

**GOVERNOR'S BOOKS FROM BIRTH  
FOUNDATION**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT AND  
SUPPLEMENTAL INFORMATION**

**June 30, 2016**

# GOVERNOR’S BOOKS FROM BIRTH FOUNDATION

## TABLE OF CONTENTS

Roster of Board of Directors and Executive Staff .....	3
Independent Auditor’s Report.....	4 – 6
Management’s Discussion and Analysis.....	7 – 10
Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position (Governmental Activities).....	11
Statement of Activities (Governmental Activities) .....	12
Governmental Fund Financial Statements:	
Balance Sheet (General Fund).....	13
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds (General Fund).....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	16
Notes to Financial Statements.....	17 – 32
Supplementary Information:	
Schedule of Financial Assistance .....	33
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios.....	34
Schedule of Contributions Based on Participation in the Public Employee Pension Plan of TCRS .....	35

## GOVERNOR’S BOOKS FROM BIRTH FOUNDATION

### TABLE OF CONTENTS (Continued)

#### Internal Control and Compliance Reports:

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 <i>Government Auditing Standards</i> .....	36 – 37
Schedule of Findings and Responses.....	38
Schedule of Prior Year Audit Findings .....	39

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
ROSTER OF BOARD OF DIRECTORS AND  
EXECUTIVE STAFF  
As of June 30, 2016**

**Board of Directors**

Rachel Gatlin  
Mark Cate  
Theresa Carl

Board Chair  
Secretary  
Board 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 each 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, 2016, 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 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 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 each major fund of Governor's Books from Birth Foundation as of June 30, 2016, 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 7 through 10 and the schedule of changes of net pension liability (asset) and related ratios and the schedule of contributions on pages 34 and 35 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 to be 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 Governor's Books from Birth Foundation's basic financial statements. The 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 schedule of financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2016, on our consideration of Governor's Books from Birth 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 Governor's Books from Birth Foundation's internal control over financial reporting and compliance.

*Frasier Den L Hand, PLLC*

Nashville, Tennessee  
December 23, 2016

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2016**

**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, 2016. 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 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 11.

The statement of net position reports the Foundation's net position (total assets and deferred outflows less total liabilities and deferred inflows). 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 (Continued)  
June 30, 2016**

**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 balances, begin on page 13. 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.

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 14 and 16.

**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>2016</u>	<u>2015</u>
Assets:		
Capital assets, net	\$ 7,470	\$ 6,551
Other assets	<u>6,605,054</u>	<u>6,513,055</u>
Total assets	<u>6,612,524</u>	<u>6,519,606</u>
Deferred outflows of resources:		
Deferred outflows related to pension	<u>69,095</u>	<u>57,388</u>
Total assets and deferred outflows of resources	<u>6,681,619</u>	<u>6,576,994</u>

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2016**

**FINANCIAL HIGHLIGHTS (Continued)**

	<u>2016</u>	<u>2015</u>
Total liabilities	<u>42,017</u>	<u>32,528</u>
Deferred inflows of resources:		
Deferred inflows related to pension	<u>11,869</u>	<u>15,825</u>
Net position:		
Net investment in capital assets	7,470	6,551
Restricted	255,660	240,034
Unrestricted	<u>6,364,603</u>	<u>6,282,056</u>
Total net position	<u>\$ 6,627,733</u>	<u>\$ 6,528,641</u>
Program revenues:		
Governmental contracts	\$ 3,454,100	\$ 3,204,100
County reimbursements	3,143,411	2,958,393
General revenue:		
Contributions	590,210	454,808
Other general revenue	<u>123,907</u>	<u>36,442</u>
Total program and general revenues	<u>7,311,628</u>	<u>6,653,743</u>
Expenses:		
Program	6,804,427	6,382,157
Management and general	257,062	257,176
Marketing and development	<u>151,047</u>	<u>275,804</u>
Total expenses	<u>7,212,536</u>	<u>6,915,137</u>
Change in net position	<u>\$ 99,092</u>	<u>\$ (261,394)</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 \$3,354,100 and \$3,104,100 for the years ended June 30, 2016 and 2015, respectively. The Foundation received \$3,143,411 and \$2,958,393 from Tennessee counties for the years ended June 30, 2016 and 2015, respectively, as reimbursements for books purchased and distributed to county residents.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2016**

**FINANCIAL HIGHLIGHTS (Continued)**

The cost of purchasing and mailing books represents the majority of the Foundation's expenses. During the years ended June 30, 2016 and 2015, these expenses of \$6,282,012 and \$5,916,777 represented approximately 87% and 86% 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,



