

**GOVERNOR'S BOOKS FROM BIRTH
FOUNDATION**

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

June 30, 2010 and 2009

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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 years ended June 30, 2010 and 2009, which collectively comprise the Foundation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2010 and 2009, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2010, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 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.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Governor's Books from Birth Foundation taken as a whole. The accompanying statements of activities, statements of functional expenses and schedule of financial assistance are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Fraser Den & Howell, PLLC

Nashville, Tennessee
December 6, 2010

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Governor's Books from Birth Foundation (the "Foundation") financial performance provides an introduction to the financial statements for the year ended June 30, 2010 (and 2009). 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 Assets 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 Assets 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 and liabilities 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 seven.

The Statement of Net Assets reports the Foundation's net assets (total assets less total liabilities). Private sector entities would report retained earnings. The Foundation's net asset balance at year end represents available resources for future growth. The Statement of Activities reports the change in net assets 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, 2010**

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 nine. 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 Assets 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 ten and twelve.

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 non-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>2010</u>	<u>2009</u>
Total assets	\$ 4,257,907	\$ 3,835,932
Total liabilities	342,860	644,521
Total net assets	3,915,047	3,191,411
Program revenues:		
Governmental contract	3,444,100	3,443,500
County reimbursements	2,636,028	2,830,797
Contributions	271,180	1,162,405
Total program and general revenues	6,709,833	7,206,276
Total expenses	5,986,197	7,493,051
Change in net assets	723,636	(286,775)

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2010**

FINANCIAL HIGHLIGHTS (Continued)

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 fiscal year (July 1 to June 30). The amount of this contract, negotiated from year to year, totaled \$3,444,100 and \$3,443,500 for the years ended June 30, 2010 and 2009, respectively. The Foundation received \$2,636,028 and \$2,830,797 from Tennessee counties for the years ended June 30, 2010 and 2009, 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, 2010 and 2009 respectively, these expenses of \$5,272,058 and \$5,661,599 represented approximately 88% and 76%, respectively, of the Foundation's total expenses.

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 6, 2010

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF NET ASSETS
(GOVERNMENTAL ACTIVITIES)
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash	\$ 1,175,852	\$ 655,705
Investments	2,701,145	2,381,990
Accounts receivable	608	881
Unconditional promises to give	<u>65,000</u>	<u>-</u>
Total current assets	3,942,605	3,038,576
Capital assets, net of accumulated depreciation of \$6,616 and \$5,635, respectively	1,473	2,454
Unconditional promises to give, net	<u>313,829</u>	<u>794,902</u>
Total assets	<u><u>\$ 4,257,907</u></u>	<u><u>\$ 3,835,932</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 1,579	\$ 324
Accrued expenses	41,281	44,197
Pledges payable	<u>300,000</u>	<u>300,000</u>
Total current liabilities	342,860	344,521
Pledges payable, net of current portion	<u>-</u>	<u>300,000</u>
Total liabilities	<u><u>342,860</u></u>	<u><u>644,521</u></u>
Net assets:		
Invested in capital assets, net of related debt	1,473	2,454
Restricted	97,352	231,948
Unrestricted	<u>3,816,222</u>	<u>2,957,009</u>
Total net assets	<u><u>3,915,047</u></u>	<u><u>3,191,411</u></u>
Total liabilities and net assets	<u><u>\$ 4,257,907</u></u>	<u><u>\$ 3,835,932</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Expenses:		
Books and mailings	\$ 5,272,058	\$ 5,661,599
Management and general	212,835	243,131
Marketing and development	187,669	273,263
County book funding expense	151,666	900,000
Compensation expense	126,632	135,383
Distressed county expense	17,163	19,216
Workshop expense	12,326	11,280
Health insurance	5,848	10,125
Uncollectible pledge expense	-	200,000
Pre-K booksets	-	39,054
	<u>5,986,197</u>	<u>7,493,051</u>
Total expenses		
Program revenues:		
Governmental contract	3,444,100	3,443,500
County reimbursements	2,636,028	2,830,797
	<u>6,080,128</u>	<u>6,274,297</u>
Total program revenues		
General revenues:		
Contributions	271,180	1,162,405
Net increase (decrease) in the fair value of investments	246,142	(367,934)
Dividend income	103,957	104,603
Interest income	8,426	32,905
	<u>629,705</u>	<u>931,979</u>
Net general revenues		
Change in net assets	723,636	(286,775)
Net assets at beginning of year	<u>3,191,411</u>	<u>3,478,186</u>
Net assets at end of year	<u><u>\$ 3,915,047</u></u>	<u><u>\$ 3,191,411</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
BALANCE SHEETS
(GENERAL FUND)
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash	\$ 1,175,852	\$ 655,705
Investments	2,701,145	2,381,990
Accounts receivable	608	881
Unconditional promises to give	<u>65,000</u>	<u>-</u>
Total current assets	3,942,605	3,038,576
Unconditional promises to give, net	<u>313,829</u>	<u>794,902</u>
Total assets	<u><u>\$ 4,256,434</u></u>	<u><u>\$ 3,833,478</u></u>
Liabilities and Fund Balances		
Current liabilities:		
Accounts payable	\$ 1,579	\$ 324
Accrued expenses	41,281	44,197
Pledges payable	<u>300,000</u>	<u>300,000</u>
Total current liabilities	342,860	344,521
Pledges payable, net of current portion	<u>-</u>	<u>300,000</u>
Total liabilities	<u>342,860</u>	<u>644,521</u>
Fund balances:		
Restricted	378,829	794,902
Unassigned	<u>3,534,745</u>	<u>2,394,055</u>
Total fund balances	<u>3,913,574</u>	<u>3,188,957</u>
Total liabilities and fund balances	<u><u>\$ 4,256,434</u></u>	<u><u>\$ 3,833,478</u></u>

