

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2017

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

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**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF
JUNE 30, 2017**

Board of Directors

Rachel Lundeen Gatlin
Mark Cate
Theresa Carl

Board Chair
Secretary
Member

Executive Staff

Theresa Carl
Dean Hoskins

President
Vice President



Independent Auditor's Report

To the Board of Directors of
Governor's Books from Birth 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 Books from Birth Foundation (the "Foundation"), a Tennessee not-for-profit corporation, as of and for the year ended June 30, 2017, 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, 2017, 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 28 and 29 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 accompanying schedule of financial assistance is presented for purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury, *Audit Manual for Local Governmental Units and Recipients of Grant Funds*, and is not a required part of the basic financial statements. The information 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.



To the Board of Directors of
Governor's Books from Birth Foundation

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, 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 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 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
December 12, 2017

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Governor's Books from Birth Foundation's (the "Foundation") financial performance provides an introduction to the financial statements for the year ended June 30, 2017. 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 BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017**

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, 2017, 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>2017</u>	<u>2016</u>
Assets:		
Capital assets, net	\$ 4,158	\$ 7,470
Other assets	<u>7,495,117</u>	<u>6,605,054</u>
Total assets	<u>7,499,275</u>	<u>6,612,524</u>
Deferred outflow of resources:		
Deferred outflows related to pension	<u>71,812</u>	<u>69,095</u>
Total liabilities	<u>41,956</u>	<u>42,017</u>
Deferred inflows of resources	<u>7,744</u>	<u>11,869</u>
Net position:		
Net investment in capital assets	4,158	7,470
Restricted	506,203	255,660
Unrestricted	<u>7,011,026</u>	<u>6,364,603</u>
Total net position	<u>\$7,521,387</u>	<u>\$6,627,733</u>

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2017**

FINANCIAL HIGHLIGHTS - Continued

	<u>2017</u>	<u>2016</u>
Program revenues:		
Governmental contracts	\$4,024,800	\$3,454,100
County reimbursements	3,359,229	3,143,411
General revenues:		
Contributions	794,679	590,210
Other general revenues	<u>516,688</u>	<u>123,907</u>
Total program and general revenues	<u>8,695,396</u>	<u>7,311,628</u>
Expenses:		
Program	7,399,445	6,804,427
Management and general	221,173	257,062
Marketing and development	<u>181,124</u>	<u>151,047</u>
Total expenses	<u>7,801,742</u>	<u>7,212,536</u>
Change in net position	<u>\$ 893,654</u>	<u>\$ 99,092</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 \$3,924,800 and \$3,354,100 for the years ended June 30, 2017 and 2016, respectively. The Foundation received \$3,359,229 and \$3,143,411 from Tennessee counties for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, these expenses of \$6,714,436 and \$6,282,012 represented approximately 86% and 87% of the Foundation's total expenses, respectively.

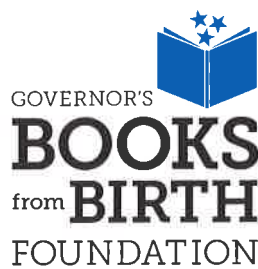
Cash flows and amounts of cash on hand fluctuate from year to year primarily based upon the timing of the payments received from the State of Tennessee. Fund balances remaining at the end of a fiscal year are not distributed but simply carried over into the following year.

OTHER ISSUES

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

Respectfully submitted,

Theresa Carl
President
December 12, 2017



December 13, 2017

Crosslin, PLLC
The Astoria
3803 Bedford Avenue, Suite 103
Nashville, TN 37215

This representation letter is provided in connection with your audit of the financial statements of Governor's Books from Birth Foundation ("GBBF"), which comprise the respective financial position of the governmental activities and the major fund as of June 30, 2017, and the respective changes in financial position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit:

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated August 15, 2017, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment or disclosure in the financial statements.
- 8) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the accounts.
- 9) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- 10) Guarantees, whether written or oral, under which GBBF is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11) We have provided you with:

- a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
- b) Additional information that you have requested from us for the purpose of the audit.
- c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- d) Minutes of the meetings of Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of financial assistance.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) We have no knowledge of any fraud or suspected fraud that affects GBBF and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 15) We have no knowledge of any allegations of fraud or suspected fraud affecting GBBF's financial statements communicated by employees, former employees, regulators, or others.
- 16) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 17) We have discussed with you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government—specific

- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 20) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 21) GBBF has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 22) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including legal and contractual provisions for reporting specific activities in separate funds.
- 23) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to

the audit objectives, and any other instances that warrant the attention of those charged with governance.

