

**GOVERNOR'S BOOKS FROM BIRTH  
FOUNDATION**

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

**June 30, 2011 and 2010**

# GOVERNOR’S BOOKS FROM BIRTH FOUNDATION

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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 years ended June 30, 2011 and 2010, which collectively comprise the Foundation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide a reasonable basis for our 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, 2011 and 2010, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 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.

Our audits were performed for the purpose of forming an opinion on the financial statements of Governor's Books from Birth Foundation as a whole. The accompanying statements of activities, statements of cash flows, statements of functional expenses and schedule of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis and are not a required part of the financial statements. The information in these statements and schedules have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

*Frasier, Dean & Hunt, PLLC*

Nashville, Tennessee  
December 13, 2011

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011**

**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 year ended June 30, 2011 (and 2010). 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 Assets 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 Assets 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 seven.

The Statement of Net Assets reports the Foundation's net assets (total assets less total liabilities). Private sector entities would report retained earnings. The Foundation's net asset balance at year end represents available resources for future growth. The Statement of Activities reports the change in net assets 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, 2011**

**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 nine. 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 Assets 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 ten and twelve.

**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><b>2011</b></u>	<u><b>2010</b></u>
Assets:		
Capital assets, net	\$ 884	\$ 1,473
Other assets	5,128,935	4,256,434
Total assets	5,129,819	4,257,907
Total liabilities	75,268	342,860
Net assets:		
Invested in capital assets, net of related debt	884	1,473
Restricted	32,500	97,352
Unrestricted	5,021,167	3,816,222
Total net assets	5,054,551	3,915,047



**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2011**

**FINANCIAL HIGHLIGHTS (Continued)**

	<u>2011</u>	<u>2010</u>
Program revenues:		
Governmental contract	3,444,100	3,444,100
County reimbursements	2,432,869	2,636,028
General revenue		
Contributions	310,105	271,180
Other general revenue	492,555	358,525
Total program and general revenues	6,679,629	6,709,833
Expenses:		
Program	5,165,040	5,585,693
Management and general	208,604	212,835
Marketing and development	166,481	187,669
Total expenses	5,540,125	5,986,197
Change in net assets	1,139,504	723,636

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 \$3,444,100 for each year ended June 30, 2011 and 2010. The Foundation received \$2,432,869 and \$2,636,028 from Tennessee counties for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, respectively, these expenses of \$4,865,756 and \$5,272,058 represented approximately 88% of the Foundation's total expenses.

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

**OTHER ISSUES**

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

Respectfully submitted,

  
\_\_\_\_\_  
December 13, 2011

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**STATEMENTS OF NET ASSETS**  
**(GOVERNMENTAL ACTIVITIES)**  
**June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Current assets:		
Cash	\$ 1,993,695	\$ 1,175,852
Investments	3,074,132	2,701,145
Accounts receivable	28,608	608
Unconditional promises to give	<u>32,500</u>	<u>65,000</u>
Total current assets	5,128,935	3,942,605
Capital assets, net of accumulated depreciation of \$7,205 and \$6,616, respectively	884	1,473
Unconditional promises to give, net	<u>-</u>	<u>313,829</u>
Total assets	<u><u>\$ 5,129,819</u></u>	<u><u>\$ 4,257,907</u></u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 313	\$ 1,579
Accrued expenses	74,955	41,281
Pledges payable	<u>-</u>	<u>300,000</u>
Total current liabilities	<u>75,268</u>	<u>342,860</u>
Total liabilities	<u>75,268</u>	<u>342,860</u>
Net assets:		
Invested in capital assets, net of related debt	884	1,473
Restricted	32,500	97,352
Unrestricted	<u>5,021,167</u>	<u>3,816,222</u>
Total net assets	<u>5,054,551</u>	<u>3,915,047</u>
Total liabilities and net assets	<u><u>\$ 5,129,819</u></u>	<u><u>\$ 4,257,907</u></u>

See accompanying notes.