---

December 23, 2016

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**STATEMENT OF NET POSITION**  
**(GOVERNMENTAL ACTIVITIES)**  
**June 30, 2016**

**Assets**

Current assets:

Cash and cash equivalents	\$ 1,121,752
Investments	5,314,348
Contribution receivable	65,000
Grant receivable	33,333
Accounts receivable	886

Total current assets	6,535,319
----------------------	-----------

Capital assets, net of accumulated depreciation of \$4,372	7,470
--	-------

Net pension asset	69,735
-------------------	--------

Total assets	6,612,524
--------------	-----------

**Deferred Outflows of Resources**

Deferred outflows related to pension	69,095
--------------------------------------	--------

Total assets and deferred outflows of resources	\$ 6,681,619
---	--------------

**Liabilities**

Current liabilities:

Accounts payable	\$ 15,711
Accrued expenses	26,306

Total liabilities	42,017
-------------------	--------

**Deferred Inflows of Resources**

Deferred inflows related to pension	11,869
-------------------------------------	--------

**Net Position**

Net investment in capital assets	7,470
----------------------------------	-------

Restricted	255,660
------------	---------

Unrestricted	6,364,603
--------------	-----------

Total net position	6,627,733
--------------------	-----------

Total liabilities, deferred inflows of resources, and net position	\$ 6,681,619
--	--------------

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**(GOVERNMENTAL ACTIVITIES)**  
**For the Year Ended June 30, 2016**

Expenses:

Program:

Books and mailings	\$ 6,282,012
County book funding expense	207,499
Compensation expense, program	120,533
Distressed county expense	46,908
Foster care expense	36,721
Marketing, program	31,117
Accounting services	22,634
Retirement expense, program	18,404
Health insurance, program	11,233
Travel	9,472
Information technology and computer expense, program	8,309
Donated goods and services expense, program	6,000
Telecommunications expense, program	3,402
Workshop expense	183
Management and general	257,062
Marketing and development	151,047
	<hr/>
Total expenses	7,212,536

Program specific operating grants and contributions:

Governmental contracts	3,454,100
County reimbursements	3,143,411
	<hr/>
Total program specific operating grants and contributions	6,597,511

General revenues:

Contributions	590,210
Dividend income	140,577
Interest income	14,071
Net decrease in the fair value of investments	(30,741)
	<hr/>
Net general revenues	714,117

Change in net position	99,092
------------------------	--------

Net position at beginning of year	6,528,641
-----------------------------------	-----------

Net position at end of year	<u><u>\$ 6,627,733</u></u>
-----------------------------	----------------------------

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
BALANCE SHEET  
(GENERAL FUND)  
June 30, 2016**

**Assets**

Cash and cash equivalents	\$ 1,121,752
Investments	5,314,348
Contribution receivable	65,000
Grant receivable	33,333
Accounts receivable	<u>886</u>
 Total assets	 <u><u>\$ 6,535,319</u></u>

**Liabilities and Fund Balances**

Accounts payable	\$ 15,711
Accrued expenses	<u>26,306</u>
 Total liabilities	 <u>42,017</u>
  Restricted	  255,660
Unassigned	<u>6,237,642</u>
 Total fund balances	 <u>6,493,302</u>
 Total liabilities and fund balances	 <u><u>\$ 6,535,319</u></u>

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET POSITION OF GOVERNMENTAL ACTIVITIES  
June 30, 2016**

<b>Total fund balances (general fund)</b>	\$ 6,493,302
---	--------------

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the general fund balance sheet	7,470
---	-------

Net pension asset is not a current financial resource and is, therefore, not reported in the governmental fund balance sheet	69,735
--	--------

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	69,095
Deferred inflows of resources related to pensions	<u>(11,869)</u>

<b>Net position of governmental activities</b>	<u><u>\$ 6,627,733</u></u>
--	----------------------------

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES OF GOVERNMENTAL FUNDS**  
**(GENERAL FUND)**  
**For the Year Ended June 30, 2016**

Revenues:	
Governmental contracts	\$ 3,454,100
County reimbursements	3,143,411
Contributions	590,210
Dividend income	140,577
Interest income	14,071
Net decrease in the fair value of investments	<u>(30,741)</u>
 Total revenues	 <u>7,311,628</u>
Expenditures:	
Program	6,801,011
Management and general	251,826
Marketing and development	148,534
Capital expenditures	<u>2,901</u>
 Total expenditures	 <u>7,204,272</u>
 Net change in fund balances	 107,356
 Fund balances at beginning of year	 <u>6,385,946</u>
 Fund balances at end of year	 <u><u>\$ 6,493,302</u></u>

See accompanying notes.