- 24) We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- 25) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 26) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 27) As part of your audit, you assisted with preparation of the financial statements and related notes and schedule of financial assistance. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possess suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of financial assistance.
- 28) GBBF has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 29) GBBF has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 30) We confirm that there are no component units or joint ventures with an equity interest which should be included in the financial statements or disclosed in the notes thereto.
- 31) The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34.
- 32) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 33) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (nonspendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.

- 34) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 35) Provisions for uncollectible receivables have been properly identified and recorded.
- 36) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 37) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 38) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 39) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 40) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 41) We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 42) We have appropriately disclosed GBBF's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 43) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned, or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.
- 44) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 45) With respect to the Schedule of financial assistance:
 - a) We acknowledge our responsibility for presenting the Schedule of financial assistance in accordance with accounting principles generally accepted in the United States of America, and we believe the Schedule of financial assistance, including its form and content, is

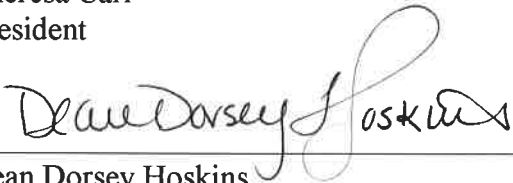
fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the Schedule of financial assistance has not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

- b) If the Schedule of financial assistance is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION



Theresa Carl
President



Dean Dorsey Hoskins
Vice President

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$ 988,630
Investments	6,385,135
Contribution receivable	25,000
Grant receivable	33,333
Accounts receivable	372

Total current assets	7,432,470
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Capital assets, net of accumulated depreciation of \$7,183	4,158
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Net pension asset	62,647
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Total assets	7,499,275
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pension	71,812
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LIABILITIES

Current liabilities:

Accounts payable	4,907
Accrued expenses	37,049

Total liabilities	41,956
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pension	7,744
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NET POSITION

Investment in capital assets	4,158
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Restricted	506,203
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Unrestricted	7,011,026
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Total net position	\$ 7,521,387
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The accompanying notes are an integral part of these financial statements.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

EXPENSES

Program:

Books and mailings	\$ 6,714,436
County book funding expense	330,437
Compensation expense, program	135,223
Growth grants to counties	37,492
Foster care expenses	32,656
Marketing, program	73,667
Accounting services	25,660
Retirement expense, program	17,744
Health insurance, program	12,989
Travel	10,438
Information technology and computer expense, program	1,769
Telecommunications expense, program	3,847
Workshop expense	3,087
Management and general	221,173
Marketing and development	181,124
Total expenses	<u>7,801,742</u>

**PROGRAM SPECIFIC OPERATING GRANTS
AND CONTRIBUTIONS**

Governmental contracts	4,024,800
County reimbursement	3,359,229
Total program specific operating grants and contributions	<u>7,384,029</u>

GENERAL REVENUES

Contributions	794,679
Dividend income	166,354
Interest income	12,297
Net increase in the fair value of investments	338,037
Total general revenues	<u>1,311,367</u>

CHANGE IN NET POSITION 893,654

NET POSITION AT BEGINNING OF YEAR 6,627,733

NET POSITION AT END OF YEAR \$ 7,521,387

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

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
BALANCE SHEET - GOVERNMENTAL FUND
GENERAL FUND
JUNE 30, 2017

ASSETS

Cash and cash equivalents	\$ 988,630
Investments	6,385,135
Contribution receivable	25,000
Grant receivable	33,333
Accounts receivable	372
	<hr/>
Total assets	<u>\$ 7,432,470</u>

LIABILITIES

Accounts payable	\$ 4,907
Accrued expenses	37,049
	<hr/>
Total liabilities	<u>41,956</u>