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Total governmental fund balances	\$ 3,913,574	\$ 3,188,957
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund balance sheet	<u>1,473</u>	<u>2,454</u>
Net assets of governmental activities	<u><u>\$ 3,915,047</u></u>	<u><u>\$ 3,191,411</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS
(GENERAL FUND)

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Governmental contract	\$ 3,444,100	\$ 3,443,500
County reimbursements	2,636,028	2,830,797
Contributions	271,180	1,162,405
Interest income	8,426	32,905
Dividend income	103,957	104,603
Net increase (decrease) in the fair value of investments	246,142	(367,934)
	<u>6,709,833</u>	<u>7,206,276</u>
Total revenues		
Expenditures:		
Books and mailings	5,272,058	5,661,599
Management and general	211,854	240,962
Marketing and development	187,669	273,263
County book funding expense	151,666	900,000
Compensation expense	126,632	135,383
Distressed county expense	17,163	19,216
Workshop expense	12,326	11,280
Health insurance	5,848	10,125
Uncollectible pledge expense	-	200,000
Pre-K booksets	-	39,054
Capital outlays	-	1,597
	<u>5,985,216</u>	<u>7,492,479</u>
Total expenditures		
Change in net assets	724,617	(286,203)
Fund balances at beginning of year	<u>3,188,957</u>	<u>3,475,160</u>
Fund balances at end of year	<u>\$ 3,913,574</u>	<u>\$ 3,188,957</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 Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Net change in fund balances, total governmental funds	<u>\$ 724,617</u>	<u>\$ (286,203)</u>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Capital outlays reported as expenditures in governmental funds are shown as capital assets in the statement of net assets	-	1,597
Depreciation expense on governmental capital assets is included only in the governmental activities in the statement of activities	<u>(981)</u>	<u>(2,169)</u>
Net differences	<u>(981)</u>	<u>(572)</u>
Change in net assets of governmental activities	<u><u>\$ 723,636</u></u>	<u><u>\$ (286,775)</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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 and was reported as revenue in the statement of activities for 2005. In addition, the State of Tennessee appropriated \$3,444,100 and \$3,443,500 to the Foundation for the years ended June 30, 2010 and 2009, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The 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. Based upon the definition of a governmental organization set forth in Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, 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. As allowed in Section P80 of GASB's Codification of Government Accounting and Financial Reporting Standards, the Foundation has elected not to apply Financial Accounting Standards Board Accounting Standards Codification Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the Foundation's principal ongoing operations. Operating expenses include the cost of personnel and contractual services, books and mailings, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Foundation has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These pronouncements 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 Statement No. 40 ("GASB 40"), *Deposit and Investment Risk Disclosures*. GASB 40 establishes and modifies disclosure requirements related to investment and deposit risks. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Disclosures relating to GASB 40 are included in Note 3.

