

**GOVERNOR'S EARLY LITERACY FOUNDATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2021**

# GOVERNOR'S EARLY LITERACY FOUNDATION

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**GOVERNOR'S EARLY LITERACY FOUNDATION  
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF  
JUNE 30, 2021**

**Board of Directors**

Brandon Gibson	Chairman
CeeGee McCord	Vice Chair
Dr. Andrea Willis, M.D.	Secretary
Jennifer Colquitt	Member
Denine Torr	Member
Jeff Ballard	Member
Greg Duckett	Member
Parul Bajaj	Member
Dr. Nancy Dishner	Member
James Nicholson	Board Intern

**Executive Staff**

James Pond	President
Dean Hoskins	Vice President



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Governor's Early Literacy Foundation  
Nashville, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of Governor's Early Literacy Foundation (the "Foundation"), a Tennessee not-for-profit corporation, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

### ***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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinions.



### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Foundation as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 and the schedule of changes of net pension liability (asset) and related ratios and the schedule of contributions on pages 29 and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Foundation's basic financial statements. The roster of board of directors and executive staff is presented for purposes of additional analysis, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analyses as required by Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State of Tennessee, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

The roster of board of directors and executive staff has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



To the Board of Directors of  
Governor's Early Literacy Foundation

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2022, on our consideration of the Foundation'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 Foundation'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 Foundation's internal control over financial reporting and compliance.

*Crosslin, PLLC*

Nashville, Tennessee  
March 4, 2022

**GOVERNOR'S EARLY LITERACY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2021**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management's Discussion and Analysis ("MD&A") of Governor's Early Literacy Foundation's (the "Foundation") financial performance provides an introduction to the financial statements for the year ended June 30, 2021. The information contained in this MD&A should be considered in conjunction with the information contained in the Foundation's financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Foundation's financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles promulgated by the Government Accounting Standards Board. Revenues of the Foundation are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and depreciated over their estimated useful lives. See the notes to the financial statements for a summary of the Foundation's significant accounting policies.

Following this discussion are the basic financial statements of the Foundation, together with the notes, which provide additional information that is essential to a full understanding of the data contained in the financial statements. The basic financial statements are designed to provide readers with a broad overview of the Foundation's financial status.

Reporting the Foundation as a Whole

The Statement of Net Position and Statement of Activities:

In general, users of these financial statements want to know if the Foundation is better off or worse off as a result of the year's activities. The statement of net position and statement of activities report information about the Foundation as a whole and about the Foundation's activities in a manner that helps to answer that question. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting. Under the accrual basis, all of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 8.

The statement of net position reports the Foundation's net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources). Private sector entities would report retained earnings. The Foundation's net position at year end represents available resources for future growth. The statement of activities reports the change in net position as a result of activity during the year. Private sector entities have a similar report titled statement of operations, which reports net income. The statement of activities provides the user a tool to assist in determining the direction of the Foundation's financial health during the year. Users will want to consider non-financial factors as well as the financial data in arriving at a conclusion regarding the overall health of the Foundation.

**GOVERNOR'S EARLY LITERACY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2021**

**OVERVIEW OF THE FINANCIAL STATEMENTS - Continued**

Reporting the Foundation's Funds

Fund Financial Statements:

The Foundation's fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balance, begin on page 10. They provide detailed information about the Foundation's most significant funds, not the Foundation as a whole. Funds are established by the Foundation to help manage money for particular purposes and compliance with various grant provisions. As of and for the year ended June 30, 2021, the Foundation accounted for all activities in one fund, the general fund.

The Foundation's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the government-wide financial statements to report on the Foundation as a whole. The relationship between governmental activities, as reported in the statement of net position and the statement of activities, and governmental funds, as reported in the balance sheet and the statement of revenues, expenditures and changes in fund balances is reconciled in the basic financial statements on pages 11 and 13.

**FINANCIAL HIGHLIGHTS**

The Foundation was first funded by the State of Tennessee by public act in June 2005. The Internal Revenue Service has recognized the Foundation as a not-for-profit, tax-exempt organization under section 501(c)(3) of the Internal Revenue Code.

Following is condensed financial information derived from the audited government-wide financial statements:

	<u>2021</u>	<u>2020</u>
Assets:		
Current assets	\$11,358,612	\$8,348,137
Capital assets, net	15,404	13,367
Other non-current assets	<u>69,277</u>	<u>60,883</u>
Total assets	<u>11,443,293</u>	<u>8,422,387</u>
Deferred outflows of resources	<u>98,473</u>	<u>95,992</u>
Liabilities:		
Total current liabilities	<u>160,002</u>	<u>107,001</u>
Deferred inflows of resources	<u>1,309,905</u>	<u>32,756</u>
Net position:		
Investment in capital assets	15,404	13,367
Restricted	1,702,780	385,303
Unrestricted	<u>8,353,675</u>	<u>7,979,952</u>
Total net position	<u>\$10,071,859</u>	<u>\$8,378,622</u>