FUND BALANCE

Restricted	506,203
Unassigned	6,884,311
	<hr/>
Total fund balance	<u>7,390,514</u>
Total liabilities and fund balance	<u><u>\$ 7,432,470</u></u>

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

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL
FUND TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017**

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

Total governmental fund balance	\$ 7,390,514
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the governmental fund (general fund) balance sheet	4,158
Net pension asset is not a current financial resource and is, therefore, not reported in the governmental fund (general fund) balance sheet	62,647
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	71,812
Deferred inflows of resources related to pensions	(7,744)
	<hr/>
Net position of governmental activities	<u><u>\$ 7,521,387</u></u>

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

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017**

REVENUES

Governmental contracts	\$ 4,024,800
County reimbursements	3,359,229
Contributions	794,679
Dividend income	166,354
Interest income	12,297
Net increase in the fair value of investments	338,037
Total revenues	<u>8,695,396</u>

EXPENDITURES

Program	7,399,355
Management and general	217,792
Marketing and development	181,037
Capital expenditures	-
Total expenditures	<u>7,798,184</u>

NET CHANGE IN FUND BALANCE	897,212
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FUND BALANCE AT BEGINNING OF YEAR	<u>6,493,302</u>
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FUND BALANCE AT END OF YEAR	<u><u>\$ 7,390,514</u></u>
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The accompanying notes are an integral part of these financial statements.

**GOVERNOR'S BOOKS FROM BIRTH 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, 2017**

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

Net change in fund balance - total governmental fund (general fund)	\$	897,212
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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 disposals		(501)
Depreciation expense		(2,811)

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		(7,088)
Change in deferred outflows related to pensions		2,717
Change in deferred inflows related to pensions		4,125

Change in net position of governmental activities	\$	893,654
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The accompanying notes are an integral part of these financial statements.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - ORGANIZATION

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 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 \$3,924,800 to the Foundation for the year ended June 30, 2017.

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 - net 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 BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017, 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 net investment invested 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, 2017.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 Foundations' 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, 2017.

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, 2017.

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 BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017. 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 BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 \$86,069 for the year ended June 30, 2017.

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 BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017, 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, 2017.

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.

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.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 \$988,630 at June 30, 2017, 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 \$36,045 at June 30, 2017, relating to funds held by investment managers in the Foundation investment portfolio.

NOTE 4 - CAPITAL ASSETS

Capital assets and related accumulated depreciation activity for the year ended June 30, 2017 were as follows:

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Retirements and Adjustments</u>	<u>Balance June 30, 2017</u>
Capital assets:				
Office equipment	\$ 11,842	\$ -	\$(501)	\$ 11,341
Less accumulated depreciation:				
Office equipment	<u>(4,372)</u>	<u>(2,811)</u>	<u>-</u>	<u>(7,183)</u>
Net capital assets	<u>\$ 7,470</u>	<u>\$(2,811)</u>	<u>\$(501)</u>	<u>\$ 4,158</u>

Depreciation expense totaled \$2,811, for the year ended June 30, 2017, and is included in management and general expenses in the statement of activities.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017. 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.

The Foundation's investment funds, set forth by level within the fair value hierarchy, are as follows at June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Funds:				
Equity Allocation	\$ 1,417,791	\$ -	\$ -	\$ 1,417,791
Large Value	197,684	-	-	197,684
Large Blend	373,423	-	-	373,423
Large Growth	165,649	-	-	165,649
World Allocation	442,273	-	-	442,273
Foreign Large Growth	278,122	-	-	278,122
Infrastructure	125,873	-	-	125,873
Emerging Markets	112,188	-	-	112,188
Mid-Cap Value	48,145	-	-	48,145
Mid-Cap Growth	<u>101,551</u>	<u>-</u>	<u>-</u>	<u>101,551</u>
Total Equity Funds	<u>3,262,699</u>	<u>-</u>	<u>-</u>	<u>3,262,699</u>