**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016**

<b>Net change in fund balances (general fund)</b>	<b>\$ 107,356</b>
---	-------------------

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

Capital outlays reported as expenditures in governmental funds are shown as capital assets in the statement of net position	2,901
---	-------

Depreciation expense on governmental capital assets is included only in the governmental activities in the statement of activities	(1,982)
--	---------

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	(24,846)
Change in deferred outflows related to pensions	11,707
Change in deferred inflows related to pensions	<u>3,956</u>

<b>Change in net position of governmental activities</b>	<b><u><u>\$ 99,092</u></u></b>
--	--------------------------------

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**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 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 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 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. The State of Tennessee appropriated \$3,354,100 to the Foundation for the year ended June 30, 2016.

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

**Basis of Presentation**

The government-wide financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board ("GASB"). Based upon the definition of a governmental organization set forth in 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 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. The Foundation has implemented GASB pronouncements which establish and modify disclosure requirements related to investment and deposit risks. These pronouncements address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Disclosures relating to these pronouncements are included in Note 2.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

Budgetary comparison schedules are not included as part of the additional information as required by GASB pronouncements, as the Foundation is not required to legally adopt the budget.

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.

**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 – invested 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.

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:

*Net 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 there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

*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 invested in capital assets, net of related debt. 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.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Government-wide Financial Statements (Continued)**

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.

**Fund Financial Statements**

The government fund financial statements report the Foundation's financial transactions by individual fund. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balances, revenues and expenses.

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, 2016.

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.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Financial Statements (Continued)**

*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.

*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 controller and personnel under the supervision of the controller tasked with financial recording responsibilities.

*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. 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.

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.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Contribution 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, 2016. 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 are recognized at fair value as support and expense in the period the services are performed. During the year ended June 30, 2016, the Foundation received donated goods and services of \$18,000.

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.

**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 Governmental Accounting Standards Board ("GASB") Statement 72 guidelines for governmental entities. Under these guidelines, the Foundation is required to report investments in equity securities with readily determinable fair values

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments (Continued)**

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. Accordingly, no provision for income taxes has been made.

**Advertising Costs**

Advertising costs are charged to marketing and development when incurred. Advertising expense totaled \$50,092 for the year ended June 30, 2016.

**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. 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.

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, 2016, 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.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Risk of Loss (Continued)**

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, 2016.

**Deferred Outflows/Inflows of Resources**

The statement of net position reports a separate section 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, 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, 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 (Continued)**  
**June 30, 2016**

**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.

**Subsequent Events**

The Foundation has evaluated subsequent events for potential recognition and disclosure through December 23, 2016, the date the financial statements were available to be issued.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

The Foundation's cash and cash equivalent bank and brokerage account balances totaling \$1,121,752 at June 30, 2016, represent demand deposits with banks and money market accounts in brokerage accounts. Uninsured balances totaled \$609,454 at June 30, 2016.

Category 1 includes cash and cash equivalent balances that are uncollateralized. Category 2 includes bank balances that are collateralized with securities held by the pledging financial institution. Category 3 includes bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor's (Foundation's) name.

	<b>June 30, 2016</b>		
	<b>Custodial Credit Risk Category</b>		
	<b>1</b>	<b>2</b>	<b>3</b>
Uninsured cash and cash equivalents	\$ 609,454	\$ -	\$ -

**NOTE 4 – CAPITAL ASSETS**

Capital assets and related accumulated depreciation activity for the year ended June 30, 2016 were as follows:

	<b>Balance June 30, 2015</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2016</b>
Capital assets:				
Office equipment	\$ 8,941	\$ 2,901	\$ -	\$ 11,842
Less accumulated depreciation:				
Office equipment	(2,390)	(1,982)	-	(4,372)
Net capital assets	\$ 6,551	\$ 919	\$ -	\$ 7,470

Depreciation expense totaled \$1,982, for the year ended June 30, 2016 and is included in management and general expenses in the statement of activities.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 5 – INVESTMENTS**

The Foundation follows the provisions of the Fair Value Measurement Topic of GASB Statement 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, 2016.

*Mutual funds:* Valued at the net asset value ("NAV") of shares held by the fund at year end.

*Fixed income and corporate debt instruments:* Valued, whenever possible, at the closing price reported in the active market in which the security is traded. Securities, for which no sale was reported on the last business day of the year, are valued by evaluated pricing models using available information, as applicable, through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing.

*Corporate stocks and exchange-traded funds:* Valued at the closing price reported on the active market on which the securities are traded.