**GOVERNOR'S EARLY LITERACY FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2021**

**FINANCIAL HIGHLIGHTS - Continued**

	<u>2021</u>	<u>2020</u>
Program revenues:		
Governmental contracts	\$ 8,388,705	\$ 4,654,295
County reimbursements	3,498,752	3,453,874
General revenues:		
Contributions	595,117	495,687
Other general revenues	<u>1,508,711</u>	<u>268,474</u>
Total program and general revenues	<u>13,991,285</u>	<u>8,872,330</u>
Expenses:		
Program	11,593,126	8,463,473
Management and general	321,630	294,400
Marketing and development	<u>383,292</u>	<u>350,700</u>
Total expenses	<u>12,298,048</u>	<u>9,108,573</u>
Change in net position	<u>\$ 1,693,237</u>	<u>\$ ( 236,243)</u>

The majority of the Foundation's operating revenue is received from the State of Tennessee and from Tennessee counties participating in the program. The Foundation's operating revenue from the State is provided pursuant to public act by the State of Tennessee, dated June 17, 2005, under a contract that is now renewed annually according to the State's fiscal year (July 1 to June 30). The amount of this contract, negotiated from year to year, totaled \$4,525,000 for both the years ended June 30, 2021 and 2020. In addition, during fiscal year 2021, the Foundation, received federal funding related to the CARES Act that was passed through to the Foundation from the Tennessee Department of Education totaling \$3,792,268 of which \$3,688,074 was spent during fiscal year 2021. The Foundation received \$3,498,752 and \$3,453,874 from Tennessee counties for the years ended June 30, 2021 and 2020, respectively, as reimbursements for books purchased and distributed to county residents.

The cost of purchasing and mailing books represents the majority of the Foundation's expenses. During the years ended June 30, 2021 and 2020, these expenses of \$6,992,430 and \$6,913,877 represented approximately 57% and 76% of the Foundation's total expenses, respectively.

Cash flows and amounts of cash on hand fluctuate from year to year primarily based upon the timing of the payments received from the State of Tennessee. Fund balances remaining at the end of a fiscal year are not distributed but simply carried over into the following year.

**OTHER ISSUES**

There is no assurance, because of the nature of this enterprise, that State or federal funding will necessarily continue from year to year, a fact of which all members, employees and contractors are well aware.

Respectfully submitted,

Dean Hoskins  
Vice President  
March 4, 2022

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**STATEMENT OF NET POSITION**  
**GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2021**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 1,546,947
Investments	8,569,988
Contributions receivable	1,207,983
Grants receivable	27,135
Prepays	<u>6,559</u>

Total current assets	11,358,612
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Capital assets, net of accumulated depreciation of \$17,077	15,404
Net pension asset	<u>69,277</u>

Total assets	<u>11,443,293</u>
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**DEFERRED OUTFLOWS OF RESOURCES**

Pensions	<u>98,473</u>
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Total deferred outflows of resources	<u>98,473</u>
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**LIABILITIES**

Current liabilities:

Accounts payable	63,227
Accrued expenses	<u>96,775</u>

Total current liabilities	<u>160,002</u>
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**DEFERRED INFLOWS OF RESOURCES**

Deferred inflows related to pension	5,711
Grants for future periods	<u>1,304,194</u>

Total deferred inflows of resources	<u>1,309,905</u>
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**NET POSITION**

Investment in capital assets	15,404
Restricted	1,702,780
Unrestricted	<u>8,353,675</u>

Total net position	<u><u>\$ 10,071,859</u></u>
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The accompanying notes are an integral part of these financial statements.

**GOVERNOR'S EARLY LITERACY FOUNDATION  
STATEMENT OF ACTIVITIES  
GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021**

**EXPENSES**

Program:	
Books and mailings	\$ 6,992,430
County book funding	177,716
Compensation	217,597
Growth grants to counties	580,412
Marketing	80,543
Accounting services	38,451
Retirement expense	20,138
Health insurance	18,053
Travel	3,148
Information technology and computer	31,600
Postage and shipping	1,751
Telecommunications	6,057
Workshop	10,757
Reading Programs	3,414,473
Management and general	321,630
Marketing and development	383,292
Total expenses	<u>12,298,048</u>

**PROGRAM SPECIFIC OPERATING GRANTS  
AND CONTRIBUTIONS**

Governmental contracts	8,388,705
County reimbursements	3,498,752
Total program specific operating grants and contributions	<u>11,887,457</u>

**GENERAL REVENUES**

Contributions	595,117
Dividend income	122,701
Interest income	5,784
Net increase in the fair value of investments	1,380,226
Total general revenues	<u>2,103,828</u>

**NET CHANGE IN NET POSITION** 1,693,237

**NET POSITION AT BEGINNING OF YEAR** 8,378,622

**NET POSITION AT END OF YEAR** \$ 10,071,859

The accompanying notes are an integral part of these financial statements.