**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Expenses:		
Books and mailings	\$ 4,865,756	\$ 5,272,058
Management and general	208,604	212,835
County book funding expense	180,834	151,666
Marketing and development	166,481	187,669
Compensation expense	102,274	126,632
Distressed county expense	9,154	17,163
Health insurance	5,749	5,848
Workshop expense	1,273	12,326
	<u>5,540,125</u>	<u>5,986,197</u>
Program revenues:		
Governmental contracts	3,444,100	3,444,100
County reimbursements	2,432,869	2,636,028
	<u>5,876,969</u>	<u>6,080,128</u>
General revenues:		
Net increase in the fair value of investments	372,986	246,142
Contributions	310,105	271,180
Dividend income	118,372	103,957
Interest income	1,197	8,426
	<u>802,660</u>	<u>629,705</u>
Net general revenues	<u>802,660</u>	<u>629,705</u>
Change in net assets	1,139,504	723,636
Net assets at beginning of year	<u>3,915,047</u>	<u>3,191,411</u>
Net assets at end of year	<u><u>\$ 5,054,551</u></u>	<u><u>\$ 3,915,047</u></u>

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**BALANCE SHEETS**  
**(GENERAL FUND)**  
**June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 1,993,695	\$ 1,175,852
Investments	3,074,132	2,701,145
Accounts receivable	28,608	608
Unconditional promises to give	<u>32,500</u>	<u>65,000</u>
Total current assets	5,128,935	3,942,605
Unconditional promises to give, net	<u>-</u>	<u>313,829</u>
Total assets	<u><u>\$ 5,128,935</u></u>	<u><u>\$ 4,256,434</u></u>
<b>Liabilities and Fund Balances</b>		
Current liabilities:		
Accounts payable	\$ 313	\$ 1,579
Accrued expenses	74,955	41,281
Pledges payable	<u>-</u>	<u>300,000</u>
Total current liabilities	<u>75,268</u>	<u>342,860</u>
Total liabilities	<u>75,268</u>	<u>342,860</u>
Fund balances:		
Restricted	32,500	97,352
Unassigned	<u>5,021,167</u>	<u>3,816,222</u>
Total fund balances	<u>5,053,667</u>	<u>3,913,574</u>
Total liabilities and fund balances	<u><u>\$ 5,128,935</u></u>	<u><u>\$ 4,256,434</u></u>

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Total fund balances (general fund)	\$ 5,053,667	\$ 3,913,574
<i>Amounts reported for governmental activities in the statement of net assets 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>884</u>	<u>1,473</u>
Net assets of governmental activities	<u><u>\$ 5,054,551</u></u>	<u><u>\$ 3,915,047</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, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Revenues:		
Governmental contract	\$ 3,444,100	\$ 3,444,100
County reimbursements	2,432,869	2,636,028
Net increase in the fair value of investments	372,986	246,142
Contributions	310,105	271,180
Dividend income	118,372	103,957
Interest income	<u>1,197</u>	<u>8,426</u>
 Total revenues	 <u>6,679,629</u>	 <u>6,709,833</u>
Expenditures:		
Books and mailings	4,865,756	5,272,058
Management and general	208,015	211,854
County book funding expense	180,834	151,666
Marketing and development	166,481	187,669
Compensation expense	102,274	126,632
Distressed county expense	9,154	17,163
Health insurance	5,749	5,848
Workshop expense	<u>1,273</u>	<u>12,326</u>
 Total expenditures	 <u>5,539,536</u>	 <u>5,985,216</u>
 Net change in fund balance	 1,140,093	 724,617
 Fund balances at beginning of year	 <u>3,913,574</u>	 <u>3,188,957</u>
 Fund balances at end of year	 <u><u>\$ 5,053,667</u></u>	 <u><u>\$ 3,913,574</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, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Net change in fund balances, total governmental funds	<u>\$ 1,140,093</u>	<u>\$ 724,617</u>
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Depreciation expense on governmental capital assets is included only in the governmental activities in the statement of activities	<u>(589)</u>	<u>(981)</u>
Net differences	<u>(589)</u>	<u>(981)</u>
Change in net assets of governmental activities	<u><u>\$ 1,139,504</u></u>	<u><u>\$ 723,636</u></u>

See accompanying notes.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 1 – ORGANIZATION**

