

**GOVERNOR'S BOOKS FROM BIRTH
FOUNDATION**

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

June 30, 2006 and 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Governor's Books From Birth Foundation
Nashville, Tennessee

We have audited the accompanying statement of financial position of Governor's Books From Birth Foundation (the "Foundation"), a Tennessee not-for-profit corporation, as of June 30, 2006 and the related statements of activities, functional expenses and cash flows for the year 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 audit. The financial statements of Governor's Books From Birth Foundation as of June 30, 2005 were audited by other auditors whose report dated December 20, 2005 expressed an unqualified opinion on these statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides 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, 2006 and the changes in its net assets and its cash flows for the year 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 September 21, 2006, 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Governor's Books from Birth Foundation taken as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Fraser, Dean & Howard, PLLC

September 21, 2006

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ 1,928,566	\$ 163,154
Due from State of Tennessee	-	1,221,313
Unconditional promises to give	130,000	50,000
Accounts receivable	<u>409</u>	<u>-</u>
Total current assets	2,058,975	1,434,467
Unconditional promises to give, net	<u>333,878</u>	<u>391,581</u>
Total assets	<u><u>\$ 2,392,853</u></u>	<u><u>\$ 1,826,048</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 13,743	\$ -
Accrued expenses	<u>20,792</u>	<u>-</u>
Total liabilities	<u>34,535</u>	<u>-</u>
Net assets:		
Unrestricted	1,894,440	1,384,467
Temporarily restricted	<u>463,878</u>	<u>441,581</u>
Total net assets	<u>2,358,318</u>	<u>1,826,048</u>
Total liabilities and net assets	<u><u>\$ 2,392,853</u></u>	<u><u>\$ 1,826,048</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions from State of Tennessee	\$ 2,011,400	\$ -	\$ 2,011,400
County reimbursements	1,236,626	-	1,236,626
Contributions - corporate, individual and other	12,869	383,205	396,074
Interest income	25,701	-	25,701
Net assets released from time restrictions	360,908	(360,908)	-
	<hr/>	<hr/>	<hr/>
Total support and revenue	3,647,504	22,297	3,669,801
Expenses:			
Program services	2,723,394	-	2,723,394
Management and general	203,023	-	203,023
Marketing and development	211,114	-	211,114
	<hr/>	<hr/>	<hr/>
Total expenses	3,137,531	-	3,137,531
	<hr/>	<hr/>	<hr/>
Change in net assets	509,973	22,297	532,270
Net assets - beginning of year	1,384,467	441,581	1,826,048
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Net assets - end of year	<u>\$ 1,894,440</u>	<u>\$ 463,878</u>	<u>\$ 2,358,318</u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions from State of Tennessee	\$ 1,221,313	\$ -	\$ 1,221,313
Contributions - other	3,000	601,581	604,581
Investment income	217	-	217
Net assets released from time restrictions	<u>160,000</u>	<u>(160,000)</u>	<u>-</u>
Total support and revenue	1,384,530	441,581	1,826,111
Expenses:			
Management and general	<u>63</u>	<u>-</u>	<u>63</u>
Total expenses	<u>63</u>	<u>-</u>	<u>63</u>
Change in net assets	1,384,467	441,581	1,826,048
Net assets - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Net assets - end of year	<u><u>\$ 1,384,467</u></u>	<u><u>\$ 441,581</u></u>	<u><u>\$ 1,826,048</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
For the Year ended June 30, 2006

	<u>Program Services</u>	<u>Management & General</u>	<u>Marketing & Development</u>	<u>Total</u>
Books and mailings	\$ 2,473,256	\$ -	\$ -	\$ 2,473,256
Compensation expense	107,099	61,060	107,097	275,256
Grant distributions to counties	75,461	-	-	75,461
Marketing - Dollywood Foundation	-	-	67,104	67,104
Distressed county expense	57,281	-	-	57,281
Accounting services	-	46,866	-	46,866
Retirement expense	-	24,398	-	24,398
Rent	-	23,174	-	23,174
Legal and professional	-	21,084	-	21,084
Health insurance	5,738	5,738	5,738	17,214
Printing/media	-	-	11,571	11,571
Travel expense	-	-	9,311	9,311
Insurance - general	-	6,450	-	6,450
Postage and shipping	-	-	6,424	6,424
Telecommunications	-	5,668	-	5,668
Workshop expense	4,559	-	-	4,559
Miscellaneous expense	-	2,463	-	2,463
Advertising	-	-	2,420	2,420
Seminars	-	2,383	-	2,383
Office supplies	-	2,098	-	2,098
Office expense	-	1,641	-	1,641
Marketing - general	-	-	1,449	1,449
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$ 2,723,394</u>	<u>\$ 203,023</u>	<u>\$ 211,114</u>	<u>\$ 3,137,531</u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 532,270	\$ 1,826,048
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Changes in operating assets and liabilities:		
Due from State of Tennessee	1,221,313	(1,221,313)
Unconditional promises to give	(22,297)	(441,581)
Accounts receivable	(409)	-
Accounts payable	13,743	-
Accrued expenses	20,792	-
Net cash provided by operating activities	1,765,412	163,154
Cash and cash equivalents - beginning of year	<u>163,154</u>	<u>-</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,928,566</u></u>	<u><u>\$ 163,154</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

