,498	16,584	73,337
Depreciation	45,463	2,205	3,968	6,173	51,636
Travel	5,997	1,727	1,100	2,827	8,824
Professional services	191,322	9,477	22,258	31,735	223,057
Professional services, donated	2,200	-	2,600	2,600	4,800
Program expenses	196,587	1,716	555	2,271	198,858
Grants to Metro Nashville Public Schools	6,204,050	-	-	-	6,204,050
Supplies	2,580	231	274	505	3,085
Supplies, donated	2,934,207	-	-	-	2,934,207
Facility expenses	42,378	1,869	4,776	6,645	49,023
Occupancy, donated	166,964	7,186	17,315	24,501	191,465
Communications	16,806	952	9,634	10,586	27,392
Insurance	18,109	915	3,036	3,951	22,060
Staff development and community events	14,457	2,682	2,643	5,325	19,782
Donor cultivation	-	244	1,254	1,498	1,498
Events	5,295	4,500	135,786	140,286	145,581
Events, donated	-	-	87,871	87,871	87,871
Fees and bank charges	5,132	25	24,395	24,420	29,552
	<u>\$ 11,921,937</u>	<u>\$ 128,184</u>	<u>\$ 746,588</u>	<u>\$ 874,772</u>	<u>\$ 12,796,709</u>
Total expenses					

See notes to financial statements

PENCIL Foundation

Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 1,224,339	\$ 76,346
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	48,095	51,636
Net realized and unrealized gains on investments	(146,309)	(163,556)
Change in allowance for uncollectible accounts	200,000	(375,500)
Grant received from agency endowment fund	3,212	3,014
Contributions restricted for endowment	(17,232)	(137,522)
Change in value of beneficial interest in agency endowment fund	(6,406)	(5,873)
Change in in-kind inventory	(356,577)	317,777
Noncash lease activity	1,089	-
(Increase) decrease in:		
Contributions, grants and other receivables	1,539,637	(1,895,002)
Prepaid expenses and other assets	(176,424)	27,324
Increase (decrease) in:		
Accounts payable	(2,950)	(27,875)
Grants payable	(630,357)	4,428,221
Payroll liabilities	64,802	19,756
Deferred revenue	142,050	-
Total adjustments	<u>662,630</u>	<u>2,242,400</u>
Net cash provided by operating activities	<u>1,886,969</u>	<u>2,318,746</u>
Cash Flows From Investing Activities		
Proceeds from sale or maturity of investments	271,153	385,342
Purchases of investments	<u>(274,495)</u>	<u>(506,197)</u>
Net cash used in investing activities	<u>(3,342)</u>	<u>(120,855)</u>
Cash Flows From Financing Activities		
Payments on line of credit	-	(290,000)
Proceeds from contributions restricted for investment in endowment	<u>17,232</u>	<u>138,496</u>
Net cash provided by (used in) financing activities	<u>17,232</u>	<u>(151,504)</u>
Net increase in cash and cash equivalents	1,900,859	2,046,387
Cash and Cash Equivalents, Beginning	<u>2,089,891</u>	<u>43,504</u>
Cash and Cash Equivalents, Ending	<u>\$ 3,990,750</u>	<u>\$ 2,089,891</u>
Other Cash Flow Disclosures		
Cash paid for interest	<u>\$ -</u>	<u>\$ 4,787</u>

See notes to financial statements

PENCIL Foundation

Notes to Financial Statements
June 30, 2025 and 2024

1. General

PENCIL Foundation (the Organization) 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.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States (GAAP), which require the Organization 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 the Organization's management and the board of directors. The board of directors can designate funds for specific purposes and release these designations for general use with a majority vote.

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 the Organization or by the passage of time.

The Organization 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 and Program Project Funding - 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. Program project funding are contributions recognized during unique projects hosted by the Organization.

Government grants and contracts - A portion of the Organization's revenue is derived from cost reimbursable grants and contracts, which are conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization 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. The Organization recognizes grant revenue for exchange transactions at the time the services are provided.

