

**GOVERNOR'S BOOKS FROM BIRTH
FOUNDATION**

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

June 30, 2009 and 2008

**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, 2009 and 2008 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, 2009 and 2008 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 16, 2009, 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 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.

Frazin, Dean & Hamel, PLLC

Nashville, Tennessee
November 16, 2009

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2009

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, 2009 (and 2008). 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.

The *Statements of Net Assets* presents information on all of the Foundation'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 Foundation's financial position.

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

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

FINANCIAL HIGHLIGHTS

The Foundation was established 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.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2009**

FINANCIAL HIGHLIGHTS (Continued)

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

	<u>2009</u>	<u>2008</u>
Total assets	\$ 3,835,932	\$ 3,526,784
Total liabilities	644,521	48,598
Total net assets	3,191,411	3,478,186
Program revenues:		
Governmental contract	3,443,500	3,443,500
County reimbursements	2,830,797	2,852,967
Contributions	1,162,405	672,596
Total revenues	7,436,702	6,969,063
Operating expenses	7,293,051	6,153,720
Non operating (expenses) revenues	(430,426)	13,823
Change in net assets	(286,775)	829,166

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 \$3,443,500 and \$3,443,500 for the years ending June 30, 2009 and 2008, respectively. The Foundation received \$2,830,797 and \$2,852,967 from Tennessee counties for the years ending June 30, 2009 and 2008, 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 fiscal 2009 and 2008 respectively, these expenses of \$5,661,599 and \$5,166,897 represented approximately 78% and 84%, 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,

November 16, 2009

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF NET ASSETS
June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current assets:		
Cash	\$ 655,705	\$ 629,923
Investments	2,381,990	2,402,727
Accounts receivable	<u>881</u>	<u>-</u>
Total current assets	3,038,576	3,032,650
Capital assets, net of accumulated depreciation of \$5,635 and \$3,466, respectively	2,454	3,026
Unconditional promises to give, net	<u>794,902</u>	<u>491,108</u>
Total assets	<u>\$3,835,932</u>	<u>\$ 3,526,784</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 324	\$ 282
Accrued expenses	44,197	48,316
Pledges payable	<u>300,000</u>	<u>-</u>
Total current liabilities	<u>344,521</u>	<u>48,598</u>
Pledges payable	<u>300,000</u>	<u>-</u>
Total liabilities	<u>644,521</u>	<u>48,598</u>
Net assets:		
Invested in capital assets, net of related debt	2,454	3,026
Unrestricted	<u>3,188,957</u>	<u>3,475,160</u>
Total net assets	<u>3,191,411</u>	<u>3,478,186</u>
Total liabilities and net assets	<u>\$3,835,932</u>	<u>\$ 3,526,784</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Governmental contract	\$ 3,443,500	\$ 3,443,500
County reimbursements	2,830,797	2,852,967
Contributions	<u>1,162,405</u>	<u>672,596</u>
Total operating revenues	<u>7,436,702</u>	<u>6,969,063</u>
Operating expenses:		
Books and mailings	5,661,599	5,166,897
County book funding expense	900,000	-
Marketing and development	273,263	277,114
Management and general	243,131	242,221
Compensation expense	135,383	126,442
Pre-K booksets	39,054	296,109
Distressed county expense	19,216	26,538
Workshop expense	11,280	11,845
Health insurance	<u>10,125</u>	<u>6,554</u>
Total operating expenses	<u>7,293,051</u>	<u>6,153,720</u>
Operating income	<u>143,651</u>	<u>815,343</u>
Non-operating (expenses) revenues:		
Interest income	32,905	81,644
Dividend income	104,603	34,238
Net decrease in the fair value of investments	(367,934)	(102,059)
Uncollectible pledge expense	<u>(200,000)</u>	<u>-</u>
Net non-operating (expenses) revenues	<u>(430,426)</u>	<u>13,823</u>
Change in net assets	(286,775)	829,166
Net assets at beginning of year	<u>3,478,186</u>	<u>2,649,020</u>
Net assets at end of year	<u><u>\$ 3,191,411</u></u>	<u><u>\$ 3,478,186</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from grant	\$ 3,443,500	\$ 3,443,500
Cash received from county reimbursements	2,830,797	2,852,967
Cash received from other sources	607,730	346,436
Cash payments for books and mailings	(5,700,653)	(5,463,006)
Cash payments to employees for services	(340,916)	(317,749)
Cash payments to suppliers for goods and services	(603,390)	(311,935)
	<u>237,068</u>	<u>550,213</u>
Cash flows from investing activities:		
Purchase of investments	(730,876)	(2,504,786)
Sale of investments	383,679	-
Interest and dividends on investments	137,508	115,882
	<u>(209,689)</u>	<u>(2,388,904)</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,597)	(6,492)
	<u>(1,597)</u>	<u>(6,492)</u>
Net increase (decrease) in cash	25,782	(1,845,183)
Cash at beginning of year	<u>629,923</u>	<u>2,475,106</u>
Cash at end of year	<u><u>\$ 655,705</u></u>	<u><u>\$ 629,923</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 143,651	\$ 815,343
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,169	3,466
Changes in operating assets and liabilities:		
Accounts receivable	(881)	355
Unconditional promises to give	(503,794)	(276,515)
Accounts and pledges payable	600,042	(1,122)
Accrued expenses	<u>(4,119)</u>	<u>8,686</u>
Net cash provided by operating activities	<u>\$ 237,068</u>	<u>\$ 550,213</u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

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 \$3,443,500 to the Foundation for the years ended June 30, 2009 and 2008, 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, 2009 and 2008

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 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, 2009 and 2008

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statement Description (Continued)

In the Statements 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 interest rates applicable to the year in which the promise is received (1.64% for the year ending June 30, 2009). 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, 2009 and 2008

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, 2009 and 2008 will be collected. Pledges deemed to be uncollectible have been written off. 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 \$45,706 and \$46,121 for the years ended June 30, 2009 and 2008, respectively.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 3 – CASH AND CASH EQUIVALENTS

The Foundation's cash and cash equivalent bank balances totaling \$655,705 and \$629,923 at June 30, 2009 and 2008, respectively, represent demand deposits with banks. There were no uninsured balances at June 30, 2009. At June 30, 2008, \$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.

