

**GOVERNOR'S BOOKS FROM BIRTH
FOUNDATION**

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

June 30, 2008 and 2007

**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 net assets of Governor's Books From Birth Foundation (the "Foundation"), a Tennessee not-for-profit corporation, as of June 30, 2008 and 2007 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our 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 audits 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 financial position of Governor's Books from Birth Foundation as of June 30, 2008 and 2007 and the changes in its net assets and its cash flows 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 November 14, 2008, 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.

The management's discussion and analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required management's discussion and analysis. However, we did not audit the information and express no opinion on it.

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 schedule of Statements of Activity, 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, Deon & Howard, PLLC

Nashville, Tennessee
November 14, 2008

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the Governor's Books from Birth Foundation (the "Foundation") financial performance provides an introduction to the financial statements for the year ended June 30, 2008 (and 2007). The information contained in this MD&A should be considered in conjunction with the information contained in the GBBF financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The GBBF 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 GBBF 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 GBBF's significant accounting policies.

Following this discussion are the basic financial statements of the GBBF, together with the notes, which are 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 GBBF's financial status.

The *Statement of Net Assets* presents information on all of the GBBF's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of the GBBF's financial position.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information on operating revenues and on operating expenses by category and amount.

The *Statement of Cash Flows* relates to the flows of cash and cash equivalents. Consequently, only transactions that affect GBBF cash accounts are recorded in this statement.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL HIGHLIGHTS

The GBBF was established by public act in June, 2005. The Internal Revenue Service has recognized the GBBF as a non-profit, tax-exempt organization under section 501 (c)(3) of the Internal Revenue Code.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2008**

FINANCIAL HIGHLIGHTS (Continued)

Following is condensed financial information derived from the audited financial statements:

	<u>2008</u>	<u>2007</u>
Total assets	\$ 3,526,784	\$ 2,690,054
Total liabilities, all current	48,598	41,034
Total net assets	3,478,186	2,649,020
Program revenues:		
Government contract	3,443,500	2,692,300
County reimbursements	2,852,967	2,065,112
Contributions	672,596	291,765
Total revenues	6,969,063	5,049,177
Operating expenses	6,153,720	4,860,785
Non operating revenues	13,823	102,310
Change in net assets	829,166	290,702

The majority of GBBF's operating revenue is received from the State of Tennessee and from Tennessee counties participating in the program. GBBF 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 \$3,443,500 and \$2,692,300 for the years ending June 30, 2008 and 2007, respectively. GBBF received \$2,852,967 and \$2,065,112 from Tennessee counties for the years ending June 30, 2008 and 2007, respectively, as reimbursements for books purchased and distributed to county residents. Financial position has improved in 2008 as compared to 2007 primarily because of increased contributions from private donors.

The cost of purchasing and mailing books represents the majority of GBBF's expenses. During fiscal 2008 and 2007 respectively, these expenses of \$5,166,897 and \$4,130,230 represented approximately 85% of GBBF'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,