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 - INVESTMENTS - Continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Bond Funds:				
Ultrashort Bond	514,801	-	-	514,801
High Yield Bond	614,540	-	-	614,540
Bond Allocation	220,457	-	-	220,457
Short-Term Bond	693,184	-	-	693,184
Intermediate-Term Bond	436,067	-	-	436,067
World Bond	364,278	-	-	364,278
Multisector Bond	189,866	-	-	189,866
Inflation-Protected Bond	<u>89,243</u>	<u>-</u>	<u>-</u>	<u>89,243</u>
Total Bond Funds	<u>3,122,436</u>	<u>-</u>	<u>-</u>	<u>3,122,436</u>
Total Investments	<u>\$6,385,135</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$6,385,135</u>

The following schedule summarizes the investment return for the year ended June 30, 2017:

Dividend and interest income	\$178,651
Net increase in fair value of investments	<u>338,037</u>
	<u>\$516,688</u>

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, 2017:

Assistance for various counties	\$369,606
Net pension asset	62,647
Foster care program	62,780
Birthing hospital initiative	<u>11,170</u>
	<u>\$506,203</u>

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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 www.treasury.tn.gov/tcrs.

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.

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, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>5</u>
	<u>8</u>

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 - PENSION - Continued

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, 2017, the TCRS Board of Trustees recommended an employer contribution rate of 10.00%, 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 12.94%. For the year ended June 30, 2017, employer contributions for the Foundation were \$44,042 based on a rate of 12.94% of covered payroll. By law, employer contributions are required to be paid. The employers 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, 2016, 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, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 - PENSION - Continued

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, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3%. The target allocation and best estimates of arithmetic real rates of return 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	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
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 7.5% based on a blending of the three factors described above.

Discount rate:

The discount rate used to measure the total pension liability was 7.5%. 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 BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2015	\$ 227,443	\$ 297,178	\$(69,735)
Changes for the year:			
Service cost	35,060	-	35,060
Interest	19,433	-	19,433
Differences between expected and actual experience	(9,679)	-	(9,679)
Contributions - employer	-	29,822	(29,822)
Contribution - employees	-	-	-
Net investment income	-	8,248	(8,248)
Benefit payments, including refunds of employee contributions	(6,798)	(6,798)	-
Administrative expense	<u>-</u>	<u>(344)</u>	<u>344</u>
Net changes	<u>38,016</u>	<u>30,928</u>	<u>7,088</u>
Balance at June 30, 2016	<u>\$ 265,459</u>	<u>\$ 328,106</u>	<u>\$(62,647)</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 7.5%, as well as what the net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease <u>(6.5%)</u>	Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Net pension asset	\$(29,549)	\$(62,647)	\$(90,463)

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

Pension expense:

For the year ended June 30, 2017, the Foundation recognized pension expense of \$44,288.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 - PENSION - Continued

Deferred outflows of resources and deferred inflows of resources:

For the year ended June 30, 2017, 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	\$16,421	\$(7,744)
Net difference between projected and actual earnings on pension plan investments	11,349	-
Contributions subsequent to the measurement date of June 30, 2016	<u>44,042</u>	<u>(not applicable)</u>
Total	<u>\$71,812</u>	<u>\$(7,744)</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2016" 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,

2018	\$12,590
2019	2,900
2020	3,491
2021	1,045

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, 2017, there was no payable for the outstanding contributions to the pension plan required at the year ended June 30, 2017.

NOTE 9 - SUBSEQUENT EVENT

During fiscal year 2017, the Foundation began the process of amending and restating its bylaws, with the intention of increasing the Board of Directors to nine members. It is anticipated that the bylaws will be approved and the new Board of Directors will begin effective January 1, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<i>for fiscal year ending June 30, 2017</i> <i>(year shown is measurement date)</i>		
	2014	2015	2016
Total pension liability:			
Service cost	\$ 12,152	\$ 32,932	\$ 35,060
Interest	9,570	15,164	19,433
Changes in benefit terms	-	-	-
Differences between actual and expected experience	38,761	13,460	(9,679)
Change of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(6,632)	(6,731)	(6,798)
Net change in total pension liability	53,851	54,825	38,016
Total pension liability-beginning	118,767	172,618	227,443
Total pension liability-ending	<u>\$ 172,618</u>	<u>\$ 227,443</u>	<u>\$ 265,459</u>
Plan fiduciary net position:			
Contributions-employer	\$ 33,161	\$ 28,317	\$ 29,822
Contributions-employee	-	-	-
Net investment income	36,122	8,596	8,248
Benefit payments, including refunds of employee contributions	(6,632)	(6,731)	(6,798)
Administrative expense	(148)	(203)	(344)
Net change in plan fiduciary net position	62,503	29,979	30,928
Plan fiduciary net position-beginning	204,696	267,199	297,178
Plan fiduciary net position-ending	<u>\$ 267,199</u>	<u>\$ 297,178</u>	<u>\$ 328,106</u>
Net pension asset-ending	<u>\$ (94,581)</u>	<u>\$ (69,735)</u>	<u>\$ (62,647)</u>
Plan fiduciary net position as a percentage of total pension liability	154.79%	130.66%	123.60%
Covered payroll	\$ 255,283	\$ 283,172	\$ 298,220
Net pension liability (asset) as a percentage of covered payroll	-37.05%	-24.63%	-21.01%