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

In June 2004, the governor of Tennessee and the General Assembly established the Governor's Books from Birth Fund (the "Fund"), an agency of the State of Tennessee. The Fund was established to promote and foster the development of a comprehensive statewide program for encouraging children to read. The Fund's staff was charged with managing and promoting the statewide rollout of this program to every county in Tennessee, with providing support and resources to county efforts, and with raising funds statewide to assist distressed counties with their share of the costs. The Fund received an appropriation from the State of Tennessee that paid the related operating expenses and a 50% match grant to cover the cost of providing books to any county organization that offered the program to every child under the age of five in that county. Effective May 26, 2005, the State of Tennessee General Assembly approved a bill that authorized the Fund to partner with a not-for-profit organization for the administration of this program and transferred the balance of the funds held by the Fund to the not-for-profit partner. The Fund has partnered with the Foundation and, accordingly, the balance of such funds was transferred to the Foundation and was reported as revenue in the statement of activities for 2005. In addition, the State of Tennessee appropriated \$3,444,100 to the Foundation for each year ended June 30, 2011 and 2010.

**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 Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, it has been determined that the Foundation is a governmental organization because it has been deemed a political subdivision of the State of Tennessee. The Foundation is funded primarily by the State of Tennessee and the board of directors are appointed by the governor of Tennessee.

The Foundation has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These pronouncements establish standards for external financial reporting for all state



**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Presentation (Continued)**

and local governmental entities. In addition to providing guidance for basic financial statements and related note disclosures, these pronouncements require presentation of Management's Discussion and Analysis ("MD&A") as required supplementary information. The Foundation has implemented GASB Statement No. 40 ("GASB 40"), *Deposit and Investment Risk Disclosures*. GASB 40 establishes and modifies disclosure requirements related to investment and deposit risks. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. Disclosures relating to GASB 40 are included in Note 3.

Budgetary comparison schedules are not included as part of the additional information as required by GASB Statement No. 34, as the Foundation is not required to legally adopt the budget.

**Basic Financial Statement Description**

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

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

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

GASB Statement 34 requires the classification of net assets into three components: invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

*Invested in capital assets, net of related debt* – This component of net assets 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 asset component as the unspent proceeds.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basic Financial Statement Description (Continued)**

*Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints 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.

*Unrestricted* – This component of net assets consists of net 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.

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.

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 Statement 34 sets 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, 2011 and 2010.

The governmental funds' focus is upon the determination of financial resources, their balance, sources and use, rather than upon net income. The Foundation adopted Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB Statement 54). GASB Statement 54 classifies 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:

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basic Financial Statement Description (Continued)**

*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 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 employed 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, changes in net assets, financial position and cash flows. 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.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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.

No provision for uncollectible pledges has been made, based on management's estimate that all pledges outstanding at June 30, 2011 and 2010 will be collected.

**Donated Services**

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

**Capital Assets**

Capital assets are recorded at cost. Expenditures for ordinary maintenance and repairs are charged to operations. Renewals and betterments that materially extend the life of the asset 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 straight-line method. Estimated useful lives of all major classes are 3 years.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments**

The Foundation's investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted market prices in the statements of net assets. Investment income and realized and unrealized gains and losses are reported as changes in unrestricted net assets unless the use of income has been restricted by the donor.

**Income Taxes**

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes has been made.

**Advertising Costs**

Advertising costs are charged to marketing and development when incurred. Advertising expense totaled \$23,399 and \$11,116 for the years ended June 30, 2011 and 2010, respectively.

**Risk of Loss**

As of June 30, 2011 and 2010 the Foundation had cash and cash equivalents and investments subject to a risk of loss.

*Cash and cash equivalents*

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

*Investments*

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, 2011 and 2010, all investments were held by the Foundation or its agent in the Foundation's name.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Risk of Loss (Continued)**

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.