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. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at June 30, 2016.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain instruments could result in a different fair value measurement at the reporting date.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 5 – INVESTMENTS (Continued)**

The following tables set forth by level, within the fair value hierarchy, the Foundation's investments at fair value at June 30, 2016.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual Funds:				
Large Value	\$ 993,694	\$ -	\$ -	\$ 993,694
Large Blend	798,199	-	-	798,199
World Allocation	505,608	-	-	505,608
Ultrashort Bond	503,665	-	-	503,665
Large Growth	417,790	-	-	417,790
Foreign Large Growth	184,828	-	-	184,828
Tactical Allocation	136,401	-	-	136,401
Infrastructure	113,453	-	-	113,453
Emerging Markets	67,250	-	-	67,250
Mid-Cap Value	42,048	-	-	42,048
Mid-Cap Growth	40,997	-	-	40,997
Total Mutual Funds	<u>3,803,933</u>	<u>-</u>	<u>-</u>	<u>3,803,933</u>
Bonds:				
Short-Term Bond	689,598	-	-	689,598
Intermediate-Term Bond	294,842	-	-	294,842
World Bond	255,540	-	-	255,540
Multisector Bond	180,674	-	-	180,674
Inflation-Protected Bond	89,761	-	-	89,761
Total Bonds	<u>1,510,415</u>	<u>-</u>	<u>-</u>	<u>1,510,415</u>
Total Investments	<u>\$ 5,314,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,314,348</u>

The following schedule summarizes the investment return for the year ended June 30, 2016:

Dividend and interest income	\$ 154,648
Net decrease in fair value of investments	<u>(30,741)</u>
	<u>\$ 123,907</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, could have a significant effect on the service provided by the Foundation.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**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, 2016:

Assistance for various counties	\$ 122,270
Net pension asset	69,735
Foster care program	55,435
Birthing hospital initiative	<u>8,220</u>
	<u>\$ 255,660</u>

**NOTE 8 – PENSION**

**General Information about the Pension Plan**

*Plan description:*

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

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 8 – PENSION (Continued)**

**General Information about the Pension Plan (Continued)**

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

*Employees covered by benefit terms:*

At the measurement date of June 30, 2015, 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>4</u>
	<u><u>7</u></u>

*Contributions:*

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The Foundation has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5% of annual covered payroll. For the year ended June 30, 2016, the TCRS Board of Trustees recommended an employer contribution rate of 5.84%, based on an actuarial valuation. The Foundation reviewed the evaluation and voluntarily elected to contribute at an increased rate of 10%. For the year ended June 30, 2016, employer contributions for the Foundation were \$29,822 based on a rate of 10% 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, 2015, and the total pension asset used to calculate net pension asset was determined by an actuarial valuation as of that date.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 8 – PENSION (Continued)**

**Net Pension Asset (Continued)**

*Actuarial assumptions:*

The total pension asset as of June 30, 2015 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, 2015 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.

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:

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 8 – PENSION (Continued)**

**Net Pension Asset (Continued)**

<b><u>Asset Class</u></b>	<b><u>Long-Term Expected Real Rate of Return</u></b>	<b><u>Target Allocation</u></b>
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%	1%
		<hr/> 100% <hr/>

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 (Continued)**  
**June 30, 2016**

**NOTE 8 – PENSION (Continued)**

**Changes in the Net Pension Asset**

	<i>Increase (Decrease)</i>		
	<b>Total Pension Liability <u>(a)</u></b>	<b>Plan Fiduciary Net Position <u>(b)</u></b>	<b>Net Pension Asset <u>(a) – (b)</u></b>
Balance at June 30, 2014	\$ 172,618	\$ 267,199	\$ (94,581)
Changes for the year:			
Service cost	32,932	-	32,932
Interest	15,164	-	15,164
Differences between expected and actual experience	13,460	-	13,460
Contributions – employer	-	28,317	(28,317)
Contributions – employees	-	-	-
Net investment income	-	8,596	(8,596)
Benefit payments, including refunds of employee contributions	(6,731)	(6,731)	-
Administrative expense	<u>-</u>	<u>(203)</u>	<u>203</u>
Net changes	54,825	29,979	(24,846)
Balance at June 30, 2015	<u>\$ 227,443</u>	<u>\$ 297,178</u>	<u>\$ (69,735)</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:

	<b>1% Decrease <u>(6.5%)</u></b>	<b>Current Discount Rate <u>(7.5%)</u></b>	<b>1% Increase <u>(8.5%)</u></b>
Net pension asset	\$ (41,431)	\$ (69,735)	\$ (93,567)

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

*Pension expense:*

For the year ended June 30, 2016, the Foundation recognized pension expense of \$39,005.



