

GOVERNOR'S EARLY LITERACY FOUNDATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

JUNE 30, 2023

GOVERNOR'S EARLY LITERACY FOUNDATION

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**GOVERNOR'S EARLY LITERACY FOUNDATION
ROSTER OF BOARD OF DIRECTORS AND EXECUTIVE STAFF
JUNE 30, 2023**

Board of Directors

Denine Torr	Chairman
Parul Bajaj	Vice Chair
Nancy Dishner, Ph.D.	Secretary
Jennifer Colquitt	Member
Brandon Gibson	Member
Andrea Willis, M.D.	Member
Greg Duckett	Member
Jeff Ballard	Member
Danielle Barnes	Member
James Nicholson	Board Intern

Executive Staff

James Pond	President
Dean Hoskins	Vice President



Independent Auditor's Report

To the Board of Directors of
Governor's Early Literacy Foundation
Nashville, Tennessee

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and the major fund of the Governor's Early Literacy Foundation (the "Foundation") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Foundation as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.



Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Foundation's basic financial statements. The schedule of expenditures of federal awards and state financial assistance on page 31 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Tennessee, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and state financial assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the financial statements. The other information comprises the roster of board of directors and executive staff, but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.



To the Board of Directors of
Governor's Early Literacy Foundation

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2023, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

Crosslin, PLLC

Nashville, Tennessee
December 14, 2023

**GOVERNOR'S EARLY LITERACY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2023**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Governor's Early Literacy Foundation's (the "Foundation") financial performance provides an introduction to the financial statements for the year ended June 30, 2023. The information contained in this MD&A should be considered in conjunction with the information contained in the Foundation's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Foundation's financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles promulgated by the Government Accounting Standards Board. Revenues of the Foundation are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and depreciated over their estimated useful lives. See the notes to the financial statements for a summary of the Foundation's significant accounting policies.

Following this discussion are the basic financial statements of the Foundation, together with the notes, which provide additional information that is essential to a full understanding of the data contained in the financial statements. The basic financial statements are designed to provide readers with a broad overview of the Foundation's financial status.

Reporting the Foundation as a Whole

The Statement of Net Position and Statement of Activities:

In general, users of these financial statements want to know if the Foundation is better off or worse off as a result of the year's activities. The statement of net position and statement of activities report information about the Foundation as a whole and about the Foundation's activities in a manner that helps to answer that question. These statements include all assets, deferred outflows, liabilities and deferred inflows using the accrual basis of accounting. Under the accrual basis, all of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page 9.

The statement of net position reports the Foundation's net position (total assets and deferred outflows of resources less total liabilities and deferred inflows of resources). Private sector entities would report retained earnings. The Foundation's net position at year end represents available resources for future growth. The statement of activities reports the change in net position as a result of activity during the year. Private sector entities have a similar report titled statement of operations, which reports net income. The statement of activities provides the user a tool to assist in determining the direction of the Foundation's financial health during the year. Users will want to consider non-financial factors as well as the financial data in arriving at a conclusion regarding the overall health of the Foundation.

**GOVERNOR'S EARLY LITERACY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2023**

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Reporting the Foundation's Funds

Fund Financial Statements:

The Foundation's fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balance, begin on page 10. They provide detailed information about the Foundation's most significant funds, not the Foundation as a whole. Funds are established by the Foundation to help manage money for particular purposes and compliance with various grant provisions. As of and for the year ended June 30, 2023, the Foundation accounted for all activities in one fund, the general fund.

The Foundation's funds are categorized as "governmental funds." Governmental funds focus on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the government-wide financial statements to report on the Foundation as a whole. The relationship between governmental activities, as reported in the statement of net position and the statement of activities, and governmental funds, as reported in the balance sheet and the statement of revenues, expenditures and changes in fund balances is reconciled in the basic financial statements on pages 12 and 14.

FINANCIAL HIGHLIGHTS

The Foundation was first funded by the State of Tennessee by public act in June 2005. The Internal Revenue Service has recognized the Foundation as a not-for-profit, tax-exempt organization under section 501(c)(3) of the Internal Revenue Code. Following is condensed financial information derived from the audited government-wide financial statements:

	<u>2023</u>	<u>2022</u>
Assets:		
Current assets	\$20,877,304	\$14,028,243
Capital assets, net	26,926	14,573
Other non-current assets	<u>-</u>	<u>103,748</u>
Total assets	<u>20,904,230</u>	<u>14,146,564</u>
Deferred outflows of resources	<u>283,225</u>	<u>189,331</u>
Liabilities:		
Current liabilities	7,212,329	202,445
Noncurrent liabilities	<u>42,716</u>	<u>-</u>
Total liabilities	<u>7,255,045</u>	<u>202,445</u>
Deferred inflows of resources	<u>2,082,975</u>	<u>4,281,284</u>
Net position:		
Investment in capital assets	26,926	14,573
Restricted	663,292	1,066,482
Unrestricted	<u>11,159,217</u>	<u>8,771,111</u>
Total net position	<u>\$11,849,435</u>	<u>\$ 9,852,166</u>