The Foundation applies all the GASB pronouncements as well as all the Financial Accounting Standards Board Accounting Standards Codification pronouncements issued on and before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements.

Budgetary comparison schedules are not included as part of the additional information as required by GASB Statement No. 34, as the Foundation is not required to legally adopt the budget.

Basic Financial Statement Description

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.

In the statements of net assets, the Foundation's activities are reported on a full accrual basis. The Foundation's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statement Description (Continued)

In the statements of activities all activity is reported in one column as the Foundation has only one function.

GASB Statement 34 requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets 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, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints 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.

Unrestricted – This component of net assets consists of net 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.

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.

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 equity, revenues and expenses.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statement Description (Continued)

The emphasis on fund financial statements is on the major funds. Nonmajor funds by category are summarized in a single column. GASB Statement 34 sets 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, 2010 and 2009.

The governmental funds' focus is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The Foundation has elected early implementation of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Statement 54). GASB Statement 54 classifies 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.

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.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statement Description (Continued)

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 basic financial statements are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

The financial statements are also presented using 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.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all cash funds, cash bank accounts and highly liquid instruments with an original maturity when purchased of three months or less to be cash and cash equivalents.

Unconditional Promises to Give

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 (rates ranging from 1.00% to 1.64%). 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.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional Promises to Give (Continued)

No provision for uncollectible pledges has been made, based on management's estimate that all pledges outstanding at June 30, 2010 and 2009 will be collected. During the year ended June 30, 2009, an unconditional promise to give of \$200,000 was charged to uncollectible pledge expense due to uncertainty as to collectability.

Donated Services

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 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 straight-line method. Estimated useful lives of all major classes are 3 years.

Investments

The Foundation's investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted market prices in the statements of net assets. Investment income and realized and unrealized gains and losses are reported as changes in unrestricted net assets unless the use of income has been restricted by the donor.

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 \$11,116 and \$45,706 for the years ended June 30, 2010 and 2009, respectively.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 3 – CASH AND CASH EQUIVALENTS

The Foundation's cash and cash equivalent bank balances totaling \$1,175,852 and \$655,705 at June 30, 2010 and 2009, respectively, represent demand deposits with banks. There were no uninsured balances at June 30, 2010 and 2009. The Foundation is not subject to credit risk, concentration of credit risk, interest rate risk, or foreign currency risk. Category 1 includes bank 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.

June 30, 2010			
Custodial Credit Risk Category			
	<u>1</u>	<u>2</u>	<u>3</u>
Unrestricted cash and cash equivalents	\$ -	\$ -	\$ -

June 30, 2009			
Custodial Credit Risk Category			
	<u>1</u>	<u>2</u>	<u>3</u>
Unrestricted cash and cash equivalents	\$ -	\$ -	\$ -

NOTE 4 – CAPITAL ASSETS

Capital assets and related accumulated depreciation activity for the year ended June 30, 2010 was as follows:

	Balance <u>06/30/2009</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>06/30/2010</u>
Capital assets:				
Office equipment	\$ 8,089	\$ -	\$ -	\$ 8,089
Less accumulated depreciation:				
Office equipment	<u>(5,635)</u>	<u>(981)</u>	<u>-</u>	<u>(6,616)</u>
Net capital assets	<u>\$ 2,454</u>	<u>\$ (981)</u>	<u>\$ -</u>	<u>\$ 1,473</u>