The Foundation does not have any significant exposure to foreign currency risk at June 30, 2011 or 2010.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

The Foundation's cash and cash equivalent bank balances totaling \$1,993,695 and \$1,175,852 at June 30, 2011 and 2010, respectively, represent demand deposits with banks. Uninsured balances were \$853,723 and \$0 at June 30, 2011 and 2010. 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, 2011</u>			
<u>Custodial Credit Risk Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>
Unrestricted cash and cash equivalents	<u>\$ 853,723</u>	<u>\$ -</u>	<u>\$ -</u>
<u>June 30, 2010</u>			
<u>Custodial Credit Risk Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>
Unrestricted cash and cash equivalents	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 4 – CAPITAL ASSETS**

Capital assets and related accumulated depreciation activity for the year ended June 30, 2011 was as follows:

	Balance <u>06/30/2010</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>06/30/2011</u>
Capital assets:				
Office equipment	\$ 8,089	\$ -	\$ -	\$ 8,089
Less accumulated depreciation:				
Office equipment	<u>(6,616)</u>	<u>(589)</u>	<u>-</u>	<u>(7,205)</u>
Net capital assets	<u>\$ 1,473</u>	<u>\$ (589)</u>	<u>\$ -</u>	<u>\$ 884</u>

Depreciation expense totaled \$589 and \$981, respectively, for the years ended June 30, 2011 and 2010 and is included in management and general expenses in the statements of activities.

**NOTE 5 – UNCONDITIONAL PROMISES TO GIVE**

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

	<u>2011</u>	<u>2010</u>
Restricted:		
Less than one year	\$ 32,500	\$ 65,000
One to five years	<u>-</u>	<u>333,334</u>
Total contributions receivable	32,500	398,334
Less discount to net present value	<u>-</u>	<u>(19,505)</u>
Unconditional promises to give, net	<u>\$ 32,500</u>	<u>\$ 378,829</u>

Presented in the accompanying statements of financial position as:

	<u>2011</u>	<u>2010</u>
Current	\$ 32,500	\$ 65,000
Non current	<u>-</u>	<u>313,829</u>
	<u>\$ 32,500</u>	<u>\$ 378,829</u>

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 6 – INVESTMENTS**

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

	<u>2011</u>	<u>2010</u>
Mutual funds:		
Equity funds	\$ 1,679,160	\$ 1,372,841
Bond funds (unrated)	<u>1,394,972</u>	<u>1,328,304</u>
	<u>\$ 3,074,132</u>	<u>\$ 2,701,145</u>

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

	<u>2011</u>	<u>2010</u>
Dividends and interest	\$ 119,569	\$ 112,383
Net increase in fair value of investments	<u>372,986</u>	<u>246,142</u>
	<u>\$ 492,555</u>	<u>\$ 358,525</u>

Although the Foundation does not have a formal investment policy, management has invested in what it believes are high quality mutual funds.

**NOTE 7 – CONCENTRATIONS**

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

**NOTE 8 – PENSION**

**Plan Description**

Employees of 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.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 8 – PENSION (Continued)**

**Plan Description (Continued)**

Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Governor's Books from Birth Foundation participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

**Funding Policy**

The Foundation has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 % of annual covered payroll. The Foundation is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 12.99% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Governor's Books from Birth Foundation is established and may be amended by the TCRS Board of Trustees.

**Annual Pension Cost**

For the year ending June 30, 2011, the Foundation's annual pension cost of \$26,409 to TCRS was equal to the Foundation's required and actual contributions. The required contribution was determined as part of the July 1, 2009 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 % 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, 2009 was 16 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 8 – PENSION (Continued)**

**Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 26,409	100.00%	\$ -
June 30, 2010	\$ 26,138	100.00%	\$ -
June 30, 2009	\$ 29,090	100.00%	\$ -

**Funded Status and Funding Progress**

As of July 1, 2009, the most recent actuarial valuation date, the plan was 38.66% funded. The actuarial accrued liability for benefits was \$0.2 million, and the actuarial value of assets was \$0.1 million, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$0.1 million. The covered payroll (annual payroll of active employees covered by the plan) was \$0.2 million, and the ratio of the UAAL to the covered payroll was 52.98%.

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the UAALs for benefits.