PENCIL Foundation

Notes to Financial Statements

June 30, 2025 and 2024

Revenue Recognition (Continued)

In-kind contributions - The Organization 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 nonfinancial assets, or the donated service requires specialized skills, were performed by a donor who possesses such skills, and would have been purchased by the Organization 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 the Organization completes its performance obligation.

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, 2025 has been estimated to be approximately \$1,100,000 (\$1,140,000 for the year ended June 30, 2024). 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 the Organization 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.

Cash and Cash Equivalents

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

Cash and cash equivalents as of June 30, 2025 consists of the following:

	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 3,990,552	\$ 2,075,751
Endowment cash and cash equivalents	198	14,140
Total cash and cash equivalents shown in the statements of cash flows	<u>\$ 3,990,750</u>	<u>\$ 2,089,891</u>

PENCIL Foundation

Notes to Financial Statements
June 30, 2025 and 2024

Contributions Receivable

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

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible. The Organization has recorded an allowance for uncollectible contributions of \$175,500 and \$375,500 as of June 30, 2025 and 2024, respectively.

Inventory

Inventory consists of donated school supplies received primarily from supply distributors and school supply drives. Inventory is recorded at its estimated fair value at the time the goods are received from the donor. Provision is made to reduce any excess, obsolete or slow-moving inventory to net realizable value. There was no provision as of June 30, 2025 or 2024.

Prepaid Expenses

Prepaid expenses consist mainly of school supplies purchased in advance of specific program-related activities.

Investments

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

The Organization has invested in certificates of deposit with a financial institution maturing in fiscal year 2028. These certificates of deposits have an average yield of 5.00% as of June 30, 2025 (4.13% as of June 30, 2024).

Agency Endowment Fund

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

Property and Equipment

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

PENCIL Foundation

Notes to Financial Statements
June 30, 2025 and 2024

Fair Value Measurements

The Organization 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 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. Certificates of deposit are valued as Level 2 based on observable market inputs, such as current interest rates for similar instruments. 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 the Organization'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. The Organization reflects this asset within Level 2 of the valuation hierarchy.

There have been no changes in the valuation methodologies used at June 30, 2025 and 2024.

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 The Organization believes its valuation methodologies are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Endowment Funds

The Organization'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 the Organization. The Organization'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, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

PENCIL Foundation

Notes to Financial Statements

June 30, 2025 and 2024

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

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

Equity	36% - 80%
Fixed income	25% - 50%
Alternative investments	0% - 9%

Income Taxes

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

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization'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

Program services consist of the following:

PENCIL Partners are businesses and organizations committed to student success through organized, coordinated activities that match the unique attributes of each Partner with the specific needs of each school or academy. By leveraging our wide network of business contacts and comprehensive knowledge of Nashville schools, the Organization connects businesses and schools in customized, meaningful ways that directly help Metro students achieve success in school and in life. We manage these relationships by facilitating communication, providing activity ideas, supporting volunteer management, and helping the school and Partner develop a year-long action plan. In addition, the Organization hosts the PENCILMeIn615.org website where schools, Partners, and individuals log their volunteer hours and in-kind gifts.

PENCIL Connect is an online platform where community members can register for school-based service opportunities that celebrate students, demonstrate appreciation for teachers, and engage families, as well as connect industry experts to students for career exploration experiences.

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The DG PENCIL Box exists to remove barriers to learning for Metro students by ensuring classrooms are stocked with necessary supplies - and so teachers do not have to spend their own funds on supplies. Through generous donations from businesses, organizations, and individuals, the Box is stocked with items such as pencils, pens, notebooks, crayons, scissors, reading books, manipulatives, backpacks and much more. Every MNPS educator is invited to shop once a month at our West Nashville location throughout the school year. In addition, staff and volunteers provide broad educator access to supplies through direct-to-school deliveries, pop-ups, giveaways, and large-scale teacher appreciation projects including Together 4 Teachers and Thanks a Million.

The LP STEAM Lending Library aims to provide elementary and middle school students with equitable access to STEAM resources. STEAM kits are available for teachers to check out through the DG PENCIL Box.