**GOVERNOR'S EARLY LITERACY FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2023**

FINANCIAL HIGHLIGHTS - Continued

	<u>2023</u>	<u>2022</u>
Program revenues:		
Governmental contracts	\$20,119,717	\$ 10,622,925
County reimbursements	3,254,871	3,087,801
General revenues:		
Contributions	1,024,356	751,010
Other general revenues (expenses)	<u>798,630</u>	<u>(916,665)</u>
Total program and general revenues	<u>25,197,574</u>	<u>13,545,071</u>
Expenses:		
Program	21,900,510	12,593,849
Management and general	565,893	528,408
Marketing and development	<u>733,902</u>	<u>642,507</u>
Total expenses	<u>23,200,305</u>	<u>13,764,764</u>
Change in net position	<u>\$ 1,997,269</u>	<u>\$(219,693)</u>

The majority of the Foundation's operating revenue is received from the State of Tennessee and from Tennessee counties participating in the program. The Foundation's operating revenue from the State is provided pursuant to public act by the State of Tennessee, dated June 17, 2005, under a contract that is now renewed annually according to the State's fiscal year (July 1 to June 30). The amount of this contract, negotiated from year to year, totaled \$13,225,000 and \$11,280,300 for the years ended June 30, 2023 and 2022, respectively. In addition, during fiscal year 2023 and 2022, the Foundation, received federal funding related to the CARES Act that was passed through to the Foundation from the Tennessee Department of Education totaling \$4,483,554 and \$1,354,268, respectively, of which \$2,610,075 and \$1,164,000, respectively, was spent during fiscal year 2023 and 2022, respectively. The Foundation received \$3,254,871 and \$3,087,801 from Tennessee counties for the years ended June 30, 2023 and 2022, respectively, as reimbursements for books purchased and distributed to county residents.

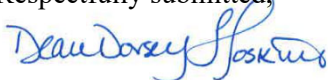
The cost of purchasing and mailing books represents the majority of the Foundation's expenses. During the years ended June 30, 2023 and 2022, these expenses of \$7,311,440 and \$7,071,407 represented approximately 32% and 51% of the Foundation's total expenses, respectively.

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

OTHER ISSUES

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

Respectfully submitted,



Dean Hoskins, Vice President
December 14, 2023

GOVERNOR'S EARLY LITERACY FOUNDATION
STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2023

ASSETS

Current assets:

Cash and cash equivalents	\$ 11,899,493
Investments	8,805,913
Contributions receivable	22,187
Grants receivable	142,551
Prepays	<u>7,160</u>

Total current assets	20,877,304
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Capital assets, net of accumulated depreciation of \$31,356	<u>26,926</u>
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Total assets	<u>20,904,230</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	<u>283,225</u>
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Total deferred outflows of resources	<u>283,225</u>
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LIABILITIES

Current liabilities:

Accounts payable	7,098,114
Accrued expenses	<u>114,215</u>

Total current liabilities	<u>7,212,329</u>
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Noncurrent liabilities:

Net pension liability	<u>42,716</u>
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Total noncurrent liabilities	<u>42,716</u>
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Total liabilities	<u>7,255,045</u>
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DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	2,855
Grants for future periods	<u>2,080,120</u>

Total deferred inflows of resources	<u>2,082,975</u>
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NET POSITION

Investment in capital assets	26,926
Restricted	663,292
Unrestricted	<u>11,159,217</u>

Total net position	<u><u>\$ 11,849,435</u></u>
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The accompanying notes are an integral part of these financial statements.

**GOVERNOR'S EARLY LITERACY FOUNDATION
STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

EXPENSES

Program:	
Books and mailings	\$ 7,311,440
County book funding	63,333
Compensation	313,386
Marketing	206,811
Accounting services	53,674
Retirement expense	29,652
Health insurance	26,336
Travel	41,171
Information technology and computer	22,277
Postage and shipping	36,700
Office expenses	5,172
Telecommunications	7,711
Workshop	166,599
Reading programs	13,616,248
Management and general	565,893
Marketing and development	733,902
Total expenses	<u>23,200,305</u>

**PROGRAM SPECIFIC OPERATING GRANTS
AND CONTRIBUTIONS**

Governmental contracts	20,119,717
County reimbursements	3,254,871
Total program specific operating grants and contributions	<u>23,374,588</u>

GENERAL REVENUES

Contributions	1,024,356
Dividend income	244,514
Interest income	222,307
Net increase in the fair value of investments	331,809
Total general revenues	<u>1,822,986</u>