**GOVERNOR'S EARLY LITERACY FOUNDATION  
BALANCE SHEET - GOVERNMENTAL FUND  
GENERAL FUND  
JUNE 30, 2021**

**ASSETS**

Cash and cash equivalents	\$ 1,546,947
Investments	8,569,988
Contributions receivable	1,207,983
Grants receivable	27,135
Prepays	<u>6,559</u>

Total assets	<u><u>\$ 11,358,612</u></u>
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**LIABILITIES**

Accounts payable	\$ 63,227
Accrued expenses	<u>96,775</u>

Total liabilities	<u>160,002</u>
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**DEFERRED INFLOWS OF RESOURCES**

<u>1,304,194</u>
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**FUND BALANCE**

Nonspendable	6,559
Restricted	1,702,780
Unassigned	<u>8,185,077</u>

Total fund balance	<u>9,894,416</u>
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Total liabilities, deferred inflows of resources, and fund balance	<u><u>\$ 11,358,612</u></u>
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The accompanying notes are an integral part of these financial statements.

**GOVERNOR'S EARLY LITERACY FOUNDATION  
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL  
FUND TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2021**

Amounts reported for governmental activities in the statement of net position  
are different because:

Total governmental fund balance	\$ 9,894,416
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund (general fund) balance sheet	15,404
Net pension asset is not a current financial resource and is, therefore, not reported in the governmental fund (general fund) balance sheet	69,277
Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years:	
Deferred outflows of resources related to pensions	98,473
Deferred inflows of resources related to pensions	<u>(5,711)</u>
Net position of governmental activities	<u><u>\$ 10,071,859</u></u>

The accompanying notes are an integral part of these financial statements.

**GOVERNOR'S EARLY LITERACY FOUNDATION  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2021**

**REVENUES**

Governmental contracts	\$ 8,388,705
County reimbursements	3,498,752
Contributions	595,117
Dividend income	122,701
Interest income	5,784
Net increase in the fair value of investments	1,380,226
Total revenues	<u>13,991,285</u>

**EXPENDITURES**

Program	11,597,958
Management and general	322,058
Marketing and development	388,682
Capital expenditures	4,307
Total expenditures	<u>12,313,005</u>

**NET CHANGE IN FUND BALANCE** 1,678,280

**FUND BALANCE AT BEGINNING OF YEAR** 8,216,136

**FUND BALANCE AT END OF YEAR** \$ 9,894,416

The accompanying notes are an integral part of these financial statements.

**GOVERNOR'S EARLY LITERACY FOUNDATION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021**

Amounts reported for the governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental fund (general fund)	\$ 1,678,280
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Specifically, these items are as follows:

Capital assets additions	4,307
Depreciation expense	(5,376)
Net book value of capital assets sold or disposed	3,106

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Change in net pension liability/asset	8,394
Change in deferred outflows related to pensions	2,481
Change in deferred inflows related to pensions	2,045

Change in net position of governmental activities	<u><u>\$ 1,693,237</u></u>
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The accompanying notes are an integral part of these financial statements.

**GOVERNOR'S EARLY LITERACY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 1 - ORGANIZATION**

The Governor's Early Literacy Foundation (the "Foundation"), a not-for-profit organization, changed its name from the Governor's Books from Birth Foundation in November 2020. The Foundation was formed in March 2004 and was established to serve as a catalyst and tangible resource to Tennesseans seeking to establish county-wide Imagination Library programs throughout the State. The purpose of the Foundation is to promote and encourage reading by Tennessee's children.

In June 2004, the governor of Tennessee and the General Assembly established the Governor's Books from Birth Fund (the "Fund"), an agency of the State of Tennessee. The Fund was established to promote and foster the development of a comprehensive statewide program for encouraging children to read. The Fund's staff was charged with managing and promoting the statewide rollout of this program to every county in Tennessee, with providing support and resources to county efforts, and with raising funds statewide to assist distressed counties with their share of the costs. The Fund received an appropriation from the State of Tennessee that paid the related operating expenses and a 50% match grant to cover the cost of providing books to any county organization that offered the program to every child under the age of five in that county. Effective May 26, 2005, the State of Tennessee General Assembly approved a bill that authorized the Fund to partner with a not-for-profit organization for the administration of this program and to transfer the balance of the funds held by the Fund to the not-for-profit partner. The Fund has partnered with the Foundation and, accordingly, the balance of such funds was transferred to the Foundation. The State of Tennessee appropriated \$4,525,000 to the Foundation for the year ended June 30, 2021.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

Based upon the definition of a governmental organization set forth in Governmental Accounting Standards Board ("GASB") pronouncements, it has been determined that the Foundation is a governmental organization because it has been deemed a political subdivision of the State of Tennessee. The Foundation is funded primarily by the State of Tennessee and the board of directors are appointed by the governor of Tennessee.

The Foundation's basic financial statements include all activity as a single purpose government with only governmental activities. Currently, the Foundation is considered a special-purpose government engaged in a single program of education.