November 14, 2008

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Assets		
Current assets:		
Cash	\$ 629,923	\$2,475,106
Investments	2,402,727	-
Accounts receivable	<u>-</u>	<u>355</u>
Total current assets	3,032,650	2,475,461
Capital assets, net of accumulated depreciation of \$3,466 and \$0, respectively	3,026	-
Unconditional promises to give, net	<u>491,108</u>	<u>214,593</u>
Total assets	<u><u>\$3,526,784</u></u>	<u><u>\$2,690,054</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 282	\$ 1,404
Accrued expenses	<u>48,316</u>	<u>39,630</u>
Total current liabilities	<u>48,598</u>	<u>41,034</u>
Net assets:		
Invested in capital assets, net of related debt	3,026	-
Unrestricted	<u>3,475,160</u>	<u>2,649,020</u>
Total net assets	<u>3,478,186</u>	<u>2,649,020</u>
Total liabilities and net assets	<u><u>\$3,526,784</u></u>	<u><u>\$2,690,054</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Governmental contract	\$ 3,443,500	\$ 2,692,300
County reimbursements	2,852,967	2,065,112
Contributions	<u>672,596</u>	<u>291,765</u>
Total operating revenues	<u>6,969,063</u>	<u>5,049,177</u>
Operating expenses:		
Books and mailings	5,166,897	4,130,230
Pre-K booksets	296,109	85,687
Marketing and development	277,114	256,168
Management and general	242,221	227,315
Compensation expense	126,442	114,212
Distressed county expense	26,538	16,518
Workshop expense	11,845	4,758
Health insurance	6,554	5,897
Grant distributions to counties	<u>-</u>	<u>20,000</u>
Total operating expenses	<u>6,153,720</u>	<u>4,860,785</u>
Operating income	<u>815,343</u>	<u>188,392</u>
Non operating revenues (expenses)		
Interest income	81,644	102,310
Dividend income	34,238	-
Unrealized loss on investments	<u>(102,059)</u>	<u>-</u>
Total non operating revenues	<u>13,823</u>	<u>102,310</u>
Change in net assets	829,166	290,702
Net assets at beginning of year	<u>2,649,020</u>	<u>2,358,318</u>
Net assets at end of year	<u><u>\$ 3,478,186</u></u>	<u><u>\$ 2,649,020</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from grant	\$ 3,443,500	\$ 2,692,300
Cash received from county reimbursements	2,852,967	2,065,112
Cash received from other sources	462,318	563,414
Cash payments for books and mailings	(5,463,006)	(4,215,917)
Cash payments for other operating expenses	<u>(629,684)</u>	<u>(558,369)</u>
Net cash provided by operating activities	<u>666,095</u>	<u>546,540</u>
Cash flows from investing activities:		
Purchase of investments	<u>(2,504,786)</u>	<u>-</u>
Net cash used in investing activities	<u>(2,504,786)</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(6,492)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(6,492)</u>	<u>-</u>
Net (decrease) increase in cash	(1,845,183)	546,540
Cash at beginning of year	<u>2,475,106</u>	<u>1,928,566</u>
Cash at end of year	<u><u>\$ 629,923</u></u>	<u><u>\$ 2,475,106</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF CASH FLOWS (continued)
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ 829,166	\$ 290,702
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	3,466	-
Net decrease in fair value of investments	102,059	-
Changes in operating assets and liabilities:		
Accounts receivable	355	54
Unconditional promises to give	(276,515)	249,285
Accounts payable	(1,122)	(12,339)
Accrued expenses	<u>8,686</u>	<u>18,838</u>
Net cash provided by operating activities	<u>\$ 666,095</u>	<u>\$ 546,540</u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

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 \$3,443,500 and \$2,692,300 to the Foundation for the years ended June 30, 2008 and 2007, 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 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, 2008 and 2007

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 pronouncements, unless these 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. As the Foundation reported using the AICPA not-for-profit model prior to June 30, 2008, the Foundation uses the criteria for reporting as an enterprise fund. The Foundation has no fiduciary funds or component units.

In the Statement 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, 2008 and 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statement Description (Continued)

In the Statement of Revenues, Expenses, and Changes in Net Assets all activity is reported in one column as the Foundation has only one function.

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 a risk-free interest rate applicable to the year in which the promise is received (3.0% for the year ending June 30, 2008). 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, 2008 and 2007

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 at June 30, 2008 and 2007 will be collected.

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 financial position. 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 \$46,121 and \$24,931 for the years ended June 30, 2008 and 2007, respectively.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 3 – CASH AND CASH EQUIVALENTS

The Foundation's cash and cash equivalent bank balances totaling \$629,923 and \$2,475,106 at June 30, 2008 and 2007, respectively, represent demand deposits with banks. At June 30, 2008 and 2007, \$100,000 was insured by the Federal Depository Insurance Corporation ("FDIC"). Balances in excess of \$100,000 are categorized below to give an indication of the level of custodial credit risk assumed by the Foundation. 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-Foundation's name.

	2008		
	Custodial Credit Risk Category		
	<u>1</u>	<u>2</u>	<u>3</u>
Unrestricted cash and cash equivalents	<u>\$ 515,933</u>	<u>\$ -</u>	<u>\$ -</u>
	2007		
	Custodial Credit Risk Category		
	<u>1</u>	<u>2</u>	<u>3</u>
Unrestricted cash and cash equivalents	<u>\$2,376,916</u>	<u>\$ -</u>	<u>\$ -</u>

Subsequent to June 30, 2008, the Foundation has deposited cash and cash equivalents into several financial institutions eliminating this credit risk.