NET CHANGE IN NET POSITION 1,997,269

NET POSITION AT BEGINNING OF YEAR 9,852,166

NET POSITION AT END OF YEAR \$ 11,849,435

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

**GOVERNOR'S EARLY LITERACY FOUNDATION
BALANCE SHEET - GOVERNMENTAL FUND
GENERAL FUND
JUNE 30, 2023**

ASSETS

Cash and cash equivalents	\$ 11,899,493
Investments	8,805,913
Contributions receivable	22,187
Grants receivable	142,551
Prepays	<u>7,160</u>

Total assets	<u><u>20,877,304</u></u>
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LIABILITIES

Accounts payable	7,098,114
Accrued expenses	<u>114,215</u>

Total liabilities	<u>7,212,329</u>
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DEFERRED INFLOWS OF RESOURCES	<u>2,080,120</u>
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FUND BALANCE

Nonspendable	7,160
Restricted	663,292
Unassigned	<u>10,914,403</u>

Total fund balance	<u>11,584,855</u>
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Total liabilities, deferred inflows of resources, and fund balance	<u><u>\$ 20,877,304</u></u>
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The accompanying notes are an integral part of these financial statements.

**GOVERNOR'S EARLY LITERACY FOUNDATION
RECONCILIATION OF THE BALANCE SHEET OF THE GOVERNMENTAL
FUND TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2023**

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

Total governmental fund balance	\$ 11,584,855
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund (general fund) balance sheet	26,926
Net pension liability is not a current financial resource and is, therefore, not reported in the governmental fund (general fund) balance sheet	(42,716)
Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years:	
Deferred outflows of resources related to pensions	283,225
Deferred inflows of resources related to pensions	<u>(2,855)</u>
Net position of governmental activities	<u><u>\$ 11,849,435</u></u>

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

**GOVERNOR'S EARLY LITERACY FOUNDATION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023**

REVENUES

Governmental contracts	\$ 20,119,717
County reimbursements	3,254,871
Contributions	1,024,356
Dividend income	244,514
Interest income	222,307
Net increase in the fair value of investments	331,809
Total revenues	<u>25,197,574</u>

EXPENDITURES

Program	21,912,239
Management and general	566,880
Marketing and development	748,371
Capital expenditures	20,759
Total expenditures	<u>23,248,249</u>

NET CHANGE IN FUND BALANCE 1,949,325

FUND BALANCE AT BEGINNING OF YEAR 9,635,530

FUND BALANCE AT END OF YEAR \$ 11,584,855

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

**GOVERNOR'S EARLY LITERACY FOUNDATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

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

Net change in fund balance - total governmental fund (general fund)	\$ 1,949,325
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Specifically, these items are as follows:

Capital assets additions	20,759
Depreciation expense	(8,406)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Change in net pension liability/asset	(146,464)
Change in deferred outflows related to pensions	93,894
Change in deferred inflows related to pensions	88,161

Change in net position of governmental activities	<u><u>\$ 1,997,269</u></u>
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The accompanying notes are an integral part of these financial statements.

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - ORGANIZATION

The Governor's Early Literacy Foundation (the "Foundation"), a not-for-profit organization, changed its name from the Governor's Books from Birth Foundation in November 2020. The Foundation was formed in March 2004 and was established to serve as a catalyst and tangible resource to Tennesseans seeking to establish county-wide Imagination Library programs throughout the State. The purpose of the Foundation is to promote and encourage reading by Tennessee's children.

In June 2004, the governor of Tennessee and the General Assembly established the Governor's Books from Birth Fund (the "Fund"), an agency of the State of Tennessee. The Fund was established to promote and foster the development of a comprehensive statewide program for encouraging children to read. The Fund's staff was charged with managing and promoting the statewide rollout of this program to every county in Tennessee, with providing support and resources to county efforts, and with raising funds statewide to assist distressed counties with their share of the costs. The Fund received an appropriation from the State of Tennessee that paid the related operating expenses and a 50% match grant to cover the cost of providing books to any county organization that offered the program to every child under the age of five in that county. Effective May 26, 2005, the State of Tennessee General Assembly approved a bill that authorized the Fund to partner with a not-for-profit organization for the administration of this program and to transfer the balance of the funds held by the Fund to the not-for-profit partner. The Fund has partnered with the Foundation and, accordingly, the balance of such funds was transferred to the Foundation. The State of Tennessee appropriated \$13,225,000 to the Foundation for the year ended June 30, 2023.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Based upon the definition of a governmental organization set forth in Governmental Accounting Standards Board ("GASB") pronouncements, it has been determined that the Foundation is a governmental organization because it has been deemed a political subdivision of the State of Tennessee. The Foundation is funded primarily by the State of Tennessee and the board of directors are appointed by the governor of Tennessee.

The Foundation's basic financial statements include all activity as a single purpose government with only governmental activities. Currently, the Foundation is considered a special-purpose government engaged in a single program of education.

The Foundation has adopted the provisions of GASB pronouncements which establish standards for external financial reporting for all state and local governmental entities. In addition to providing guidance for basic financial statements and related note disclosures, these pronouncements require presentation of Management's Discussion and Analysis ("MD&A") as required supplementary information.