The Foundation has adopted the provisions of GASB pronouncements which establish standards for external financial reporting for all state and local governmental entities. In addition to providing guidance for basic financial statements and related note disclosures, these pronouncements require presentation of Management's Discussion and Analysis ("MD&A") as required supplementary information.

**Government-Wide Financial Statements**

The statement of net position presents information on all of the Foundation's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual reported as net position. The Foundation's net position is reported in three parts - investment in capital assets; restricted net position; and unrestricted net position. In the statement of activities, all activity is reported in one column as the Foundation has only one function.



**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The government-wide financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles promulgated by the GASB.

GASB pronouncements require the classification of net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

*Investment in capital assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances (if any) of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If the Foundation had debt related to the acquisition or construction of capital assets, the position category would be presented "net" of such related debt. At June 30, 2021, the Foundation had no debt directly related to its capital assets.

*Restricted* - This component of net position consists of constraints placed on asset use through external constraints imposed by creditors (such as through debt covenants), contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* - This component of net position consists of assets that do not meet the definition of restricted or investment in capital assets. When both restricted and unrestricted assets are available for use, it is the Foundation's policy to utilize restricted assets first, then unrestricted assets as needed.

The government-wide statement of activities reports both the gross and net cost of the Foundation's functions. The functions are also supported by general revenues which include donations to the general fund and county reimbursements. The statement of activities reduces gross expenses by related function revenues, operating and capital grants. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue. The Foundation allocates indirect cost between functions.

**Governmental Fund Financial Statements**

The financial transactions of the Foundation are recorded in one fund. The fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balances, revenues and expenditures.

The emphasis on fund financial statements is on the major funds. Nonmajor funds by category are summarized in a single column. GASB pronouncements set forth minimum criteria for the determination of major funds. The Foundation's only major fund is the General Fund. The General Fund is the Foundation's primary operating fund. It accounts for all financial resources of the Foundation, except those required to be accounted for in another fund. All of the Foundation's financial resources were accounted for in the general fund as of June 30, 2021.

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The governmental funds' focus is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The Foundation follows GASB pronouncements which classify governmental fund balances as: nonspendable, restricted, committed, assigned or unassigned based on the level of constraints on the fund balances. When an expenditure is incurred in which both restricted and unrestricted funds are available for use, it is the Foundation's policy to spend restricted funds first, then unrestricted funds. When an expenditure has been incurred for purposes in which multiple categories of unrestricted funds are available, it is the Foundation's policy to spend funds in the following order: committed, then assigned, and lastly unassigned funds.

The classifications of fund balances are defined as follows:

*Nonspendable* - This classification consists of fund balances that cannot be spent because they are either not in spendable form, for example, noncash amounts that are not expected to be converted to cash, or the funds are legally or contractually required to be maintained intact.

*Restricted* - This classification consists of fund balances with external constraints on use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

*Committed* - This classification consists of fund balances that can only be used for specific purposes established by formal action of the Foundation's board of directors, its highest level of decision-making authority. Such commitments should include contractual obligations of fund assets. Fund balance commitments can only be removed by the same process of the same body employed to previously commit those amounts. The Foundation had no committed fund balance at June 30, 2021.

*Assigned* - This classification consists of all fund balances that are not in the general fund or classified as nonspendable, restricted or committed. In addition, general fund balances that the Foundation intends to use for specific purposes are also classified as assigned. The Foundation gives the authority to assign amounts to specific purposes to the Foundation's President and personnel under the supervision of the President tasked with financial recording responsibilities. The Foundation had no assigned fund balance at June 30, 2021.

*Unassigned* - This classification consists of all fund balances in the general fund that are not reported as nonspendable, restricted, committed or assigned.

**Measurement Focus and Basis of Accounting**

The Foundation's government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The accounting objectives of this measurement focus are the determination of operating income and changes in net position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The Foundation's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. Program revenues and contributions are recognized when all eligibility requirements are met. Receivables collected less than one year after year-end are considered to be available and are recognized as revenue currently. Expenditures are recognized when the related liability is incurred.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

Allocation of Expenses

Expenses of the Foundation have been allocated to the various program functions and to management and general and marketing and development based on estimates and methodologies developed by management.

Contributions Receivable

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give 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 interest rates applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as revenue until such a time as the conditions are substantially met. The Foundation considers the contribution receivable to be fully collectible at June 30, 2021. As a result, no allowance for uncollectible contributions has been recorded. The contributions are expected to be received within one year.

Donated Goods and Services

Donated goods are recorded as gifts in the period received at estimated fair value, if there is an objective and measurable basis for determining such value. Donated services are recognized if they create or enhance nonfinancial assets or the donated service requires specialized skills, is performed by a donor who possesses such skills, and would have been purchased by the Foundation if not donated. Such services, if material, are recognized at fair value as support and expense in the period the services are performed. Members of the board of directors have provided substantial assistance to the Foundation by the donation of time and services. The value of this contribution is not reflected in the financial statements since it is not susceptible to objective measurement or valuation.