Grants and sponsored projects for MNPS aims to support projects that are critical to the MNPS strategic plan. The Organization continues to be a grantmaking partner to MNPS by passing-through significant funds that support the Accelerating Scholars initiative and its focus on high-impact tutoring, particularly literacy tutoring for students in grades K-3.

In September 2024, the Organization entered into a Memorandum of Understanding (MOU) with MNPS to secure contributed funding for the Reimagining Community Spaces project. The project includes funding to expand the planned playtoriums to full gymnasiums at Lakeview Elementary, Paragon Mills Elementary, and Percy Priest Elementary schools. These funds were recognized in the grants to Metro Nashville Public Schools line on the statement of functional expenses in the amounts of \$83,973 and \$4,390,600 for the years ended June 30, 2025 and 2024. Total grants payable related to funds under this MOU were \$4,473,573 and \$4,390,600 at June 30, 2025 and 2024.

The grantmaking partnership work will continue to evolve as the Organization supports the strategic plan of MNPS by recruiting financial resources to support key initiatives that directly and positively impact students.

Supporting Services

Management and General relates to the overall direction of the Organization. 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 the Organization. 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 and rental, depreciation, travel, professional services, program expenses, supplies, facility expenses, occupancy, communications, insurance, staff development and community events, events and fees and bank charges which are allocated on the basis of estimates of time and effort.

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Notes to Financial Statements
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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.

Reclassifications

Certain reclassifications were made to the 2024 financial statements to conform to the current year presentation. Such reclassifications had no impact on the net assets or change in net assets as previously reported.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2025 and February 2, 2026, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

3. Liquidity and Availability

The following reflects the Organization's financial assets at June 30, 2025 and 2024, reduced by amounts not available for general use within one year of the statement of financial position date. Amounts not available include amounts set aside by the board of directors that could be drawn upon if the governing board approves that action.

	<u>2025</u>	<u>2024</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 3,990,750	\$ 2,089,891
Contributions, grants and other receivables	2,107,673	3,847,310
Investments	1,671,157	1,521,506
	<u>7,769,580</u>	<u>7,458,707</u>
Less amounts not available to be used within one year:		
Donor-restricted endowment	702,134	587,320
Board designations	1,371,306	973,810
Purpose restrictions	456,450	191,786
Fiscal sponsorship with MNPS payable	4,474,573	4,390,600
Reimbursement grants payable	-	714,330
	<u>7,004,463</u>	<u>6,857,846</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 765,117</u>	<u>\$ 600,861</u>

In addition, the Organization has a \$350,000 line of credit available to meet cash flow needs.

PENCIL Foundation

Notes to Financial Statements
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4. Contributions, Grants and Other Receivables

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

	<u>2025</u>	<u>2024</u>
Contributions receivable	\$ 14,426	\$ 24,986
Contributions receivable, Reimagining Community Spaces	1,899,500	3,033,100
Grants receivable	329,707	1,154,772
Other receivables	39,540	7,548
	<u>2,283,173</u>	<u>4,220,406</u>
Less allowance for uncollectible accounts	<u>(175,500)</u>	<u>(375,500)</u>
Total	<u>\$ 2,107,673</u>	<u>\$ 3,844,906</u>

As of June 30, 2025 and 2024, contributions receivable, grants receivable and other receivables are due within one year. Contribution receivables, Reimagining Community Spaces are all due by December 31, 2025.

5. Investments

Investments consisted of the following at June 30:

	<u>2025</u>	<u>2024</u>
Exchange traded funds	\$ 1,561,483	\$ 1,372,439
Mutual funds	61	61
Certificates of deposit	74,609	119,124
Bonds	35,004	29,882
Total	<u>\$ 1,671,157</u>	<u>\$ 1,521,506</u>

6. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2025</u>	<u>2024</u>
Equipment	\$ 35,532	\$ 35,532
Software	20,000	20,000
Leasehold improvements	430,090	430,090
	<u>485,622</u>	<u>485,622</u>
Less accumulated depreciation	<u>(387,952)</u>	<u>(339,857)</u>
Total	<u>\$ 97,670</u>	<u>\$ 145,765</u>

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Notes to Financial Statements
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7. Agency Endowment Fund

The Organization established and holds a beneficial interest in an agency endowment fund held by CFMT. The Fund is charged a .4% administrative fee by CFMT annually. Upon request by the Organization, income may be distributed to the Organization annually.