Government-Wide Financial Statements

The statement of net position presents information on all of the Foundation's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the residual reported as net position. The Foundation's net position is reported in three parts - investment in capital assets; restricted net position; and unrestricted net position. In the statement of activities, all activity is reported in one column as the Foundation has only one function.

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The government-wide financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles promulgated by the GASB.

GASB pronouncements require the classification of net position into three components - net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances (if any) of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If the Foundation had debt related to the acquisition or construction of capital assets, the position category would be presented "net" of such related debt. At June 30, 2023, the Foundation had no debt directly related to its capital assets.

Restricted - This component of net position consists of constraints placed on asset use through external constraints imposed by creditors (such as through debt covenants), contributors, laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of assets that do not meet the definition of restricted or investment in capital assets. When both restricted and unrestricted assets are available for use, it is the Foundation's policy to utilize restricted assets first, then unrestricted assets as needed.

The government-wide statement of activities reports both the gross and net cost of the Foundation's functions. The functions are also supported by general revenues which include donations to the general fund and county reimbursements. The statement of activities reduces gross expenses by related function revenues, operating and capital grants. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue. The Foundation allocates indirect cost between functions.

Governmental Fund Financial Statements

The financial transactions of the Foundation are recorded in one fund. The fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balances, revenues and expenditures.

The emphasis on fund financial statements is on the major funds. Nonmajor funds by category are summarized in a single column. GASB pronouncements set forth minimum criteria for the determination of major funds. The Foundation's only major fund is the general fund. The general fund is the Foundation's primary operating fund. It accounts for all financial resources of the Foundation, except those required to be accounted for in another fund. All of the Foundation's financial resources were accounted for in the general fund as of June 30, 2023.

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The governmental funds' focus is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The Foundation follows GASB pronouncements which classify governmental fund balances as: nonspendable, restricted, committed, assigned or unassigned based on the level of constraints on the fund balances. When an expenditure is incurred in which both restricted and unrestricted funds are available for use, it is the Foundation's policy to spend restricted funds first, then unrestricted funds. When an expenditure has been incurred for purposes in which multiple categories of unrestricted funds are available, it is the Foundation's policy to spend funds in the following order: committed, then assigned, and lastly unassigned funds.

The classifications of fund balances are defined as follows:

Nonspendable - This classification consists of fund balances that cannot be spent because they are either not in spendable form, for example, noncash amounts that are not expected to be converted to cash, or the funds are legally or contractually required to be maintained intact.

Restricted - This classification consists of fund balances with external constraints on use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Committed - This classification consists of fund balances that can only be used for specific purposes established by formal action of the Foundation's board of directors, its highest level of decision-making authority. Such commitments should include contractual obligations of fund assets. Fund balance commitments can only be removed by the same process of the same body employed to previously commit those amounts. The Foundation had no committed fund balance at June 30, 2023.

Assigned - This classification consists of all fund balances that are not in the general fund or classified as nonspendable, restricted or committed. In addition, general fund balances that the Foundation intends to use for specific purposes are also classified as assigned. The Foundation gives the authority to assign amounts to specific purposes to the Foundation's President and personnel under the supervision of the President tasked with financial recording responsibilities. The Foundation had no assigned fund balance at June 30, 2023.

Unassigned - This classification consists of all fund balances in the general fund that are not reported as nonspendable, restricted, committed or assigned.

Measurement Focus and Basis of Accounting

The Foundation's government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The accounting objectives of this measurement focus are the determination of operating income and changes in net position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Foundation's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and other financial assets that can readily be converted to cash. Program revenues and contributions are recognized when all eligibility requirements are met. Receivables collected less than one year after year-end are considered to be available and are recognized as revenue currently. Expenditures are recognized when the related liability is incurred.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of Expenses

Expenses of the Foundation have been allocated to the various program functions and to management and general and marketing and development based on estimates and methodologies developed by management.

Contributions Receivable

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using interest rates applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as revenue until such a time as the conditions are substantially met. The Foundation considers the contribution receivable to be fully collectible at June 30, 2023. As a result, no allowance for uncollectible contributions has been recorded. The contributions are expected to be received within one year.

Donated Goods and Services

Donated goods are recorded as gifts in the period received at estimated fair value, if there is an objective and measurable basis for determining such value. Donated services are recognized if they create or enhance nonfinancial assets or the donated service requires specialized skills, is performed by a donor who possesses such skills, and would have been purchased by the Foundation if not donated. Such services, if material, are recognized at fair value as support and expense in the period the services are performed. Members of the board of directors have provided substantial assistance to the Foundation by the donation of time and services. The value of this contribution is not reflected in the financial statements since it is not susceptible to objective measurement or valuation.