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Capital Assets

Capital assets are recorded at cost. Expenditures for ordinary maintenance and repairs are charged to operations. Renewals and betterments that materially extend the life of the asset and exceed \$500 are capitalized. Depreciation is provided in amounts necessary to allocate the cost of the various classes of assets over their estimated useful lives using the double declining balance method. Estimated useful lives of the respective assets range from five to seven years.

Investments

The Foundation accounts for investments in accordance with the requirements of GASB Statement No. 72. Under this statement, the Foundation is required to report investments in equity securities with readily determinable fair values and all investments in debt securities at fair value with gains and losses reported in the statements of activities. See Note 5 for additional information on fair value measurements.

Income Taxes

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. In accordance with its exemption from income taxes, no provision for such income taxes has been made in the accompanying financial statements.

Advertising Costs

Advertising costs are charged to marketing and development when incurred. Advertising and marketing expense totaled \$142,864 for the year ended June 30, 2021.

Risk of Loss

*Cash and cash equivalents*

See Note 3 for risk of loss relating to cash and cash equivalents.

*Investments*

The Foundation owns investments subject to a risk of loss. Through its investment policy, the Foundation manages its exposure to investment losses by seeking reasonable income while preserving capital and generally avoiding speculative investments (see further information in Note 5). Investment related risks are as follows:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is managed by investing in fixed income mutual funds that are primarily comprised of investment grade securities as established by one or more of the nationally recognized bond rating agencies.

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the Foundation will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of June 30, 2021, all investments were held by the Foundation or its agent in the Foundation's name.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Foundation's investment in a single issuer. The Foundation invests in a number of bond mutual funds to minimize any concentrations of credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation manages interest rate risk by investing in diversified bond mutual funds.

*Insurance*

The Foundation is exposed to various risks of loss similar to a commercial business, such as general liability, errors and omissions, and other situations. The Foundation purchases commercial insurance for the significant risks of loss. Settled claims have not exceeded the insurance coverage limits during the fiscal year.

The Foundation does not have any significant exposure to foreign currency risk at June 30, 2021.

Deferred Outflows/Inflows of Resources

The statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and, therefore, are not recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and, therefore, are not recognized as an inflow of resources (revenue) until then.

Variances in pension plan actuarial assumptions qualify to be reported as deferred outflows/inflows of resources. Variances can occur due to actuarial assumptions that differ between the actual plan experience and the original actuarial assumed rates. Differences can result from, among others, earnings on investments, changes in assumptions, and other experience gains or losses. A variance represents a gain or a loss, shown as deferred inflows of resources or deferred outflows of resources, respectively, in the accompanying statement of net position. These deferred outflows/inflows are amortized in accordance with the provisions of GASB No. 68. See Note 8 for additional information. In addition, the Foundation has recorded deferred inflows of resources related to contributions, which have time requirements for future periods. Amounts reflected in deferred inflows of resources, relating to grants designated for future periods, totaled \$1,200,000 at June 30, 2021, in both the governmental-wide statements and the governmental fund statements.

**GOVERNOR'S EARLY LITERACY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Foundation's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System ("TCRS"), and additions to/deductions from the Foundation's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Budgetary Comparison Statement

The Foundation is not required to adopt a legally binding budget; therefore, no budgetary comparison statement of the Foundation's funds has been presented.

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The Foundation's cash and cash equivalent bank and brokerage account balances totaling \$1,546,947 at June 30, 2021, represent demand deposits with banks and money market accounts in brokerage accounts.

The Foundation's deposit policy is governed by the laws of the State of Tennessee. Deposits in financial institutions are required by State statute to be secured and collateralized by such institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount covered by federal depository insurance. The Foundation's financial institutions participate in the State of Tennessee Bank Collateral Pool. Banks participating in the Collateral Pool determine the aggregate balance of their public fund accounts and the required collateral. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The Foundation had uninsured cash equivalents balances total \$739,698 at June 30, 2021, relating to funds held by investment managers in the Foundation investment portfolio.

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 4 - CAPITAL ASSETS**

Capital assets and related accumulated depreciation activity for the year ended June 30, 2021 were as follows:

	<u>Balance June 30, 2020</u>	<u>Additions</u>	<u>Retirements and Adjustments</u>	<u>Balance June 30, 2021</u>
Capital assets:				
Office equipment	\$ 29,574	\$ 4,307	\$(1,400)	\$ 32,481
Less accumulated depreciation:				
Office equipment	<u>(16,207)</u>	<u>(5,376)</u>	<u>4,506</u>	<u>(17,077)</u>
Net capital assets	<u>\$ 13,367</u>	<u>\$(1,069)</u>	<u>\$ 3,106</u>	<u>\$ 15,404</u>

Depreciation expense totaled \$870, for the year ended June 30, 2021, and is included in management and general expenses in the statement of activities.

**NOTE 5 - INVESTMENTS**

The Foundation follows the provisions of the Fair Value Measurement Topic of GASB No. 72. This guidance establishes a framework for measuring fair value for financial assets and financial liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The 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. The applicable levels of the fair value hierarchy are described below.