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

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

NOTE 4 – CAPITAL ASSETS

Capital assets and related accumulated depreciation activity for the year ended June 30, 2009 was as follows:

	Balance 06/30/2008	Additions	Retirements	Balance 06/30/2009
Capital assets:				
Office equipment	\$ 6,492	\$ 1,597	\$ -	\$ 8,089
Less accumulated depreciation:				
Office equipment	<u>(3,466)</u>	<u>(2,169)</u>	<u>-</u>	<u>(5,635)</u>
Net capital assets	<u>\$ 3,026</u>	<u>\$ (572)</u>	<u>\$ -</u>	<u>\$ 2,454</u>

Depreciation expense totaled \$2,169 and \$3,466 for the years ended June 30, 2009 and 2008 and is included in management and general expense in the Statements of Revenues, Expenses and Changes in Net Assets.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2009 and 2008

NOTE 5 – UNCONDITIONAL PROMISES TO GIVE

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

	<u>2009</u>	<u>2008</u>
Restricted:		
Less than one year	\$ -	\$ -
One to five years	<u>850,000</u>	<u>550,000</u>
Total contributions receivable	850,000	550,000
Less discount to net present value	<u>(55,098)</u>	<u>(58,892)</u>
Unconditional promises to give, net	<u>\$ 794,902</u>	<u>\$ 491,108</u>

Presented in the accompanying statements of financial position as:

	<u>2009</u>	<u>2008</u>
Current	\$ -	\$ -
Non current	<u>794,902</u>	<u>491,108</u>
	<u>\$ 794,902</u>	<u>\$ 491,108</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>2009</u>	<u>2008</u>
Mutual funds:		
Equity funds	\$ 1,187,119	\$ 1,454,847
Bond funds (unrated)	<u>1,194,871</u>	<u>947,880</u>
	<u>\$ 2,381,990</u>	<u>\$ 2,402,727</u>

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

	<u>2009</u>	<u>2008</u>
Dividends and interest	\$ 137,508	\$ 115,882
Net realized (loss)	(9,364)	-
Net decrease in fair value of investments	<u>(358,570)</u>	<u>(102,059)</u>
	<u>\$ (230,426)</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, 2009 and 2008

NOTE 7 – CREDIT RISK AND OTHER CONCENTRATIONS

The Foundation generally maintains cash on deposit at banks in excess of federally insured amounts. The Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant credit risk related to cash balances.

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 year ending June 30, 2009 was 9.93 percent 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, 2009 and 2008**

NOTE 8 – PENSION (Continued)

Annual Pension Cost

For the year ending June 30, 2009, the Foundation's annual pension cost of \$29,090 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 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, 2007 was 18 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, 2009	\$ 29,090	100.00%	\$ -
June 30, 2008	\$ 27,109	100.00%	\$ -
June 30, 2007	\$ 25,758	100.00%	\$ -

Funded Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was 43.44 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 million, and the ratio of the UAAL to the covered payroll was 26.74 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. 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, 2009 and 2008

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, 2007	\$ 53	\$ 122	\$ 69	43.44%	\$ 258	26.74%

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 change was made during the year of the most recent actuarial valuation date 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, 2009

	<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	2,830,797	-	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	100,000	(100,000)	-
	<u>7,674,210</u>	<u>(100,000)</u>	<u>7,574,210</u>
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
Bad debt expense	200,000	-	200,000
	<u>7,860,985</u>	<u>-</u>	<u>7,860,985</u>
Change in net assets	(186,775)	(100,000)	(286,775)
Net assets - beginning of year	<u>2,987,078</u>	<u>491,108</u>	<u>3,478,186</u>
Net assets - end of year	<u><u>\$ 2,800,303</u></u>	<u><u>\$ 391,108</u></u>	<u><u>\$ 3,191,411</u></u>

See auditor's report.

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 and losses:			
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 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
Total expenses	<u><u>\$ 6,776,657</u></u>	<u><u>\$ 273,263</u></u>	<u><u>\$ 243,131</u></u>	<u><u>\$ 7,293,051</u></u>

See auditor's report.

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

	<u>Program Services</u>	<u>Marketing and Development</u>	<u>Management and General</u>	<u>Total</u>
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	<u>\$ 5,634,385</u>	<u>\$ 277,114</u>	<u>\$ 242,221</u>	<u>\$ 6,153,720</u>

See auditor's report.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
SCHEDULE OF FINANCIAL ASSISTANCE
For the Year Ended June 30, 2009

Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2008	Cash Receipts	Expenditures	Receivable June 30, 2009
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.



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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

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, 2009, and have issued our report thereon dated November 16, 2009. 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 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 opinion on the effectiveness of the Governor's Books from Birth 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Governor's Books from Birth 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 the Board of Directors, management and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Frazier, Dean + Howard, PLLC

Nashville, Tennessee
November 16, 2009