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 BOOKS FROM BIRTH FOUNDATION
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION
IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
FISCAL YEAR ENDING JUNE 30**

	2014	2015	2016	2017
Actuarially determined contribution	\$ 33,161	\$ 16,537	\$ 17,416	\$ 30,419
Actual employee contributions	33,161	28,317	29,822	44,042
Contribution deficiency (excess)	-	(11,780)	(12,406)	(13,623)
Covered payroll	\$ 255,283	\$ 283,172	\$ 298,220	\$ 340,187
Contributions as a percentage of covered payroll	12.99%	10.00%	10.00%	12.94%

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.

Notes to Schedule

Valuation date:

Actuarially determined contribution rates for 2017 were calculated based on the June 30, 2015 actuarial valuation.

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: Frozen initial liability
- Amortization method: Level dollar, closed (not to exceed 20 years)
- Remaining amortization period: 4 years
 - Asset valuation: 10-year smoothed within a 20 percent corridor to market value
 - Inflation: 3.0 percent
 - Salary increases: Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
 - Investment rate of return: 7.5 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: 2.5 percent

OTHER INFORMATION

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
SCHEDULE OF FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2017**

Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2016	Cash Receipts	Expenditures	Receivable June 30, 2017
Federal Assistance:							
Appalachian Regional Commission	Endowment grant for supporting and teaching children crucial early literacy skills	23.001	TN-16307-C3-15 TN-16307-C4-16	\$ 33,333 -	\$ 33,333 66,667	\$ - 100,000	\$ - 33,333
Total Federal Assistance				<u>33,333</u>	<u>100,000</u>	<u>100,000</u>	<u>33,333</u>
State Assistance:							
TN Department of General Services	Endowment grant for supporting and teaching children crucial early literacy skills	N/A	N/A	-	3,924,800	3,924,800	-
Total State Assistance				<u>-</u>	<u>3,924,800</u>	<u>3,924,800</u>	<u>-</u>
Total Federal and State Assistance				<u>\$ 33,333</u>	<u>\$ 4,024,800</u>	<u>\$ 4,024,800</u>	<u>\$ 33,333</u>

NOTES TO THE SCHEDULE OF FINANCIAL ASSISTANCE

NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING

The Schedule of Financial Assistance is presented in accordance with the requirements of the State of Tennessee and is prepared on the accrual basis of accounting. Because the Schedule of Financial Assistance presents only a selected portion of the Foundation's operations, it is not intended to and does not present the financial position or changes in financial position of the Foundation.

NOTE 2 - INDIRECT COST ALLOCATION

The Foundation did not elect to use the 10% de minimis indirect cost rate; however, no indirect costs were allocated to the federal awards during the year ended June 30, 2017.

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 Books from Birth 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 Books from Birth Foundation, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Governor's Books from Birth Foundation's basic financial statements, and have issued our report thereon dated December 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Governor's Books from Birth Foundation's internal control over financial reporting (internal control) to determine the 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 Books from Birth Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Governor's Books from Birth 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.



To the Board of Directors of
Governor's Books from Birth Foundation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Governor's Books from Birth 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 determination of financial statement amounts. 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
December 12, 2017

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2017

None reported.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2017

The Foundation did not have any reported findings for the fiscal year ended June 30, 2016.