*Level 1* - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2* - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

*Level 3* - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021. All of the Foundation investments are held in exchange-traded funds and, therefore, are considered Level 1 investments. The funds are valued at the closing price reported on the active market on which the securities are traded.

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 Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments could result in a different fair value measurement at the reporting date.

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 5 - INVESTMENTS - Continued**

The Foundation's investment funds, set forth by level within the fair value hierarchy, are as follows at June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Funds:				
Equity Allocation	\$1,042,406	\$ -	\$ -	\$1,042,406
Large Value	379,462	-	-	379,462
Large Blend	528,163	-	-	528,163
Large Growth	334,256	-	-	334,256
World Allocation	109,452	-	-	109,452
Foreign Large Growth	143,480	-	-	143,480
Emerging Markets	187,999	-	-	187,999
Mid-Cap Value	295,217	-	-	295,217
Mid-Cap Growth	143,608	-	-	143,608
Foreign Small/Mid Value	103,426	-	-	103,426
Small Growth	268,154	-	-	268,154
Small Blend	150,814	-	-	150,814
Small/Mid Growth	107,644	-	-	107,644
Bank Loan	605,223	-	-	605,223
World Large Stock	<u>144,370</u>	<u>-</u>	<u>-</u>	<u>144,370</u>
Total Equity Funds	<u>4,543,674</u>	<u>-</u>	<u>-</u>	<u>4,543,674</u>
Bond Funds:				
UltraShort Bond	1,920,534	-	-	1,920,534
High-Yield Bond	688,226	-	-	688,226
Multisector Bond	533,591	-	-	533,591
Inflation-Protection Bond	302,994	-	-	302,994
Intermediate Core-Plus Bond	<u>580,969</u>	<u>-</u>	<u>-</u>	<u>580,969</u>
Total Bond Funds	<u>4,026,314</u>	<u>-</u>	<u>-</u>	<u>4,026,314</u>
Total Investments	<u>\$8,569,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,569,988</u>

The following schedule summarizes the investment return for the year ended June 30, 2021:

Dividend and interest income	\$ 128,485
Net increase in fair value of investments	<u>1,380,226</u>
	<u>\$1,508,711</u>



**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 6 - CONCENTRATIONS**

The Foundation receives a substantial amount of its support through state and county government grants and fees. A significant reduction in the level of this support, if it were to occur, would have a significant effect on the service provided by the Foundation.

**NOTE 7 - RESTRICTED NET POSITION**

Restricted net position consists principally of contributions restricted for future programs. Net position was restricted as follows at June 30, 2021:

Assistance for various counties	\$ 241,922
Net pension asset	69,277
Foster care program	12,388
Book bus program	75,000
Ready 4K	<u>1,304,193</u>
	<u>\$1,702,780</u>

**NOTE 8 - PENSION**

**General Information about the Pension Plan**

*Plan description:*

Employees of the Foundation are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

*Benefits provided:*

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 8 - PENSION - Continued**

Member and beneficiary annuitants are entitled to automatic cost of living adjustments ("COLAs") after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index ("CPI") during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 1/2%. A 1% COLA is granted if the CPI change is between 1/2% and 1%. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

*Employees covered by benefit terms:*

At the measurement date of June 30, 2020 the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>6</u>
	<u>11</u>

*Contributions:*

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The Foundation has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5% of annual covered payroll. For the year ended June 30, 2021, the TCRS Board of Trustees recommended an employer contribution rate of 10.64%, based on an actuarial valuation which included credit for previous overfunding. The Foundation reviewed the valuation and voluntarily elected to contribute at an increased rate of 12.45%. For the year ended June 30, 2021, employer contributions for the Foundation were \$66,772 based on a rate of 12.45% of covered payroll. By law, employer contributions are required to be paid. The employer's actuarially determined contribution ("ADC") is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Asset

The Foundation's net pension asset was measured as of June 30, 2020 and the total pension liability used to calculate net pension asset was determined by an actuarial valuation as of that date.

*Actuarial assumptions:*

The total pension liability as of the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.25%

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 8 - PENSION - Continued**

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2020 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	<u>1%</u>
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a blending of the factors described above.

*Discount rate:*

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Foundation will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 8 - PENSION - Continued**

Changes in the Net Pension Asset

	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Asset <u>(a) - (b)</u>
Balance at June 30, 2019	\$ 481,708	\$ 542,591	\$(60,883)
Changes for the year:			
Service cost	42,666	-	42,666
Interest	37,319	-	37,319
Differences between expected and actual experience	( 7,139)	-	( 7,139)
Contributions - employer	-	53,968	(53,968)
Net investment income	-	27,761	(27,761)
Benefit payments, including refunds of employee contributions	( 19,265)	( 19,265)	-
Administrative expense and other changes	<u>-</u>	<u>( 489)</u>	<u>489</u>
Net changes	<u>53,581</u>	<u>61,975</u>	<u>( 8,394)</u>
Balance at June 30, 2020	<u>\$ 535,289</u>	<u>\$ 604,566</u>	<u>\$(69,277)</u>

*Sensitivity of the net pension asset to changes in the discount rate:*

The following presents the net pension asset of the Foundation calculated using the discount rate of 7.25%, as well as what the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease <u>(6.25%)</u>	Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
Net pension liability (asset)	\$4,466	\$(69,277)	\$(129,984)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources  
Related to Pensions

*Pension expense:*

For the year ended June 30, 2021, the Foundation recognized pension expense of \$53,852.