Depreciation expense totaled \$981 and \$2,169, respectively, for the years ended June 30, 2010 and 2009 and is included in management and general expenses in the statements of activities and the statements of revenues, expenditures and changes in net assets.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 5 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consist of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Restricted:		
Less than one year	\$ 65,000	\$ -
One to five years	<u>333,334</u>	<u>850,000</u>
Total contributions receivable	398,334	850,000
Less discount to net present value	<u>(19,505)</u>	<u>(55,098)</u>
Unconditional promises to give, net	<u>\$ 378,829</u>	<u>\$ 794,902</u>

Presented in the accompanying statements of financial position as:

	<u>2010</u>	<u>2009</u>
Current	\$ 65,000	\$ -
Non current	<u>313,829</u>	<u>794,902</u>
	<u>\$ 378,829</u>	<u>\$ 794,902</u>

NOTE 6 – INVESTMENTS

Investments of the Foundation are stated at fair value determined based on active markets pricing and consist of the following as of June 30:

	<u>2010</u>	<u>2009</u>
Mutual funds:		
Equity funds	\$ 1,372,841	\$ 1,187,119
Bond funds (unrated)	<u>1,328,304</u>	<u>1,194,871</u>
	<u>\$ 2,701,145</u>	<u>\$ 2,381,990</u>

The following schedule summarizes the investment return for the years ended June 30:

	<u>2010</u>	<u>2009</u>
Dividends and interest	\$ 112,383	\$ 137,508
Net realized loss	-	(9,364)
Net increase (decrease) in fair value of investments	<u>246,142</u>	<u>(358,570)</u>
	<u>\$ 358,525</u>	<u>\$ (230,426)</u>

Although the Foundation does not have a formal investment policy, management has invested in what it believes are high quality mutual funds.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 7 – 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.

NOTE 8 – PENSION

Plan Description

Employees of Governor's Books from Birth Foundation are members of the Political Subdivision Pension Plan ("PSPP"), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Governor's Books from Birth Foundation participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body. The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

The Foundation has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll. The Foundation is required to contribute at an actuarially determined rate; the rate for the fiscal years ended June 30, 2010 and 2009 was 9.93% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Foundation is established and may be amended by the TCRS Board of Trustees.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 8 – PENSION (Continued)

Annual Pension Cost

For the year ended June 30, 2010, the Foundation's annual pension cost of \$26,138 to TCRS was equal to the Foundation's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the social security wage base, and (d) projected post retirement increases of 3.0% annually.

The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The Foundation's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 18 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 26,138	100.00%	\$ -
June 30, 2009	\$ 29,090	100.00%	\$ -
June 30, 2008	\$ 27,109	100.00%	\$ -

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 38.66% funded. The actuarial accrued liability for benefits was \$0.19 million, and the actuarial value of assets was \$0.07 million, resulting in an unfunded actuarial accrued liability ("UAAL") of \$0.12 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.22 million, and the ratio of the UAAL to the covered payroll was 52.98%.

The schedules of funding progress, presented as required supplementary information below, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2010 and 2009

NOTE 8 – PENSION (Continued)

Required Supplementary Information

Schedule of Funding Progress for the Foundation:

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	\$ 73	\$ 189	\$ 116	38.66%	\$ 219	52.98%
July 1, 2007	\$ 53	\$ 122	\$ 69	43.44%	\$ 258	26.74%

The GASB requires the plan to prepare the schedule of funding progress using the entry age actuarial cost method. The requirement to present the schedule of funding progress using the entry age actuarial cost method went into affect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

