

**GOVERNOR'S BOOKS FROM BIRTH
FOUNDATION**

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

June 30, 2014 and 2013

GOVERNOR’S BOOKS FROM BIRTH FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of Governor's Books from Birth Foundation (the "Foundation"), a Tennessee not-for-profit corporation, as of and for the year ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Governor's Books from Birth Foundation as of June 30, 2014 and 2013, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Governor's Books from Birth Foundation's basic financial statements. The schedule of financial assistance is presented for purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury, *Audit Manual for Local Governmental Units and Recipients of Grant Funds*, and is not a required part of the basic financial statements.

The schedule of financial assistance 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. Such 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 financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2014, 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 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 Governor's Books from Birth Foundation's internal control over financial reporting and compliance.

Fraser, Den + Hand, PLLC

Nashville, Tennessee
December 18, 2014

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Governor's Books from Birth Foundation's (the "Foundation") financial performance provides an introduction to the financial statements for the years ended June 30, 2014 and 2013. The information contained in this MD&A should be considered in conjunction with the information contained in the Foundation's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Reporting the Foundation as a Whole

The Statement of Net 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 and liabilities using the accrual basis of accounting. Under the accrual basis, all of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid. The statements start on page eight.

The statement of net position reports the Foundation's net position (total assets less total liabilities). 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 BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014 and 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Reporting the Foundation's Funds

Fund Financial Statements:

The Foundation's fund financial statements, the balance sheet and the statement of revenues, expenditures and changes in fund balances, begin on page ten. They provide detailed information about the Foundation's most significant funds, not the Foundation as a whole. Funds are established by the Foundation to help manage money for particular purposes and compliance with various grant provisions.

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

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>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Capital assets, net	\$ 230	\$ 368	\$ 435
Other assets	<u>6,692,971</u>	<u>6,279,849</u>	<u>5,778,747</u>
Total assets	<u>6,693,201</u>	<u>6,280,217</u>	<u>5,779,182</u>
Total liabilities	<u>22,256</u>	<u>17,009</u>	<u>126,892</u>
Net position:			
Net investment in capital assets	230	368	435
Restricted	60,900	39,496	9,711
Unrestricted	<u>6,609,815</u>	<u>6,223,344</u>	<u>5,642,144</u>
Total net position	<u>\$ 6,670,945</u>	<u>\$ 6,263,208</u>	<u>\$ 5,652,290</u>

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
June 30, 2014 and 2013**

FINANCIAL HIGHLIGHTS (Continued)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Program revenues:			
Governmental contracts	\$ 3,114,843	\$ 3,558,357	\$ 3,444,100
County reimbursements	2,729,513	2,607,786	2,567,111
General revenue:			
Contributions	430,890	359,502	470,420
Other general revenue	<u>600,529</u>	<u>202,123</u>	<u>12,810</u>
Total program and general revenues	<u>6,875,775</u>	<u>6,727,768</u>	<u>6,494,441</u>
Expenses:			
Program	6,001,534	5,697,590	5,649,976
Management and general	248,705	246,761	160,613
Marketing and development	<u>217,799</u>	<u>172,499</u>	<u>86,113</u>
Total expenses	<u>6,468,038</u>	<u>6,116,850</u>	<u>5,896,702</u>
Change in net position	<u>\$ 407,737</u>	<u>\$ 610,918</u>	<u>\$ 597,739</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 fiscal year (July 1 to June 30). The amount of this contract, negotiated from year to year, totaled \$3,104,100, \$3,444,100, and \$3,444,100 for the years ended June 30, 2014, 2013 and 2012, respectively. The Foundation received \$2,729,513, \$2,607,786, and \$2,567,111 from Tennessee counties for the years ended June 30, 2014, 2013, and 2012 respectively, as reimbursements for books purchased and distributed to county residents.

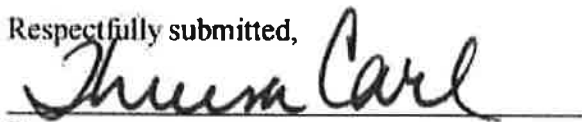
The cost of purchasing and mailing books represents the majority of the Foundation's expenses. During the years ended June 30, 2014, 2013, and 2012, these expenses of \$5,459,033, \$5,215,564, and \$5,134,232 represented approximately 84%, 85%, and 87% of the Foundation's total expenses, respectively.

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 funding will necessarily continue from year to year, a fact of which all members, employees and contractors are well aware.