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 8 - PENSION - Continued**

*Deferred outflows of resources and deferred inflows of resources:*

For the year ended June 30, 2021, the Foundation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$24,567	\$5,711
Net difference between projected and actual earnings on pension plan investments	5,219	-
Changes in assumptions	1,915	-
Contributions subsequent to the measurement date of June 30, 2020	<u>66,772</u>	<u>(not applicable)</u>
Total	<u>\$98,473</u>	<u>\$5,711</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2020" will be recognized as an increase to the net pension asset in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,

2022	\$12,912
2023	10,995
2024	944
2025	1,139
2026	-
Thereafter	-

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Payable to the Pension Plan

At June 30, 2021, there was no payable for the outstanding contributions to the pension plan required at the year ended June 30, 2021.

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2021**

**NOTE 9 - COVID-19 PANDEMIC**

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”). In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The pandemic has adversely affected global economic activity and contributed to the instability and volatility in financial markets. The pandemic may have a continued material adverse impact on economic and market conditions, triggering a continuing period of economic slowdown. Although the Foundation cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on the Foundation’s results of future operations, financial position, and liquidity in fiscal year 2022.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED RATIOS**  
**BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS (UNAUDITED)**  
**MEASUREMENT YEAR ENDING JUNE 30**

	<i>for fiscal year ending June 30, 2021</i> <i>(year shown is measurement date)</i>						
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Total pension liability:							
Service cost	\$ 12,152	\$ 32,932	\$ 35,060	\$ 36,636	\$ 38,420	\$ 22,613	\$ 42,666
Interest	9,570	15,164	19,433	22,400	27,053	31,111	37,319
Changes in benefit terms	-	-	-	-	-	-	-
Differences between actual and expected experience	38,761	13,460	(9,679)	14,845	18,386	30,046	(7,139)
Change of assumptions	-	-	-	5,751	-	-	-
Benefit payments, including refunds of employee contributions	(6,632)	(6,731)	(6,798)	(6,867)	(7,011)	(17,134)	(19,265)
Net change in total pension liability	53,851	54,825	38,016	72,765	76,848	66,636	53,581
Total pension liability-beginning	118,767	172,618	227,443	265,459	338,224	415,072	481,708
Total pension liability-ending	<u>\$ 172,618</u>	<u>\$ 227,443</u>	<u>\$ 265,459</u>	<u>\$ 338,224</u>	<u>\$ 415,072</u>	<u>\$ 481,708</u>	<u>\$ 535,289</u>
Plan fiduciary net position:							
Contributions-employer	\$ 33,161	\$ 28,317	\$ 29,822	\$ 43,844	\$ 45,367	\$ 46,506	\$ 53,968
Contributions-employee	-	-	-	-	-	-	-
Net investment income	36,122	8,596	8,248	39,392	35,111	36,598	27,761
Benefit payments, including refunds of employee contributions	(6,632)	(6,731)	(6,798)	(6,867)	(7,011)	(17,134)	(19,265)
Administrative expense and other changes	(148)	(203)	(344)	(424)	(475)	(422)	(489)
Net change in plan fiduciary net position	62,503	29,979	30,928	75,945	72,992	65,548	61,975
Plan fiduciary net position-beginning	204,696	267,199	297,178	328,106	404,051	477,043	542,591
Plan fiduciary net position-ending	<u>\$ 267,199</u>	<u>\$ 297,178</u>	<u>\$ 328,106</u>	<u>\$ 404,051</u>	<u>\$ 477,043</u>	<u>\$ 542,591</u>	<u>\$ 604,566</u>
Net pension asset-ending	<u>\$ (94,581)</u>	<u>\$ (69,735)</u>	<u>\$ (62,647)</u>	<u>\$ (65,827)</u>	<u>\$ (61,971)</u>	<u>\$ (60,883)</u>	<u>\$ (69,277)</u>
Plan fiduciary net position as a percentage of total pension liability	154.79%	130.66%	123.60%	119.46%	114.93%	112.64%	112.94%
Covered payroll	\$ 255,283	\$ 283,172	\$ 298,220	\$ 337,520	\$ 349,242	\$ 358,010	\$ 415,455
Net pension liability (asset) as a percentage of covered payroll	-37.05%	-24.63%	-21.01%	-19.50%	-17.74%	-17.01%	-16.67%

**Notes to Schedule**

Changes of assumptions:

In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth, and mortality improvements.

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.