SUPPLEMENTAL INFORMATION

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Contributions from State of Tennessee	\$ 3,444,100	\$ -	\$ 3,444,100
County reimbursements	2,636,028	-	2,636,028
Contributions - corporate, individual and other	202,846	33,334	236,180
Interest and dividend income	112,383	-	112,383
Unrealized and realized gain on investments	246,142	-	246,142
In-kind donations	35,000	-	35,000
Net assets released from time restrictions	<u>167,930</u>	<u>(167,930)</u>	<u>-</u>
 Total support and revenues	 <u>6,844,429</u>	 <u>(134,596)</u>	 <u>6,709,833</u>
Expenses:			
Program services	5,585,693	-	5,585,693
Marketing and development	187,669	-	187,669
Management and general	<u>212,835</u>	<u>-</u>	<u>212,835</u>
 Total expenses	 <u>5,986,197</u>	 <u>-</u>	 <u>5,986,197</u>
 Change in net assets	 858,232	 (134,596)	 723,636
 Net assets at beginning of year	 <u>2,959,463</u>	 <u>231,948</u>	 <u>3,191,411</u>
 Net assets at end of year	 <u><u>\$ 3,817,695</u></u>	 <u><u>\$ 97,352</u></u>	 <u><u>\$ 3,915,047</u></u>

See independent auditor's report.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Contributions from State of Tennessee	\$ 3,443,500	\$ -	\$ 3,443,500
County reimbursements	2,830,797	-	2,830,797
Contributions - corporate, individual and other	1,112,405	-	1,112,405
Interest and dividend income	137,508	-	137,508
In-kind donations	50,000	-	50,000
Net assets released from time restrictions	259,160	(259,160)	-
	<u>7,833,370</u>	<u>(259,160)</u>	<u>7,574,210</u>
Total support and revenues			
Expenses and losses:			
Program services	6,776,657	-	6,776,657
Marketing and development	273,263	-	273,263
Management and general	243,131	-	243,131
Realized net loss on investments	9,364	-	9,364
Unrealized loss on investments	358,570	-	358,570
Uncollectible pledge expense	200,000	-	200,000
	<u>7,860,985</u>	<u>-</u>	<u>7,860,985</u>
Total expenses and losses			
Change in net assets	(27,615)	(259,160)	(286,775)
Net assets at beginning of year	2,987,078	491,108	3,478,186
Net assets at end of year	<u>\$ 2,959,463</u>	<u>\$ 231,948</u>	<u>\$ 3,191,411</u>

See independent auditor's report

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from grant	\$ 3,444,100	\$ 3,443,500
Cash received from county reimbursements	2,636,028	2,830,797
Cash received from other sources	652,526	607,730
Cash payments for books and mailings	(5,272,058)	(5,700,653)
Cash payments to employees for services	(319,949)	(340,916)
Cash payments to suppliers for goods and services	<u>(659,870)</u>	<u>(603,390)</u>
Net cash provided by operating activities	<u>480,777</u>	<u>237,068</u>
Cash flows from investing activities:		
Purchase of investments	(75,000)	(730,876)
Sale of investments	1,987	383,679
Interest and dividends on investments	<u>112,383</u>	<u>137,508</u>
Net cash provided by (used in) investing activities	<u>39,370</u>	<u>(209,689)</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>-</u>	<u>(1,597)</u>
Net cash used in capital and related financing activities	<u>-</u>	<u>(1,597)</u>
Net increase in cash	520,147	25,782
Cash at beginning of year	<u>655,705</u>	<u>629,923</u>
Cash at end of year	<u><u>\$ 1,175,852</u></u>	<u><u>\$ 655,705</u></u>

See independent auditor's report.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 365,111	\$ 143,651
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	981	2,169
Changes in operating assets and liabilities:		
Accounts receivable	273	(881)
Unconditional promises to give	416,073	(503,794)
Accounts and pledges payable	(298,745)	600,042
Accrued expenses	<u>(2,916)</u>	<u>(4,119)</u>
Net cash provided by operating activities	<u>\$ 480,777</u>	<u>\$ 237,068</u>

See independent auditor's report.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2010