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets are recorded at cost. Expenditures for ordinary maintenance and repairs are charged to operations. Renewals and betterments that materially extend the life of the asset and exceed \$500 are capitalized. Depreciation is provided in amounts necessary to allocate the cost of the various classes of assets over their estimated useful lives using the double declining balance method. Estimated useful lives of the respective assets range from five to seven years.

Investments

The Foundation accounts for investments in accordance with the requirements of GASB Statement No. 72. Under this statement, the Foundation is required to report investments in equity securities with readily determinable fair values and all investments in debt securities at fair value with gains and losses reported in the statements of activities. See Note 5 for additional information on fair value measurements.

Income Taxes

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. In accordance with its exemption from income taxes, no provision for such income taxes has been made in the accompanying financial statements.

Advertising Costs

Advertising costs are charged to marketing and development when incurred. Advertising and marketing expense totaled \$411,449 for the year ended June 30, 2023.

Risk of Loss

Cash and cash equivalents

See Note 3 for risk of loss relating to cash and cash equivalents.

Investments

The Foundation owns investments subject to a risk of loss. Through its investment policy, the Foundation manages its exposure to investment losses by seeking reasonable income while preserving capital and generally avoiding speculative investments (see further information in Note 5). Investment related risks are as follows:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is managed by investing in fixed income mutual funds that are primarily comprised of investment grade securities as established by one or more of the nationally recognized bond rating agencies.

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the Foundation will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of June 30, 2023, all investments were held by the Foundation or its agent in the Foundation's name.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Foundation's investment in a single issuer. The Foundation invests in a number of bond mutual funds to minimize any concentrations of credit risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation manages interest rate risk by investing in diversified bond mutual funds.

Insurance

The Foundation is exposed to various risks of loss similar to a commercial business, such as general liability, errors and omissions, and other situations. The Foundation purchases commercial insurance for the significant risks of loss. Settled claims have not exceeded the insurance coverage limits during the fiscal year.

The Foundation does not have any significant exposure to foreign currency risk at June 30, 2023.

Deferred Outflows/Inflows of Resources

The statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and, therefore, are not recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and, therefore, are not recognized as an inflow of resources (revenue) until then.

Variances in pension plan actuarial assumptions qualify to be reported as deferred outflows/inflows of resources. Variances can occur due to actuarial assumptions that differ between the actual plan experience and the original actuarial assumed rates. Differences can result from, among others, earnings on investments, changes in assumptions, and other experience gains or losses. A variance represents a gain or a loss, shown as deferred inflows of resources or deferred outflows of resources, respectively, in the accompanying statement of net position. These deferred outflows/inflows are amortized in accordance with the provisions of GASB No. 68. See Note 8 for additional information. In addition, the Foundation has recorded deferred inflows of resources related to contributions, which have time requirements for future periods.

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Foundation's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System ("TCRS"), and additions to/deductions from the Foundation's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Budgetary Comparison Statement

The Foundation is not required to adopt a legally binding budget; therefore, no budgetary comparison statement of the Foundation's funds has been presented.

NOTE 3 - CASH AND CASH EQUIVALENTS

The Foundation's cash and cash equivalent bank and brokerage account balances totaling \$11,899,493 at June 30, 2023, represent demand deposits with banks and money market accounts in brokerage accounts.

The Foundation's deposit policy is governed by the laws of the State of Tennessee. Deposits in financial institutions are required by State statute to be secured and collateralized by such institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions less the amount covered by federal depository insurance. The Foundation's financial institutions participate in the State of Tennessee Bank Collateral Pool. Banks participating in the Collateral Pool determine the aggregate balance of their public fund accounts and the required collateral. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The Foundation had uninsured cash equivalents balances total \$106,581 at June 30, 2023, relating to funds held by investment managers in the Foundation investment portfolio.

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4 - CAPITAL ASSETS

Capital assets and related accumulated depreciation activity for the year ended June 30, 2023 were as follows:

	<u>Balance</u> <u>June 30, 2022</u>	<u>Additions</u>	<u>Retirements</u> <u>and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2023</u>
Capital assets:				
Office equipment	\$ 37,523	\$ 20,759	\$ -	\$ 58,282
Less accumulated depreciation:				
Office equipment	<u>(22,950)</u>	<u>(8,406)</u>	<u>-</u>	<u>(31,356)</u>
Net capital assets	<u>\$ 14,573</u>	<u>\$ 12,353</u>	<u>\$ -</u>	<u>\$ 26,926</u>

Depreciation expense totaled \$8,406, for the year ended June 30, 2023, and is included in management and general expenses in the statement of activities.

NOTE 5 - INVESTMENTS

The Foundation follows the provisions of the Fair Value Measurement Topic of GASB No. 72. This guidance establishes a framework for measuring fair value for financial assets and financial liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The applicable levels of the fair value hierarchy are described below.