**GOVERNOR'S EARLY LITERACY FOUNDATION  
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION  
IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS (UNAUDITED)  
FISCAL YEAR ENDING JUNE 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Actuarially determined contribution	\$ 33,161	\$ 16,537	\$ 17,416	\$ 33,752	\$ 40,652	\$ 41,672	\$ 35,895	\$ 53,968
Actual employer contributions	33,161	28,317	29,822	43,844	45,367	46,056	53,968	66,772
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (11,780)</u>	<u>\$ (12,406)</u>	<u>\$ (10,092)</u>	<u>\$ (4,715)</u>	<u>\$ (4,384)</u>	<u>\$ (18,073)</u>	<u>\$ (12,804)</u>
Covered payroll	\$ 255,283	\$ 283,172	\$ 298,220	\$ 337,520	\$ 349,242	\$ 358,010	\$ 415,455	\$ 536,486
Contributions as a percentage of covered payroll	12.99%	10.00%	10.00%	12.99%	12.99%	12.86%	12.99%	12.45%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal year until 10 years of information is available.

**Notes to Schedule**

Valuation date:

Actuarially determined contribution rates for fiscal year 2021 were calculated based on the June 30, 2019 actuarial valuation.

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: Entry Age Normal
- Amortization method: Level dollar, closed (not to exceed 20 years)
- Remaining amortization period: Varies by Year
  - Asset valuation: 10-year smoothed within a 20 percent corridor to market value
  - Inflation: 2.50 percent
  - Salary increases: Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
  - Investment rate of return: 7.25 percent, net of investment expense, including inflation
  - Retirement age: Pattern of retirement determined by experience study
  - Mortality: Customized table based on actual experience including an adjustment for some anticipated improvement
  - Cost of living adjustments: 2.25 percent

Changes of assumptions:

In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

## **OTHER INFORMATION**

**GOVERNOR'S EARLY LITERACY FOUNDATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**FOR THE YEAR ENDED JUNE 30, 2021**

<u>Grantor</u>	<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
<b>Federal Assistance:</b>				
Passed through from the State of TN Department of Human Services	Grant for supporting early childhood literacy and Imagination Library	93.575	GS00005373	<u>175,631</u>
Tennessee Department of Education	Education Stabilization Fund (ESF)	84.425D*	68854	<u>3,688,074</u>
Total Federal Awards				<u>3,863,705</u>
<b>State Assistance:</b>				
TN Department of General Services	Endowment grant for supporting and teaching children crucial early literacy skills	N/A	N/A	<u>4,525,000</u>
Total State Assistance				<u>4,525,000</u>
Total Federal Awards and State Financial Assistance				<u>\$ 8,388,705</u>

\* Major program in accordance with Uniform Guidance.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**

**NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING**

The schedule of expenditures of federal awards and state financial assistance (the "Schedule") includes the federal and state award activity of the Foundation under programs of the federal and state governments for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Foundation.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported in the Schedule are on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited as to reimbursement. The Foundation has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 3 - SUBRECIPIENTS**

The Foundation had no amounts which were passed-through to subrecipients.

## **INTERNAL CONTROL AND COMPLIANCE**



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of  
Governor's Early Literacy Foundation  
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Governor's Early Literacy Foundation, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Governor's Early Literacy Foundation's basic financial statements, and have issued our report thereon dated March 4, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Governor's Early Literacy Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Governor's Early Literacy Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Governor's Early Literacy Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Governor's Early Literacy Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Crosslin, PLLC*

Nashville, Tennessee  
March 4, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of  
Governor's Early Literacy Foundation  
Nashville, Tennessee

**Report on Compliance for Each Major Federal Program**

We have audited the Governor's Early Literacy Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Governor's Early Literacy Foundation's major federal program for the year ended June 30, 2021. Governor Early Literacy Foundation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Governor's Early Literacy Foundation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Governor's Early Literacy Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Governor's Early Literacy Foundation's compliance.



### ***Opinion on Each Major Federal Program***

In our opinion, the Governor's Early Literacy Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

### **Report on Internal Control Over Compliance**

Management of the Governor's Early Literacy Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Governor's Early Literacy Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Governor's Early Literacy Foundation's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Crosslin, PUC*

Nashville, Tennessee  
March 4, 2022



GOVERNOR'S EARLY LITERACY FOUNDATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2021

**SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:  
Material weakness(es) identified?    yes   x  no  
Significant deficiency(ies) identified?    yes   x  none reported

Noncompliance material to financial statements noted?    yes   x  no

Federal Awards

Internal control over major program:  
Material weakness(es) identified?    yes   x  no  
Significant deficiency(ies) identified?    yes   x  none reported

Type of auditor's report issued on compliance for major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?    yes   x  no

Identification of major programs:

CFDA Number

Name of Federal Program

84.425D

Education Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?    yes   x  no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None reported.

**SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None reported.

GOVERNOR'S EARLY LITERACY FOUNDATION  
SUMMARY OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2021

The Foundation did not have any reported findings for the fiscal year ended June 30, 2020.