A schedule of changes in the Organization's beneficial interest in this fund for the years ended June 30, 2025 and 2024 follows:

	<u>2025</u>	<u>2024</u>
Beginning balance	\$ 62,464	\$ 59,605
Grants paid to the Organization	(3,212)	(3,014)
Change in value of beneficial interest in agency endowment fund	<u>6,406</u>	<u>5,873</u>
Ending balance	<u>\$ 65,658</u>	<u>\$ 62,464</u>

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>2025</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds	\$ 1,561,483	\$ -	\$ -	\$ 1,561,483
Mutual funds	61	-	-	61
Certificates of deposit	-	74,609	-	74,609
Bonds	-	<u>35,004</u>	-	<u>35,004</u>
Total investments	<u>\$ 1,561,544</u>	<u>\$ 109,613</u>	<u>\$ -</u>	<u>\$ 1,671,157</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 65,658</u>	<u>\$ -</u>	<u>\$ 65,658</u>
	<u>2024</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Exchange traded funds	\$ 1,372,439	\$ -	\$ -	\$ 1,372,439
Mutual funds	61	-	-	61
Certificates of deposit	-	119,124	-	119,124
Bonds	-	<u>29,882</u>	-	<u>29,882</u>
Total investments	<u>\$ 1,372,500</u>	<u>\$ 149,006</u>	<u>\$ -</u>	<u>\$ 1,521,506</u>
Beneficial interest in agency endowment fund	<u>\$ -</u>	<u>\$ 62,464</u>	<u>\$ -</u>	<u>\$ 62,464</u>

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Notes to Financial Statements
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9. Line of Credit

The Organization has a \$350,000 revolving line of credit maturing in January 2027. Interest is payable monthly at a variable rate of Prime + 1.00% (8.5% at June 30, 2025), with the outstanding principal balance payable at maturity. The line is secured by the Organization's investments. As of June 30, 2025 and 2024, there was no outstanding balance under this line of credit.

10. Net Assets

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

	<u>2025</u>	<u>2024</u>
Education of future healthcare providers	\$ 1,548	\$ 1,548
Reserve fund	973,161	711,021
Board designated endowment	173,736	198,777
Reimagining Community Spaces	57,203	-
Capacity building campaign	100,000	-
Beneficial interest in agency endowment fund	65,658	62,464
	<u>1,371,306</u>	<u>973,810</u>
Total	<u>\$ 1,371,306</u>	<u>\$ 973,810</u>

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

	<u>2025</u>	<u>2024</u>
Temporary in nature, subject to expenditure for specified time or purpose:		
Future year operations	\$ 220,020	\$ 187,454
DG PENCIL Box	25,879	40,000
Literacy tutoring	238,832	-
Event sponsorships	178,014	140,615
Student eye care	1,692	1,692
Clean Clothes for Kids	12,033	9,479
	<u>676,470</u>	<u>379,240</u>
Temporary in nature, endowment, subject to appropriation:		
Accumulated earnings restricted for salary expense	139,560	29,392
	<u>139,560</u>	<u>29,392</u>
Perpetual in nature, endowment:		
Angie Adams Endowment Fund	101,233	101,183
General Endowment Fund	350,462	343,809
Sue Spickard Endowment Fund	110,879	112,936
	<u>562,574</u>	<u>557,928</u>
Total	<u>\$ 1,378,604</u>	<u>\$ 966,560</u>

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Notes to Financial Statements
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Net asset release of restrictions consisted of the following for the years ended June 30:

	<u>2025</u>	<u>2024</u>
Clean Clothes for Kids	\$ 7,823	\$ 8,247
Grants to MNPS	83,973	4,443,100
Literacy tutoring	11,167	-
Event sponsorships	201,254	144,408
DG PENCIL Box	74,121	40,000
Future year operations	196,565	371,450
Endowment	22,204	724
	<u>\$ 597,107</u>	<u>\$ 5,007,929</u>
Total		