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2023. All of the Foundation investments are held in exchange-traded funds and, therefore, are considered Level 1 investments. The funds are valued at the closing price reported on the active market on which the securities are traded.

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

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 5 - INVESTMENTS - Continued

The Foundation's investment funds, set forth by level within the fair value hierarchy, are as follows at June 30, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity Funds:				
Equity Allocation	\$3,313,959	\$ -	\$ -	\$3,313,959
Large Value	546,647	-	-	546,647
Large Blend	665,865	-	-	665,865
Large Growth	554,845	-	-	554,845
Emerging Markets	144,211	-	-	144,211
Mid-Cap Value	275,567	-	-	275,567
Mid-Cap Growth	226,977	-	-	226,977
Small Growth	213,414	-	-	213,414
Small Blend	231,287	-	-	231,287
Small Value	<u>97,756</u>	<u>-</u>	<u>-</u>	<u>97,756</u>
Total Equity Funds	<u>6,270,528</u>	<u>-</u>	<u>-</u>	<u>6,270,528</u>
Bond Funds:				
Ultra Short Bond	487,026	-	-	487,026
High Yield Bond	137,221	-	-	137,221
Multisector Bond	469,073	-	-	469,073
Zero Coupon Bonds	941,219	-	-	941,219
Intermediate Core-Plus Bond	<u>500,846</u>	<u>-</u>	<u>-</u>	<u>500,846</u>
Total Bond Funds	<u>2,535,385</u>	<u>-</u>	<u>-</u>	<u>2,535,385</u>
Total Investments	<u>\$8,805,913</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,805,913</u>

The following schedule summarizes the investment return for the year ended June 30, 2023:

Dividend and interest income	\$466,821
Net increase in fair value of investments	<u>331,809</u>
	<u>\$798,630</u>

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 6 - CONCENTRATIONS

The Foundation receives a substantial amount of its support through state and county government grants and fees. A significant reduction in the level of this support, if it were to occur, would have a significant effect on the service provided by the Foundation.

NOTE 7 - RESTRICTED NET POSITION

Restricted net position consists principally of contributions restricted for future programs. Net position was restricted as follows at June 30, 2023:

Assistance for various counties	\$430,462
Foster care program	9,880
Book bus program	137,792
Select	64,368
Birthing hospitals initiative	6,100
K-3 initiatives	6,240
Storybook trails	<u>8,450</u>
	<u>\$663,292</u>

NOTE 8 - PENSION

General Information about the Pension Plan

Plan description:

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

Benefits provided:

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8 - PENSION - Continued

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

Employees covered by benefit terms:

At the measurement date of June 30, 2022 the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>8</u>
	<u>14</u>

Contributions:

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The Foundation has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5% of annual covered payroll. For the year ended June 30, 2023, the TCRS Board of Trustees recommended an employer contribution rate of 11.16%, based on an actuarial valuation which included credit for previous overfunding. The Foundation reviewed the valuation and voluntarily elected to contribute at an increased rate of 14.29%. For the year ended June 30, 2023, employer contributions for the Foundation were \$125,564 based on a rate of 14.29% of covered payroll. By law, employer contributions are required to be paid. The employer's actuarially determined contribution ("ADC") is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

The Foundation's net pension liability (asset) was measured as of June 30, 2022 and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The total pension liability (asset) as of the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.125%

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8 - PENSION - Continued

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2022 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016 through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2020 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.25 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	4.88%	31%
Developed market international equity	5.37%	14%
Emerging market international equity	6.09%	4%
Private equity and strategic lending	6.57%	20%
U.S. fixed income	1.20%	20%
Real estate	4.38%	10%
Short-term securities	0.00%	<u>1%</u>
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blending of the factors described above.

Discount rate:

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Foundation will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8 - PENSION - Continued

Changes in the Net Pension Liability (Asset)

	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability (Asset) <u>(a) - (b)</u>
Balance at June 30, 2021	<u>\$ 709,275</u>	<u>\$ 813,023</u>	<u>\$(103,748)</u>
Changes for the year:			
Service cost	58,457	-	58,457
Interest	51,147	-	51,147
Differences between expected and actual experience	92,417	-	92,417
Contributions - employer	-	88,750	(88,750)
Net investment income	-	(32,403)	32,403
Benefit payments, including refunds of employee contributions	(19,985)	(19,985)	-
Administrative expense and other changes	<u>-</u>	<u>(790)</u>	<u>790</u>
Net changes	<u>182,036</u>	<u>35,572</u>	<u>146,464</u>
Balance at June 30, 2022	<u>\$ 891,311</u>	<u>\$ 848,595</u>	<u>\$ 42,716</u>

Sensitivity of the net pension asset to changes in the discount rate:

The following presents the net pension asset of the Foundation calculated using the discount rate of 6.75%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease <u>(5.75%)</u>	Discount Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
Net pension liability (asset)	\$199,122	\$42,716	\$(80,602)

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

Pension expense:

For the year ended June 30, 2023, the Foundation recognized pension expense of \$89,973.