The annual required contribution was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

**Required Supplementary Information**

Schedule of Funding Progress for the Foundation:

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
July 1, 2009	\$ 73	\$ 189	\$ 116	38.66%	\$ 219	52.98%
July 1, 2007	\$ 53	\$ 122	\$ 69	43.44%	\$ 258	26.74%

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2011 and 2010**

**NOTE 8 – PENSION (Continued)**

The GASB requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into effect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

## **SUPPLEMENTAL INFORMATION**



**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Grant from State of Tennessee	\$ 3,444,100	\$ -	\$ 3,444,100
County reimbursements	2,432,869	-	2,432,869
Unrealized and realized gain on investments	372,986	-	372,986
Contributions - corporate, individual and other	290,105	-	290,105
Interest and dividend income	119,569	-	119,569
In-kind donations	20,000	-	20,000
Net assets released from time restrictions	64,852	(64,852)	-
	<u>6,744,481</u>	<u>(64,852)</u>	<u>6,679,629</u>
Total support and revenues			
Expenses:			
Program services	5,165,040	-	5,165,040
Management and general	208,604	-	208,604
Marketing and development	166,481	-	166,481
	<u>5,540,125</u>	<u>-</u>	<u>5,540,125</u>
Total expenses			
Change in net assets	1,204,356	(64,852)	1,139,504
Net assets at beginning of year	<u>3,817,695</u>	<u>97,352</u>	<u>3,915,047</u>
Net assets at end of year	<u>\$ 5,022,051</u>	<u>\$ 32,500</u>	<u>\$ 5,054,551</u>

See independent auditor's report.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenues:			
Grant from State of Tennessee	\$ 3,444,100	\$ -	\$ 3,444,100
County reimbursements	2,636,028	-	2,636,028
Unrealized and realized gain on investments	246,142	-	246,142
Contributions - corporate, individual and other	202,846	33,334	236,180
Interest and dividend income	112,383	-	112,383
In-kind donations	35,000	-	35,000
Net assets released from time restrictions	167,930	(167,930)	-
	<u>6,844,429</u>	<u>(134,596)</u>	<u>6,709,833</u>
Total support and revenues			
Expenses:			
Program services	5,585,693	-	5,585,693
Management and general	212,835	-	212,835
Marketing and development	187,669	-	187,669
	<u>5,986,197</u>	<u>-</u>	<u>5,986,197</u>
Total expenses and losses			
Change in net assets	858,232	(134,596)	723,636
Net assets at beginning of year	<u>2,959,463</u>	<u>231,948</u>	<u>3,191,411</u>
Net assets at end of year	<u>\$ 3,817,695</u>	<u>\$ 97,352</u>	<u>\$ 3,915,047</u>

See independent auditor's report.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from grant	\$ 3,444,100	\$ 3,444,100
Cash received from county reimbursements	2,404,261	2,636,028
Cash received from other sources	637,041	652,526
Cash payments for books and mailings	(4,808,539)	(5,272,058)
Cash payments to employees for services	(247,686)	(319,949)
Cash payments to suppliers for goods and services	(730,903)	(659,870)
	<u>698,274</u>	<u>480,777</u>
Cash flows from investing activities:		
Purchase of investments	-	(75,000)
Sale of investments	-	1,987
Interest and dividends on investments	119,569	112,383
	<u>119,569</u>	<u>39,370</u>
Net cash provided by investing activities	<u>119,569</u>	<u>39,370</u>
Net increase in cash	817,843	520,147
Cash at beginning of year	<u>1,175,852</u>	<u>655,705</u>
Cash at end of year	<u><u>\$ 1,993,695</u></u>	<u><u>\$ 1,175,852</u></u>

See independent auditor's report.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**STATEMENTS OF CASH FLOWS (Continued)**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 646,948	\$ 365,111
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	589	981
Changes in operating assets and liabilities:		
Accounts receivable	(28,000)	273
Unconditional promises to give	346,329	416,073
Accounts and pledges payable	(301,266)	(298,745)
Accrued expenses	33,674	(2,916)
	<u>                    </u>	<u>                    </u>
Net cash provided by operating activities	<u>\$ 698,274</u>	<u>\$ 480,777</u>

See independent auditor's report.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2011**