Respectfully submitted,



December 18, 2014

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF NET POSITION
(GOVERNMENTAL ACTIVITIES)
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 916,890	\$ 1,119,659
Investments	5,751,081	5,112,600
Contribution receivable	25,000	-
Governmental contracts receivable	<u>-</u>	<u>47,590</u>
Total current assets	6,692,971	6,279,849
Capital assets, net of accumulated depreciation of \$521 and \$8,471, respectively	<u>230</u>	<u>368</u>
Total assets	<u><u>\$ 6,693,201</u></u>	<u><u>\$ 6,280,217</u></u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 479	\$ 24
Accrued expenses	<u>21,777</u>	<u>16,985</u>
Total liabilities	<u>22,256</u>	<u>17,009</u>
Net position:		
Net investment in capital assets	230	368
Restricted	60,900	39,496
Unrestricted	<u>6,609,815</u>	<u>6,223,344</u>
Total net position	<u>6,670,945</u>	<u>6,263,208</u>
Total liabilities and net position	<u><u>\$ 6,693,201</u></u>	<u><u>\$ 6,280,217</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
STATEMENTS OF ACTIVITIES
(GOVERNMENTAL ACTIVITIES)
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Expenses:		
Program:		
Books and mailings	\$ 5,459,033	\$ 5,215,564
County book funding expense	211,333	282,917
Distressed county expense	166,828	33,455
Compensation expense, program	97,513	113,793
Foster care expense	32,785	18,549
Health insurance, program	13,036	13,278
Retirement expense, program	12,006	10,417
Workshop expense	9,000	9,617
Management and general	248,705	246,761
Marketing and development	217,799	172,499
Total expenses	<u>6,468,038</u>	<u>6,116,850</u>
Program specific operating grants and contributions:		
Governmental contracts	3,114,843	3,558,357
County reimbursements	<u>2,729,513</u>	<u>2,607,786</u>
Total program specific operating grants and contributions	<u>5,844,356</u>	<u>6,166,143</u>
General revenues:		
Contributions	430,890	359,502
Dividend income	148,148	113,982
Interest income	9,711	5,932
Net increase in the fair value of investments	<u>442,670</u>	<u>82,209</u>
Net general revenues	<u>1,031,419</u>	<u>561,625</u>
Change in net position	407,737	610,918
Net position at beginning of year	<u>6,263,208</u>	<u>5,652,290</u>
Net position at end of year	<u><u>\$ 6,670,945</u></u>	<u><u>\$ 6,263,208</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
BALANCE SHEETS
(GENERAL FUND)
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 916,890	\$ 1,119,659
Investments	5,751,081	5,112,600
Contribution receivable	25,000	-
Governmental contracts receivable	<u>-</u>	<u>47,590</u>
 Total assets	 <u><u>\$ 6,692,971</u></u>	 <u><u>\$ 6,279,849</u></u>
Liabilities and Fund Balances		
Current liabilities:		
Accounts payable	\$ 479	\$ 24
Accrued expenses	<u>21,777</u>	<u>16,985</u>
 Total liabilities	 <u>22,256</u>	 <u>17,009</u>
Fund balances:		
Restricted	60,900	39,496
Unassigned	<u>6,609,815</u>	<u>6,223,344</u>
 Total fund balances	 <u>6,670,715</u>	 <u>6,262,840</u>
 Total liabilities and fund balances	 <u><u>\$ 6,692,971</u></u>	 <u><u>\$ 6,279,849</u></u>

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Total fund balances (general fund)	\$ 6,670,715	\$ 6,262,840
<i>Amounts reported for governmental activities in the statements of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the general fund balance sheet	<u>230</u>	<u>368</u>
Net position of governmental activities	<u><u>\$ 6,670,945</u></u>	<u><u>\$ 6,263,208</u></u>

See accompanying notes.

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

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Governmental contracts	\$ 3,114,843	\$ 3,558,357
County reimbursements	2,729,513	2,607,786
Contributions	430,890	359,502
Dividend income	148,148	113,982
Interest income	9,711	5,932
Net increase in the fair value of investments	<u>442,670</u>	<u>82,209</u>
 Total revenues	 <u>6,875,775</u>	 <u>6,727,768</u>
Expenditures:		
Program	6,001,534	5,697,590
Management and general	248,567	245,944
Marketing and development	217,799	172,499
Capital expenditures	<u>-</u>	<u>750</u>
 Total expenditures	 <u>6,467,900</u>	 <u>6,116,783</u>
 Net change in fund balance	 407,875	 610,985
 Fund balances at beginning of year	 <u>6,262,840</u>	 <u>5,651,855</u>
 Fund balances at end of year	 <u><u>\$ 6,670,715</u></u>	 <u><u>\$ 6,262,840</u></u>