11. Endowment Funds

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

	<u>2025</u>		
	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Endowment funds	\$ 173,736	\$ 702,134	\$ 875,870
	<u>2024</u>		
	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Endowment funds	\$ 198,777	\$ 587,320	\$ 786,097

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). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law. There were no underwater endowments as of June 30, 2025 and 2024. A summary of changes in endowments follows for the year ended June 30:

	<u>2025</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, July 1, 2024	\$ 198,777	\$ 587,320	\$ 786,097
Dividends	3,732	11,026	14,758
Interest	925	2,735	3,660
Realized and unrealized gain on investments	18,683	55,201	73,884
Contributions	8,575	17,232	25,807
Reclassification	(55,406)	55,406	-
Release of restrictions	-	(22,204)	(22,204)
Investment fees	(1,550)	(4,582)	(6,132)
	<u>\$ 173,736</u>	<u>\$ 702,134</u>	<u>\$ 875,870</u>
Endowment net assets, June 30, 2025			

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

12. In-Kind Contributions

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

	2025	2024
Supplies	\$ 3,123,863	\$ 2,587,029
Facilities	217,574	191,465
Special events, venue, food, prizes and other	147,009	119,471
Auction items	46,026	96,796
Total	<u>\$ 3,534,472</u>	<u>\$ 2,994,761</u>

Donated supplies received by the Organization 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 recorded as expenditures at the time they are distributed. Donated supplies are provided at no cost to recipients through the DG PENCIL Box program.

The Organization 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 \$18,131 per month and is recorded as an in-kind contribution. Donated space is valued at average price per square foot of rental listings in the same area. Occupancy, donated is utilized across program services, management and general and fundraising services based on estimated time and effort of management's allocation of functional expenditures.

The Organization 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 and are considered fundraising disbursements to the Organization. In connection with these events, items are received by the Organization 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.

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13. Conditional Grants

In August 2022, the Organization was awarded a grant through the Tennessee Department of Education for the period August 11, 2022 - May 31, 2025 for the Connected Literacy Project. The award consists of \$4,670,875 of federal funding that will reimburse allowable costs incurred during the grant period. For the year ended June 30, 2025, the Organization recognized \$1,375,283 of grant revenue from the grant (\$2,624,051 in 2024). As of June 30, 2024, the Organization has a remaining available balance of approximately \$1,594,000 that has not been recognized as revenue because qualifying expenditures have not been incurred and charged to the grant. The contract ended in 2025 and was not renewed.

14. Retirement Plan

The Organization sponsors a Section 401(k) defined contribution plan for the benefit of eligible employees. The plan provides for the Organization to make a matching contribution for each employee deferral contribution, subject to limitations. Total contributions by the Organization to the plan amounted to \$55,863 in 2025 (\$29,257 in 2024).

15. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, and various contributions, grants, contracts and related receivables. The Organization 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. The Organization's balances may, at times, exceed statutory limits. The Organization 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 \$270,000 and \$1,010,000, or 10% and 16%, of total contribution revenue received for the years ended June 30, 2025 and 2024, respectively. Government grants and contracts revenue from two sources totaled approximately \$1,575,353 or 94% for the year ended June 30, 2025, and one source totaled \$2,624,051 or 84% for the year ended June 30, 2024, of total government grants and contracts revenue. Contribution receivables from two sources amounted to approximately \$1,250,000 or 55% at June 30, 2025, and one source amounted to approximately \$1,000,000 or 10% at June 30, 2024. Grant receivables from one source amounted to approximately \$1,061,514 at June 30, 2024.

16. Related Parties

The Organization receives support from and, at times, purchased goods or services from companies or organizations that are affiliated with or owned, directly or indirectly, by members of the board of directors. All related party transactions are subject to the Organization's Conflict of Interest Policy. In addition, the Organization receives free rent from a related party (see Note 12 for lease details).