**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2016**

**NOTE 8 – PENSION (Continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

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

For the year ended June 30, 2016, the Foundation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ 29,476	\$ -
Net difference between projected and actual earnings on pension plan investments	9,797	11,869
Contributions subsequent to the measurement date of June 30, 2015	<u>29,822</u>	<u>(not applicable)</u>
Total	<u>\$ 69,095</u>	<u>\$ 11,869</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2015” will be recognized as a reduction (increase) to net pension liability (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:

<u>Year ended June 30,</u>	
2017	\$ 11,548
2018	11,548
2019	1,858
2020	2,449
2021	-
Thereafter	-

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

**Payable to the Pension Plan**

At June 30, 2016, the Foundation reported a payable of \$2,759 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2016.

## **SUPPLEMENTARY INFORMATION**

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**SCHEDULE OF FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2016**

Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2015	Cash Receipts	Expenditures	Receivable June 30, 2016
<b>Federal Assistance:</b>							
Appalachian Regional Commission	Endowment grant for supporting and teaching children crucial early literacy skills	23.001	TN-16307-C2-14 TN-16307-C3-15	\$ 33,333 -	\$ 33,333 66,667	\$ - 100,000	\$ - 33,333
Total Federal Assistance				33,333	100,000	100,000	33,333
<b>State Assistance:</b>							
TN Department of General Services	Endowment grant for supporting and teaching children crucial early literacy skills	N/A	N/A	-	3,354,100	3,354,100	-
Total State Assistance				-	3,354,100	3,354,100	-
Total Federal and State Assistance				\$ 33,333	\$ 3,454,100	\$ 3,454,100	\$ 33,333

**NOTES TO THE SCHEDULE OF FINANCIAL ASSISTANCE**

**NOTE 1 - BASIS OF ACCOUNTING**

The Schedule of Financial Assistance is prepared on the accrual basis of accounting.

**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 awards during the year ended June 30, 2016.

See independent auditor's report.

**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**  
**Last Fiscal Year Ending June 30**

	<i>for fiscal year ending June 30, 2016 (year shown is measurement date)</i>									
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Total pension liability:										
Service cost	\$ 12,152	\$ 32,932								
Interest	9,570	15,164								
Changes in benefit terms	-	-								
Differences between actual and expected experience	38,761	13,460								
Change of assumptions	-	-								
Benefit payments, including refunds of employee contributions	<u>(6,632)</u>	<u>(6,731)</u>								
Net change in total pension liability	53,851	54,825								
Total pension liability-beginning	<u>118,767</u>	<u>172,618</u>								
Total pension liability-ending	<u><u>\$ 172,618</u></u>	<u><u>\$ 227,443</u></u>								
Plan fiduciary net position:										
Contributions-employer	\$ 33,161	\$ 28,317								
Contributions-employee	-	-								
Net investment income	36,122	8,596								
Benefit payments, including refunds of employee contributions	(6,632)	(6,731)								
Administrative expense	<u>(148)</u>	<u>(203)</u>								
Net change in plan fiduciary net position	62,503	29,979								
Plan fiduciary net position-beginning	<u>204,696</u>	<u>267,199</u>								
Plan fiduciary net position-ending	<u><u>\$ 267,199</u></u>	<u><u>\$ 297,178</u></u>								
Net pension asset-ending	<u><u>\$ (94,581)</u></u>	<u><u>\$ (69,735)</u></u>								
Plan fiduciary net position as a percentage of total pension liability	154.79%	130.66%								
Covered-employee payroll	\$ 255,283	\$ 283,172								
Net pension liability (asset) as a percentage of covered-employee payroll	37.05%	24.63%								

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.

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION  
IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS  
Last Fiscal Year Ending June 30**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Actuarially determined contribution	\$ 33,161	\$ 16,537	\$ 17,416							
Actual employee contributions	<u>33,161</u>	<u>28,317</u>	<u>29,822</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (11,780)</u>	<u>\$ (12,406)</u>							
Covered-employee payroll	\$255,283	\$283,172	\$298,220							
Contributions as a percentage of covered-employee payroll	12.99%	10.00%	10.00%							

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 2016 were calculated based on the July 1, 2013 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

See accompanying notes.



**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 each major fund of Governor's Books from Birth Foundation, as of and for the year ended June 30, 2016, 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 23, 2016.

**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 opinion 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.

## **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.

*Frasier - Don & Hand, PLLC*

Nashville, Tennessee  
December 23, 2016

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2016**

None.



**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**June 30, 2016**

None.