NOTE 4 – CAPITAL ASSETS

Capital assets and related accumulated depreciation activity for the year ended June 30, 2008 was as follows:

	Balance 06/30/2007	Additions	Retirements	Balance 06/30/2008
Capital assets:				
Office equipment	<u>\$ -</u>	<u>\$ 6,492</u>	<u>\$ -</u>	<u>\$ 6,492</u>
Less accumulated depreciation:				
Office equipment	<u>-</u>	<u>3,466</u>	<u>-</u>	<u>3,466</u>
Net capital assets	<u>\$ -</u>	<u>\$ 3,026</u>	<u>\$ -</u>	<u>\$ 3,026</u>

Depreciation expense of \$3,466 is included in management and general expense in the statement of revenues, expenses and changes in net assets.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 5 – UNCONDITIONAL PROMISES TO GIVE

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

	<u>2008</u>	<u>2007</u>
Restricted:		
Less than one year	\$ -	\$ -
One to five years	<u>550,000</u>	<u>250,000</u>
Total contributions receivable	550,000	250,000
Less discount to net present value	<u>(58,892)</u>	<u>(35,407)</u>
Unconditional promises to give, net	<u>\$ 491,108</u>	<u>\$ 214,593</u>

Presented in the accompanying statements of financial position as:

	<u>2008</u>	<u>2007</u>
Current	\$ -	\$ -
Non current	<u>491,108</u>	<u>214,593</u>
	<u>\$ 491,108</u>	<u>\$ 214,593</u>

NOTE 6 – INVESTMENTS

Investments of the Foundation are stated at fair value as of June 30, 2008 and consist of the following:

Mutual funds:	
Equity funds	\$ 1,454,847
Bond funds (unrated)	<u>947,880</u>
	<u>\$ 2,402,727</u>

The following schedule summarizes the investment return at June 30, 2008:

Dividends and interest	\$ 115,882
Net decrease in fair value of investments	<u>(102,059)</u>
	<u>\$ 13,823</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, 2008 and 2007

NOTE 6 – INVESTMENTS (Continued)

Subsequent to June 30, 2008 and through November 14, 2008, the investment market experienced a significant decline in value, which materially affected the value of the investments held by the Foundation.

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://treasury.state.tn.us/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

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 8 – PENSION (Continued)

contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2008 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.

Annual Pension Cost

For the year ending June 30, 2008, the Foundation's annual pension cost of \$27,109 to TCRS was equal to the Foundation's required and actual contributions. The required contribution was determined as part of the July 1, 2005 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 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent 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, 2005 was 0 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ 27,109	100.00%	\$ 0.00
June 30, 2007	\$ 25,758	100.00%	\$ 0.00
June 30, 2006	\$ 24,398	100.00%	\$ 0.00

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 43.30% percent funded. The actuarial accrued liability for benefits was \$0.12 million, and the actuarial value of assets was \$0.05 million, resulting in an unfunded actuarial accrued liability ("UAAL") of \$0.07 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.26 million, and the ratio of the UAAL to the covered payroll was 26.90% percent. 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.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008 and 2007

NOTE 8 – PENSION (Continued)

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.

Required Supplementary Information

Schedule of Funding Progress for Governor's Books From Birth Foundation

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2007	\$ 56	\$ 122	\$ 69	43.30%	\$ 258	26.90%

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 was a change made during the year and therefore only the most current year is presented.

SUPPLEMENTAL INFORMATION

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions from State of Tennessee	\$ 3,443,500	\$ -	\$ 3,443,500
County reimbursements	2,852,967	-	2,852,967
Contributions - corporate, individual and other	96,081	526,515	622,596
Interest and dividend income	115,882	-	115,882
In-kind donations	50,000	-	50,000
Net assets released from time restrictions	250,000	(250,000)	-
	<u>6,808,430</u>	<u>276,515</u>	<u>7,084,945</u>
Total support and revenue			
Expenses:			
Program services	5,634,385	-	5,634,385
Marketing and development	277,114	-	277,114
Management and general	242,221	-	242,221
Unrealized loss on investments	102,059	-	102,059
	<u>6,255,779</u>	<u>-</u>	<u>6,255,779</u>
Total expenses			
Change in net assets	552,651	276,515	829,166
Net assets - beginning of year	<u>2,434,427</u>	<u>214,593</u>	<u>2,649,020</u>
Net assets - end of year	<u>\$ 2,987,078</u>	<u>\$ 491,108</u>	<u>\$ 3,478,186</u>