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 is reported as revenue in the statement of activities for 2005. In addition, the State of Tennessee appropriated \$2,011,400 and \$2,692,300 to the Foundation for the years ended June 30, 2006 and 2007, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted for specific programs are reflected as unrestricted revenue if these funds are received and spent during the same fiscal year as permitted by SFAS No. 116.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

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

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (5.09% in 2006 and 3.69% in 2005). 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 support until such a time as the conditions are substantially met.

Gifts of equipment or materials are reported as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

No provision for uncollectible contribution pledges has been made, based on management's estimate that all contributions receivable as of June 30, 2006 and 2005, will be collected.

Donated Services

The Foundation's policy is to record support and expenses for contributed services that require specialized skills and would be purchased if not provided by the donor at the fair value of services received.

Members of the Board of Directors have also 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 BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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.

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.

Program and Supporting Services

Costs of providing the Foundation's integration programs and other activities are summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs may be allocated among the programs and activities benefited based on estimates made by management. Costs that are not allocated to program services are classified as management and general or marketing and development expenses. For the year ended June 30, 2005, basically no costs were incurred, as the program was administered by the Fund. Expenses incurred for the year related to establishment of the Foundation's bank accounts.

NOTE 3 – UNCONDITIONAL PROMISES TO GIVE

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

	<u>2006</u>	<u>2005</u>
Temporarily restricted:		
Less than one year	\$ 130,000	\$ 50,000
One to five years	<u>410,000</u>	<u>420,000</u>
Total contributions receivable	540,000	470,000
Less discount to net present value	<u>(76,122)</u>	<u>(28,419)</u>
Unconditional promises to give, net	<u>\$ 463,878</u>	<u>\$ 441,581</u>

Presented in the accompanying statements of financial position as:

Current	\$ 130,000	\$ 50,000
Non current	<u>333,878</u>	<u>391,581</u>
	<u>\$ 463,878</u>	<u>\$ 441,581</u>

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 4 – RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets are comprised of the following at June 30:

	<u>2006</u>	<u>2005</u>
Unconditional promises to give due in future periods	<u>\$ 463,878</u>	<u>\$ 441,581</u>

NOTE 5 – EMPLOYEE BENEFIT PLAN

Based upon a contractual agreement, certain employees of the Foundation participated in the State of Tennessee Retirement Plan. Total contribution expense for the years ended June 30, 2006 and 2005 was \$24,398 and \$0, respectively. As of June 30, 2006, the Foundation has also established a 401(k) Retirement Plan which is generally available to all employees. However, as of June 30, 2006, the Foundation has not incurred any matching contribution expense.

NOTE 6 – CONCENTRATIONS

The Foundation cash account balances at June 30, 2006 and 2005, exceeded Federal Deposit Insurance Corporation (FDIC) insurance limits. In management's opinion, risk related to such deposits is reduced based on the credit quality of its depository financial institution.

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 affect on the service provided by the Foundation.

SUPPLEMENTAL INFORMATION

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year ended June 30, 2006

Granor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2005	Cash Receipts	Expenditures	Receivable June 30, 2006
TN Department of Education	Endowment Grant for supporting and teaching children crucial early literacy skills	N/A	GR-06-17245-02	\$ 1,221,313	\$ 3,232,713	\$ 2,011,400	\$ -
Total State Awards				<u>\$ 1,221,313</u>	<u>\$ 3,232,713</u>	<u>\$ 2,011,400</u>	<u>\$ -</u>

NOTE 1 - BASIS OF ACCOUNTING

The Supplementary Schedule of Expenditures of State Awards is prepared on the accrual basis of accounting.



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CERTIFIED PUBLIC ACCOUNTANTS

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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**

The Board of Directors
Governor's Books from Birth Foundation

We have audited the financial statements of Governor's Books from Birth Foundation (a nonprofit foundation) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 21, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Frasier, Dean & Howard, PLLC

September 21, 2006