

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2005

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

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CONTENTS

	<u>PAGE</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1
 <u>FINANCIAL STATEMENTS</u>	
Statement of Financial Position.....	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 8



INDEPENDENT AUDITORS' REPORT

Board of Directors
Governor's Books From Birth Foundation
Nashville, Tennessee

We have audited the accompanying statement of financial position of the Governor's Books From Birth Foundation (the "Foundation"), a Tennessee not-for-profit corporation, as of June 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Governor's Books From Birth Foundation as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Kraft CPAs PLLC

Nashville, Tennessee
December 20, 2005

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2005

ASSETS

Cash and cash equivalents	\$ 163,154
Due from State of Tennessee - Notes 1 and 2	1,221,313
Contributions receivable - Note 3	<u>441,581</u>

TOTAL ASSETS	<u>\$ 1,826,048</u>
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NET ASSETS

Unrestricted	\$ 1,384,467
Temporarily restricted - Note 4	<u>441,581</u>

TOTAL NET ASSETS	<u>\$ 1,826,048</u>
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The accompanying notes are an integral part of the financial statements.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contribution from State of Tennessee - Notes 1 and 2	\$ 1,221,313	\$ -	\$ 1,221,313
Contributions - other	3,000	601,581	604,581
Investment income	217	-	217
Net assets released from time restrictions	<u>160,000</u>	<u>(160,000)</u>	<u>-</u>
 TOTAL SUPPORT AND REVENUE	 <u>1,384,530</u>	 <u>441,581</u>	 <u>1,826,111</u>
 EXPENSES			
Supporting services:			
Administrative	<u>63</u>	<u>-</u>	<u>63</u>
 TOTAL EXPENSES	 <u>63</u>	 <u>-</u>	 <u>63</u>
 CHANGE IN NET ASSETS	 1,384,467	 441,581	 1,826,048
 NET ASSETS - BEGINNING OF YEAR	 <u>-</u>	 <u>-</u>	 <u>-</u>
 NET ASSETS - END OF YEAR	 <u>\$ 1,384,467</u>	 <u>\$ 441,581</u>	 <u>\$ 1,826,048</u>

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

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	<u>\$ 1,826,048</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) decrease:	
Due from State of Tennessee	(1,221,313)
Contributions receivable	<u>(441,581)</u>
TOTAL ADJUSTMENTS	<u>(1,662,894)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	163,154
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 163,154</u>

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

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - ORGANIZATION

General

The Governor's Books From Birth Foundation (the "Foundation"), a not-for-profit organization, was formed in March 2004. The Foundation 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 the children of the State of Tennessee.

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 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 transferred 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 and is reported as revenue in the Statement of Activities. In addition, the State of Tennessee appropriated \$2 million to the Foundation for the operation and 50% match grant funds necessary to operate this program for the fiscal year ending June 30, 2006.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future years or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Gifts of equipment or materials are reported as unrestricted support 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 cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking account balances maintained at a financial institution.

Contributions Receivable

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 a risk-free interest rate applicable to the year in which the promise is received (3.69% in 2005). 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 support until such time as the conditions are substantially met.

No provision for uncollectible contribution pledges has been made, based on management's estimate that all contributions receivable as of June 30, 2005, will be collected.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Due from the State of Tennessee

The balance due from the State of Tennessee at June 30, 2005, consists of the \$1,310,999 balance of funds to be transferred to the Foundation from the Fund (see Note 1), less \$89,686 expenses related to the June 2005 book costs and professional fees, which were paid by the Foundation on the Fund's behalf.

Donated Services

The Foundation's policy is to record support and expenses for contributed services that require specialized skills and would be purchased if not provided by the donor at the fair value of services received.

Members of the Board of Directors have also 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.

Program and Supporting Services

Costs of providing the Foundation's integration programs and other activities are summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs may be allocated among the programs and activities benefited. Costs that are not allocated to program services are classified as management and general or fundraising expenses. For the year ended June 30, 2005, basically no costs were incurred, as the program was administered by the Fund (see Note 1). Expenses incurred for the year related to establishment of the Foundation's bank accounts.

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 year. Actual results could differ from those estimates.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except for taxable income, if any, resulting from certain activities that generate unrelated business income.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2005

NOTE 3 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following as of June 30, 2005:

Temporarily restricted:

Less than one year	\$ 50,000
One to five years	<u>420,000</u>
Total contributions receivable	470,000
Less discount to net present value	<u>(28,419)</u>
Contributions receivable - net	<u>\$ 441,581</u>

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2005, consisted of contributions to be received in future years.

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

The Foundation cash account balances at June 30, 2005, exceeded Federal Deposit Insurance Corporation (FDIC) insurance limits. In management's opinion, the risk is mitigated by the use of a high quality financial institution.

Contributions received from three donors comprised 88% of contribution revenues for the year. The State of Tennessee has appropriated \$2 million for the operation of the Foundation for the year ending June 30, 2006.