	<u>Program Services</u>	<u>Marketing and Development</u>	<u>Management and General</u>	<u>Total</u>
Books and mailings	\$ 4,865,756	\$ -	\$ -	\$ 4,865,756
Compensation expense	102,274	102,273	40,590	245,137
County book funding expense	180,834	-	-	180,834
Accounting services	-	-	56,035	56,035
Retirement expense	-	-	28,730	28,730
Rent	-	-	24,233	24,233
Legal and professional	-	-	23,117	23,117
Website support (in-kind)	-	20,000	-	20,000
Marketing - general	-	18,437	-	18,437
Health insurance	5,749	5,748	5,749	17,246
Travel expense	-	13,591	-	13,591
Distressed county expense	9,154	-	-	9,154
Telecommunications	-	-	7,918	7,918
Insurance - general	-	-	7,788	7,788
Miscellaneous expense	-	-	7,585	7,585
Advertising	-	4,859	-	4,859
Seminars	-	-	4,240	4,240
Postage and shipping	-	1,298	-	1,298
Workshop expense	1,273	-	-	1,273
Office supplies	-	-	1,163	1,163
Office expense	-	-	867	867
Depreciation	-	-	589	589
Printing/media	-	172	-	172
Marketing - Dollywood Foundation	-	103	-	103
Total expenses	<u>\$ 5,165,040</u>	<u>\$ 166,481</u>	<u>\$ 208,604</u>	<u>\$ 5,540,125</u>

See independent auditor's report.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2010**

	<u>Program Services</u>	<u>Marketing and Development</u>	<u>Management and General</u>	<u>Total</u>
Books and mailings	\$ 5,272,058	\$ -	\$ -	\$ 5,272,058
Compensation expense	126,632	126,632	66,685	319,949
County book funding expense	151,666	-	-	151,666
Accounting services	-	-	56,060	56,060
Website support (in-kind)	-	35,000	-	35,000
Retirement expense	-	-	25,267	25,267
Rent	-	-	24,420	24,420
Health insurance	5,848	5,847	5,848	17,543
Distressed county expense	17,163	-	-	17,163
Legal and professional	-	-	13,036	13,036
Workshop expense	12,326	-	-	12,326
Marketing - general	-	10,237	-	10,237
Telecommunications	-	-	7,004	7,004
Travel expense	-	6,872	-	6,872
Insurance - general	-	-	6,076	6,076
Miscellaneous expense	-	-	4,064	4,064
Postage and shipping	-	2,202	-	2,202
Office supplies	-	-	1,376	1,376
Office expense	-	-	1,185	1,185
Depreciation	-	-	981	981
Advertising	-	879	-	879
Seminars	-	-	833	833
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenses	<u>\$ 5,585,693</u>	<u>\$ 187,669</u>	<u>\$ 212,835</u>	<u>\$ 5,986,197</u>

See independent auditor's report.

**GOVERNOR'S BOOKS FROM BIRTH FOUNDATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**  
**For the Year Ended June 30, 2011**

<u>Federal Grantor/Pass-Through Grantor</u>	<u>Program Name</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Receivable June 30, 2010</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Receivable June 30, 2011</u>
<b>FEDERAL AWARDS</b>							
U.S. Department of Education Passed Through:							
TN Department of Education	Grant for supporting and teaching children crucial early literacy skills	84.397	N/A	\$ -	\$ 340,000	\$ 340,000	\$ -
<b>Total Federal Awards</b>				-	340,000	340,000	-
<b>STATE FINANCIAL ASSISTANCE</b>							
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	-
<b>Total State Awards</b>				-	3,104,100	3,104,100	-
<b>Total Federal and State Awards</b>				<u>\$ -</u>	<u>\$ 3,444,100</u>	<u>\$ 3,444,100</u>	<u>\$ -</u>

**NOTE 1 - BASIS OF ACCOUNTING**

The schedule of financial assistance is prepared on the accrual basis of accounting.

See independent auditor's report.



**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 the financial statements of the governmental activities and each major fund of Governor's Books from Birth Foundation (a not-for-profit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 13, 2011. 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 (the "Foundation") internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 management, the board of directors, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Fraser, Den & Howell, PLLC

Nashville, Tennessee  
December 13, 2011