GOVERNOR'S EARLY LITERACY FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8 - PENSION - Continued

Deferred outflows of resources and deferred inflows of resources:

For the year ended June 30, 2023, the Foundation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$123,805	\$2,855
Net difference between projected and actual earnings on pension plan investments	6,734	-
Changes in assumptions	27,122	-
Contributions subsequent to the measurement date of June 30, 2022	<u>125,564</u>	<u>(N/A)</u>
Total	<u>\$283,225</u>	<u>\$2,855</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2022" will be recognized as an increase to the net pension asset in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,

2024	\$26,701
2025	26,895
2026	25,757
2027	49,046
2028	13,202
Thereafter	13,205

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

Payable to the Pension Plan

At June 30, 2023, there was no payable for the outstanding contributions to the pension plan required at the year ended June 30, 2023.

REQUIRED SUPPLEMENTARY INFORMATION

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

	<i>for fiscal year ending June 30, 2023</i> <i>(year shown is measurement date)</i>								
Total pension liability:	2014	2015	2016	2017	2018	2019	2020	2021	2022
Service cost	\$ 12,152	\$ 32,932	\$ 35,060	\$ 36,636	\$ 38,420	\$ 22,613	\$ 42,666	\$ 44,786	\$ 58,457
Interest	9,570	15,164	19,433	22,400	27,053	31,111	37,319	41,341	51,147
Changes in benefit terms	-	-	-	-	-	-	-	-	-
Differences between actual and expected experience	38,761	13,460	(9,679)	14,845	18,386	30,046	(7,139)	66,886	92,417
Change of assumptions	-	-	-	5,751	-	-	-	40,682	-
Benefit payments, including refunds of employee contributions	(6,632)	(6,731)	(6,798)	(6,867)	(7,011)	(17,134)	(19,265)	(19,709)	(19,985)
Net change in total pension liability	53,851	54,825	38,016	72,765	76,848	66,636	53,581	173,986	182,036
Total pension liability-beginning	118,767	172,618	227,443	265,459	338,224	415,072	481,708	535,289	709,275
Total pension liability-ending	<u>\$ 172,618</u>	<u>\$ 227,443</u>	<u>\$ 265,459</u>	<u>\$ 338,224</u>	<u>\$ 415,072</u>	<u>\$ 481,708</u>	<u>\$ 535,289</u>	<u>\$ 709,275</u>	<u>\$ 891,311</u>
Plan fiduciary net position:									
Contributions-employer	\$ 33,161	\$ 28,317	\$ 29,822	\$ 43,844	\$ 45,367	\$ 46,506	\$ 53,968	\$ 66,772	\$ 88,750
Contributions-employee	-	-	-	-	-	-	-	-	-
Net investment income	36,122	8,596	8,248	39,392	35,111	36,598	27,761	161,957	(32,403)
Benefit payments, including refunds of employee contributions	(6,632)	(6,731)	(6,798)	(6,867)	(7,011)	(17,134)	(19,265)	(19,709)	(19,985)
Administrative expense and other changes	(148)	(203)	(344)	(424)	(475)	(422)	(489)	(563)	(790)
Net change in plan fiduciary net position	62,503	29,979	30,928	75,945	72,992	65,548	61,975	208,457	35,572
Plan fiduciary net position-beginning	204,696	267,199	297,178	328,106	404,051	477,043	542,591	604,566	813,023
Plan fiduciary net position-ending	<u>\$ 267,199</u>	<u>\$ 297,178</u>	<u>\$ 328,106</u>	<u>\$ 404,051</u>	<u>\$ 477,043</u>	<u>\$ 542,591</u>	<u>\$ 604,566</u>	<u>\$ 813,023</u>	<u>\$ 848,595</u>
Net pension asset-ending	<u>\$ (94,581)</u>	<u>\$ (69,735)</u>	<u>\$ (62,647)</u>	<u>\$ (65,827)</u>	<u>\$ (61,971)</u>	<u>\$ (60,883)</u>	<u>\$ (69,277)</u>	<u>\$ (103,748)</u>	<u>\$ 42,716</u>
Plan fiduciary net position as a percentage of total pension liability (asset)	154.79%	130.66%	123.60%	119.46%	114.93%	112.64%	112.94%	114.63%	95.21%
Covered payroll	\$ 255,283	\$ 283,172	\$ 298,220	\$ 337,520	\$ 349,242	\$ 358,010	\$ 415,455	\$ 514,028	\$ 683,216
Net pension liability (asset) as a percentage of covered payroll	-37.05%	-24.63%	-21.01%	-19.50%	-17.74%	-17.01%	-16.67%	-20.18%	6.25%

Notes to Schedule

Changes of assumptions:

In 2021, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, and mortality improvements. In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