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Net change in fund balances, total governmental funds	<u>\$ 407,875</u>	<u>\$ 610,985</u>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Purchase of capital assets is included only in the general fund statement of activities	-	750
Depreciation expense on governmental capital assets is included only in the governmental activities in the statement of activities	<u>(138)</u>	<u>(817)</u>
Net differences	<u>(138)</u>	<u>(67)</u>
Change in net position of governmental activities	<u><u>\$ 407,737</u></u>	<u><u>\$ 610,918</u></u>

See accompanying notes.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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. The State of Tennessee appropriated \$3,104,100 and \$3,444,100 to the Foundation for each year ended June 30, 2014 and 2013.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The government-wide financial statements of the Foundation are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board ("GASB"). Based upon the definition of a governmental organization set forth in 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 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. The Foundation has implemented GASB pronouncements which establish and modify disclosure requirements related to investment and deposit risks. These pronouncements address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Disclosures relating to these pronouncements are included in Note 2.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Budgetary comparison schedules are not included as part of the additional information as required by GASB pronouncements, as the Foundation is not required to legally adopt the budget.

Basic Financial Statement Description

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

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

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

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

Net 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 there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

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 invested in capital assets, net of related debt. When both restricted and unrestricted assets are available for use, it is the Foundation's policy to utilize restricted assets first, then unrestricted assets as needed.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statement Description (Continued)

The government-wide statements of activities report 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 statements of activities reduce gross expenses by related function revenues, operating and capital grants. Program revenues must be directly associated with the function. The net costs by function are normally covered by general revenue. The Foundation allocates indirect cost between functions.

The government fund financial statements report the Foundation's financial transactions by individual fund. Each fund is accounted for by providing a separate set of self balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenses.

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, 2014 and 2013.

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.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statement Description (Continued)

Committed – This classification consists of fund balances that can only be used for specific purposes established by formal action of the Foundations' board of directors, its highest level of decision making authority. Such commitments should include contractual obligations of fund assets. Fund balance commitments can only be removed by the same process of the same body reported to previously commit those amounts.

Assigned – This classification consists of all fund balances that are not in the general fund or classified as nonspendable, restricted or committed. In addition, general fund balances that the Foundation intends to use for specific purposes are also classified as assigned. The Foundation gives the authority to assign amounts to specific purposes to the Foundation's controller and personnel under the supervision of the controller tasked with financial recording responsibilities.

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. 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.

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 generally accepted accounting principles 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.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using interest rates applicable to the year in which the promise is received. 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, 2014. As a result, no allowance for uncollectible contributions has been recorded. The contribution is expected to be received within one year.

Donated Services

Members of the board of directors have provided substantial assistance to the Foundation by the donation of time and services. The value of this contribution is not reflected in the financial statements since it is not susceptible to objective measurement or valuation.

Capital Assets

Capital assets are recorded at cost. Expenditures for ordinary maintenance and repairs are charged to operations. Renewals and betterments that materially extend the life of the asset 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's investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted market prices in the statements of net position. Investment income and realized and unrealized gains and losses are reported as changes in the statement of activities.

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.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising costs are charged to marketing and development when incurred. Advertising expense totaled \$83,167 and \$69,646 for the years ended June 30, 2014 and 2013, respectively.

Risk of Loss

Cash and cash equivalents

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

Investments

As of June 30, 2014 and 2013 the Foundation had 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. 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.

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, 2014 and 2013, 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 past three fiscal years.

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk of Loss (Continued)

The Foundation does not have any significant exposure to foreign currency risk at June 30, 2014 and 2013.

NOTE 3 – CASH AND CASH EQUIVALENTS

The Foundation's cash and cash equivalent bank balances totaling \$916,890 and \$1,119,659 at June 30, 2014 and 2013, respectively, represent demand deposits with banks. Uninsured balances totaled \$53,434 at June 30, 2013. No balances exceeded insured limits at June 30, 2014. Category 1 includes bank balances that are uncollateralized. Category 2 includes bank balances that are collateralized with securities held by the pledging financial institution. Category 3 includes bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor's (Foundation's) name.