	<u>Program Services</u>	<u>Marketing and Development</u>	<u>Management and General</u>	<u>Total</u>
Books and mailings	\$ 5,272,058	\$ -	\$ -	\$ 5,272,058
Compensation expense	126,632	126,632	66,685	319,949
County book funding expense	151,666	-	-	151,666
Accounting services	-	-	56,060	56,060
Website support (in-kind)	-	35,000	-	35,000
Retirement expense	-	-	25,267	25,267
Rent	-	-	24,420	24,420
Health insurance	5,848	5,847	5,848	17,543
Distressed county expense	17,163	-	-	17,163
Legal and professional	-	-	13,036	13,036
Workshop expense	12,326	-	-	12,326
Marketing - general	-	10,237	-	10,237
Telecommunications	-	-	7,004	7,004
Travel expense	-	6,872	-	6,872
Insurance - general	-	-	6,076	6,076
Miscellaneous expense	-	-	4,064	4,064
Postage and shipping	-	2,202	-	2,202
Office supplies	-	-	1,376	1,376
Office expense	-	-	1,185	1,185
Depreciation	-	-	981	981
Advertising	-	879	-	879
Seminars	-	-	833	833
 Total expenses	 <u>\$ 5,585,693</u>	 <u>\$ 187,669</u>	 <u>\$ 212,835</u>	 <u>\$ 5,986,197</u>

See independent auditor's report.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2009

	<u>Program Services</u>	<u>Marketing and Development</u>	<u>Management and General</u>	<u>Total</u>
Books and mailings	\$ 5,661,599	\$ -	\$ -	\$ 5,661,599
County book funding expense	900,000	-	-	900,000
Compensation expense	135,383	135,383	70,150	340,916
Accounting services	-	-	59,810	59,810
Website support (in-kind)	-	50,000	-	50,000
Marketing - general	-	44,636	-	44,636
Pre-K booksets	39,054	-	-	39,054
Retirement expense	-	-	31,040	31,040
Health insurance	10,125	10,124	10,125	30,374
Legal and professional	-	-	21,032	21,032
Rent	-	-	20,922	20,922
Distressed county expense	19,216	-	-	19,216
Travel expense	-	16,640	-	16,640
Workshop expense	11,280	-	-	11,280
Printing/media	-	10,805	-	10,805
Insurance - general	-	-	7,510	7,510
Telecommunications	-	-	5,985	5,985
Miscellaneous expense	-	-	4,798	4,798
Postage and shipping	-	4,605	-	4,605
Seminars	-	-	4,303	4,303
Office supplies	-	-	3,255	3,255
Depreciation	-	-	2,169	2,169
Office expense	-	-	2,032	2,032
Advertising	-	1,070	-	1,070
	<u>-</u>	<u>1,070</u>	<u>-</u>	<u>1,070</u>
Total expenses	<u>\$ 6,776,657</u>	<u>\$ 273,263</u>	<u>\$ 243,131</u>	<u>\$ 7,293,051</u>

See independent auditor's report.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
SCHEDULE OF FINANCIAL ASSISTANCE
For the Year Ended June 30, 2010

Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2009	Cash Receipts	Expenditures	Receivable June 30, 2010
TN Department of Education	Endowment Grant for supporting and teaching children crucial early literacy skills	N/A	GR1027464	\$ -	\$ 3,444,100	\$ 3,444,100	\$ -
Total State Awards				\$ -	\$ 3,444,100	\$ 3,444,100	\$ -

NOTE 1 - BASIS OF ACCOUNTING

The schedule of financial assistance is prepared on the accrual basis of accounting.

See independent auditor's report.



FRASIER, DEAN & HOWARD, PLLC

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**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 the financial statements of Governor's Books from Birth Foundation (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 6, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Governor's Books from Birth Foundation's (the "Foundation") internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinions on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of 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*.

This report is intended solely for the information and use of management, the board of directors, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Frazer, Dem & Hunt, PLLC

Nashville, Tennessee
December 6, 2010