GOVERNOR'S EARLY LITERACY FOUNDATION
SCHEDULE OF CONTRIBUTIONS BASED ON PARTICIPATION
IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS (UNAUDITED)
FISCAL YEAR ENDING JUNE 30

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actuarially determined contribution	\$ 33,161	\$ 16,537	\$ 17,416	\$ 33,752	\$ 40,652	\$ 41,672	\$ 35,895	\$ 54,693	\$ 72,694	\$ 88,750
Actual employer contributions	33,161	28,317	29,822	43,844	45,367	46,506	53,968	66,772	88,750	125,564
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (11,780)</u>	<u>\$ (12,406)</u>	<u>\$ (10,092)</u>	<u>\$ (4,715)</u>	<u>\$ (4,834)</u>	<u>\$ (18,073)</u>	<u>\$ (12,079)</u>	<u>\$ (16,056)</u>	<u>\$ (36,814)</u>
Covered payroll	\$ 255,283	\$ 283,172	\$ 298,220	\$ 337,520	\$ 349,242	\$ 358,010	\$ 415,455	\$ 514,028	\$ 683,216	\$ 878,848
Contributions as a percentage of covered payroll	12.99%	10.00%	10.00%	12.99%	12.99%	12.99%	12.99%	12.99%	12.99%	14.29%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes to Schedule

Valuation date:

Actuarially determined contribution rates for fiscal year 2023 were calculated based on the June 30, 2022 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry Age Normal
Amortization method: Level dollar, closed (not to exceed 20 years)
Remaining amortization period: Varies by Year
Asset valuation: 10-year smoothed within a 20 percent corridor to market value
Inflation: 2.25 percent
Salary increases: Graded salary ranges from 8.72 to 3.44 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return: 6.75 percent, net of investment expense, including inflation
Retirement age: Pattern of retirement determined by experience study
Mortality: Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments: 2.125 percent

Changes of assumptions:

In 2021, the following assumptions were changed: decreased inflation rate from 2.50 percent to 2.25 percent; decreased the investment rate of return from 7.25 percent to 6.75 percent; decreased the cost-of-living adjustment from 2.25 percent to 2.125 percent; and modified mortality assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

SUPPLEMENTARY INFORMATION

GOVERNOR'S EARLY LITERACY FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2023

Grantor	Program Name	Assistance Listing Number	Contract Number	Expenditures
Federal Awards:				
Passed through from the State of TN Department of Human Services Child Care and Development Fund (CCDF)	Grant for supporting early childhood literacy and enrollment in the Imagination Library Program	93.575	GS00005373	<u>385,024</u>
Tennessee Department of Education	COVID-19 - Education Stabilization Fund Program Elementary & Secondary School Emergency Relief Fund (ESSER)	84.425D*	68854	<u>2,610,075</u>
Total Federal Awards				<u>2,995,099</u>
State Assistance:				
TN Department of General Services	Endowment grant for supporting and teaching children crucial early literacy skills	N/A	N/A	<u>6,920,500</u>
Total State Assistance				<u>6,920,500</u>
Total Federal Awards and State Financial Assistance				<u>\$ 9,915,599</u>

* Major program in accordance with Uniform Guidance.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

NOTE 1 - BASIS OF PRESENTATION AND ACCOUNTING

The schedule of expenditures of federal awards and state financial assistance (the "Schedule") includes the federal and state award activity of the Foundation under programs of the federal and state governments for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Foundation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or limited as to reimbursement. The Foundation has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - SUBRECIPIENTS

The Foundation had no amounts which were passed-through to subrecipients.

INTERNAL CONTROL AND COMPLIANCE



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Governor's Early Literacy Foundation
Nashville, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Governor's Early Literacy Foundation (the "Foundation"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated December 14, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Governor's Early Literacy Foundation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



To the Board of Directors
Governor's Early Literacy Foundation

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crosslin, PLLC

Nashville, Tennessee
December 14, 2023



Independent Auditor's Report on Compliance for Each Program
and on Internal Control Over Compliance
Required by the Uniform Guidance

To the Board of Directors of
Governor's Early Literacy Foundation
Nashville, Tennessee

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Foundation's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Governor's Early Literacy Foundation's (the "Foundation") major federal programs for the year ended June 30, 2023. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each major federal program for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the Foundation's major federal programs. Our audit does not provide a legal determination of the Foundation's compliance with the compliance requirements referred to above.



Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Foundation's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Foundation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Foundation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Foundation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crosslin, PLLC

Nashville, Tennessee
December 14, 2023

GOVERNOR'S EARLY LITERACY FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2023

SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major program:
Material weakness(es) identified? yes x no
Significant deficiency(ies) identified? yes x none reported

Type of auditor's report issued on compliance for
major program: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR 200.516(a)? yes x no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.425D	COVID-19 - Education Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? x yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.

GOVERNOR'S EARLY LITERACY FOUNDATION
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2023

The Foundation did not have any reported findings for the fiscal year ended June 30, 2022.