See Auditor's Report.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions from State of Tennessee	\$ 2,692,300	\$ -	\$ 2,692,300
County reimbursements	2,065,112	-	2,065,112
Contributions - corporate, individual and other	171,050	40,715	211,765
Interest income	102,310	-	102,310
In-kind donations	80,000	-	80,000
Net assets released from time restrictions	290,000	(290,000)	-
	<u>5,400,772</u>	<u>(249,285)</u>	<u>5,151,487</u>
Expenses:			
Program services	4,377,302	-	4,377,302
Marketing and development	256,168	-	256,168
Management and general	227,315	-	227,315
	<u>4,860,785</u>	<u>-</u>	<u>4,860,785</u>
Change in net assets	539,987	(249,285)	290,702
Net assets - beginning of year	<u>1,894,440</u>	<u>463,878</u>	<u>2,358,318</u>
Net assets - end of year	<u>\$ 2,434,427</u>	<u>\$ 214,593</u>	<u>\$ 2,649,020</u>

See Auditor's Report

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year ended June 30, 2008

	Program Services	Marketing and Development	Management and General	Total
Books and mailings	\$ 5,166,897	\$ -	\$ -	\$ 5,166,897
Compensation expense	126,442	126,441	64,866	317,749
Pre-k booksets	296,109	-	-	296,109
Accounting services	-	-	60,398	60,398
Marketing - general	-	44,390	-	44,390
Website support (in-kind)	-	40,000	-	40,000
Retirement expense	-	-	29,509	29,509
Distressed county expense	26,538	-	-	26,538
Printing/media	-	22,906	-	22,906
Rent	-	-	22,824	22,824
Legal and professional	-	-	21,500	21,500
Health insurance	6,554	6,553	6,554	19,661
Travel expense	-	14,966	-	14,966
Workshop expense	11,845	-	-	11,845
Postage and shipping	-	10,127	-	10,127
Advisory services (in-kind)	-	10,000	-	10,000
Miscellaneous expense	-	-	9,324	9,324
Insurance - general	-	-	7,324	7,324
Telecommunications	-	-	7,149	7,149
Seminars	-	-	6,395	6,395
Depreciation	-	-	3,466	3,466
Office supplies	-	-	1,696	1,696
Office expense	-	-	1,216	1,216
Advertising	-	1,115	-	1,115
Marketing - Dollywood Foundation	-	616	-	616
Total expenses	\$ 5,634,385	\$ 277,114	\$ 242,221	\$ 6,153,720

See Auditor's Report.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year ended June 30, 2007

	Program Services	Marketing and Development	Management and General	Total
Books and mailings	\$ 4,130,230	\$ -	\$ -	\$ 4,130,230
Compensation expense	114,212	114,212	62,549	290,973
Pre-k booksets	85,687	-	-	85,687
Accounting services	-	-	65,275	65,275
Website support (in-kind)	-	40,000	-	40,000
Promotional expense (in-kind)	-	30,000	-	30,000
Retirement expense	-	-	27,166	27,166
Rent	-	-	22,824	22,824
Grant distributions to counties	20,000	-	-	20,000
Marketing - Dollywood Foundation	-	18,300	-	18,300
Health insurance	5,897	5,897	5,897	17,691
Legal and professional	-	-	17,626	17,626
Distressed county expense	16,518	-	-	16,518
Printing/media	-	13,894	-	13,894
Advisory services (in-kind)	-	10,000	-	10,000
Travel expense	-	9,982	-	9,982
Postage and shipping	-	7,252	-	7,252
Insurance - general	-	-	6,830	6,830
Telecommunications	-	-	6,184	6,184
Advertising	-	6,020	-	6,020
Miscellaneous expense	-	-	4,970	4,970
Workshop expense	4,758	-	-	4,758
Seminars	-	-	4,160	4,160
Office expense	-	-	2,900	2,900
Office supplies	-	-	934	934
Marketing - general	-	611	-	611
Total expenses	\$ 4,377,302	\$ 256,168	\$ 227,315	\$ 4,860,785

See Auditor's Report.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
SCHEDULE OF FINANCIAL ASSISTANCE
For the Year Ended June 30, 2008

Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2007	Cash Receipts	Expenditures	Receivable June 30, 2008
TN Department of Education	Endowment Grant for supporting and teaching children crucial early literacy skills	N/A	08-21942-02	\$ -	\$ 3,443,500	\$ 3,443,500	\$ -
Total State Awards				\$ -	\$ 3,443,500	\$ 3,443,500	\$ -

NOTE 1 - BASIS OF ACCOUNTING

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