<u>June 30, 2014</u>			
<u>Custodial Credit Risk Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>
Unrestricted cash and cash equivalents	\$ -	\$ -	\$ -

<u>June 30, 2013</u>			
<u>Custodial Credit Risk Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>
Unrestricted cash and cash equivalents	\$ 53,434	\$ -	\$ -

NOTE 4 – CAPITAL ASSETS

Capital assets and related accumulated depreciation activity for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>06/30/2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>06/30/2014</u>
Capital assets:				
Office equipment	\$ 8,839	\$ -	\$ (8,088)	\$ 751
Less accumulated depreciation:				
Office equipment	(8,471)	(138)	8,088	(521)
Net capital assets	\$ 368	\$ (138)	\$ -	\$ 230

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 4 – CAPITAL ASSETS (Continued)

Depreciation expense totaled \$138 and \$817, respectively, for the years ended June 30, 2014 and 2013 and is included in management and general expenses in the statements of activities.

NOTE 5 – INVESTMENTS

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

	<u>2014</u>	<u>2013</u>
Mutual funds:		
Equity funds	\$ 2,811,763	\$ 2,146,677
Bond funds (unrated)	<u>2,939,318</u>	<u>2,965,923</u>
	<u><u>\$ 5,751,081</u></u>	<u><u>\$ 5,112,600</u></u>

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

	<u>2014</u>	<u>2013</u>
Dividend and interest income	\$ 148,148	\$ 119,914
Net increase in fair value of investments	<u>442,670</u>	<u>82,209</u>
	<u><u>\$ 590,818</u></u>	<u><u>\$ 202,123</u></u>

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, could 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:

	<u>2014</u>	<u>2013</u>
Foster care program	\$ 30,900	\$ 6,163
Assistance for various counties	30,000	-
Assistance for Appalachian counties	<u>-</u>	<u>33,333</u>
	<u><u>\$ 60,900</u></u>	<u><u>\$ 39,496</u></u>

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 8 – PENSION

Plan Description

Employees of the Foundation are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Foundation participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 15th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Funding Policy

The Foundation has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0% of annual covered payroll.

The Foundation is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2014 was 12.99% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Foundation is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2014, the Foundation's annual pension cost of \$33,161 to TCRS was equal to the Foundation's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected 3.0%

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 8 – PENSION (Continued)

Annual Pension Cost (Continued)

annual rate of inflation, (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The Foundation's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 6 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2014	\$ 33,161	100%	\$ -
June 30, 2013	\$ 27,777	100%	\$ -
June 30, 2012	\$ 11,281	100%	\$ -

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 90.01% funded. The actuarial accrued liability for benefits was \$230,000, and the actuarial value of assets was \$210,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$20,000. The covered payroll (annual payroll of active employees covered by the plan) was \$120,000, and the ratio of the UAAL to the covered payroll was 19.91%.

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

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 8 – PENSION (Continued)

Required Supplementary Information

Schedule of Funding Progress for the Foundation:

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2013	\$ 210	\$ 233	\$ 23	90.01%	\$ 117	19.91%
July 1, 2011	\$ 172	\$ 233	\$ 61	73.92%	\$ 203	29.84%
July 1, 2009	\$ 73	\$ 139	\$ 65	52.85%	\$ 219	29.79%

SUPPLEMENTAL INFORMATION

GOVERNOR'S BOOKS FROM BIRTH FOUNDATION
SCHEDULE OF FINANCIAL ASSISTANCE
For the Year Ended June 30, 2014

Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2013	Cash Receipts	Expenditures	Receivable June 30, 2014
Federal Assistance:							
U.S. Department of Health and Human Services <i>passed through the State of Tennessee, Office of the Governor</i>	Grant to support enrollment campaign and childhood literacy trainings	93.708*	36334	\$ 14,257	\$ 25,000	\$ 10,743	\$ -
Appalachian Regional Commission	Endowment grant for supporting and teaching children crucial early literacy skills	23.001	TN-16307-C1	33,333	33,333	-	-
Total Federal Assistance				47,590	58,333	10,743	-
State Assistance:							
TN Department of Education	Endowment grant for supporting and teaching children crucial early literacy skills	N/A	N/A	-	3,104,100	3,104,100	-
Total State Assistance				-	3,104,100	3,104,100	-
Total Federal and State Assistance				\$ 47,590	\$ 3,162,433	\$ 3,114,843	\$ -

NOTE 1 - BASIS OF ACCOUNTING

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

* Indicates American Recovery and Reinvestment Act funds.

See independent auditor's report.



**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 Books from Birth 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 each major fund of Governor's Books from Birth Foundation, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Governor's Books from Birth Foundation's basic financial statements, and have issued our report thereon dated December 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Governor's Books from Birth Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Governor's Books from Birth Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of Governor's Books from Birth 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Governor's Books from Birth 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 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*.

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.

Fraser, Dem & Hand, PLLC

Nashville, Tennessee
December 18, 2014