NASHVILLE PUBLIC LIBRARY FOUNDATION

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

NASHVILLE PUBLIC LIBRARY FOUNDATION

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LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Nashville Public Library Foundation:

We have audited the accompanying statements of financial position of Nashville Public Library Foundation (the "Foundation") as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nashville Public Library Foundation as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lattimore Black Morgan + Cain, PC

Brentwood, Tennessee
December 16, 2008

NASHVILLE PUBLIC LIBRARY FOUNDATION

Statements of Financial Position

June 30, 2008 and 2007

		2008		2007
Assets				
Cash and cash equivalents	$	3,430,217	$	2,964,923
Contributions receivable, net		327,072		214,395
Investments		5,686,819		6,399,608
Leasehold improvements and computer equipment, net		85,689		177,355
	$	9,529,797	$	9,756,281
Liabilities and Net Assets				
Liabilities -				
Accounts payable	$	39,592	$	-
Due to Nashville Public Library		-		1,036
Total liabilities		39,592		1,036
Net assets:				
Unrestricted:				
Board designated endowment		450,000		450,000
Undesignated		1,448,967		1,200,140
Total unrestricted		1,898,967		1,650,140
Temporarily restricted		4,949,254		5,482,071
Permanently restricted		2,641,984		2,623,034
Total net assets		9,490,205		9,755,245
Total liabilities and net assets	$	9,529,797	$	9,756,281

See accompanying notes to the financial statements.

NASHVILLE PUBLIC LIBRARY FOUNDATION

Statements of Activities

Years ended June 30, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions	$ 68,714	$ 861,161	$ 18,950	$ 948,825	$ 2,095	$ 305,695	$ 48,100	$ 355,890
Fundraising events and annual campaign	541,000	-	-	541,000	544,841	-	-	544,841
Sale of posters	56	-	-	56	50	-	-	50
Investment income (loss), net of investment fees of $21,202 in 2008 and $21,326 in 2007	198,750	(28,193)	-	170,557	426,583	348,983	-	775,566
Rental income	78,151	-	-	78,151	63,207	-	-	63,207
Net assets released resulting from satisfaction of donor restrictions	1,365,785	(1,365,785)	-	-	1,470,478	(1,470,478)	-	-
Total support and revenue	2,252,456	(532,817)	18,950	1,738,589	2,507,254	(815,800)	48,100	1,739,554
Expenses:								
Program services:								
Support to the Nashville Public Library	1,535,951	-	-	1,535,951	1,512,814	-	-	1,512,814
Supporting services:								
Management and general	256,879	-	-	256,879	175,311	-	-	175,311
Fundraising	210,799	-	-	210,799	149,215	-	-	149,215
Total expenses	2,003,629	-	-	2,003,629	1,837,340	-	-	1,837,340
Change in net assets	248,827	(532,817)	18,950	(265,040)	669,914	(815,800)	48,100	(97,786)
Net assets at beginning of year	1,650,140	5,482,071	2,623,034	9,755,245	980,226	6,297,871	2,574,934	9,853,031
Net assets at end of year	$ 1,898,967	$ 4,949,254	$ 2,641,984	$ 9,490,205	$ 1,650,140	$ 5,482,071	$ 2,623,034	$ 9,755,245

See accompanying notes to the financial statements.

NASHVILLE PUBLIC LIBRARY FOUNDATION

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Change in net assets	$ (265,040)	$ (97,786)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense	111,132	36,756
Permanently restricted contributions	(18,950)	(48,100)
Realized and unrealized (gains)/losses on investments	187,981	(372,992)
(Increase) decrease in:		
Contributions receivable	(112,677)	266,983
Accrued rent receivable	-	4,439
Increase (decrease) in:		
Accounts payable	39,592	
Due to Nashville Public Library	(1,036)	1,036
Total adjustments	206,042	(111,878)
Net cash used by operating activities	(58,998)	(209,664)
Cash flows from investing activities:		
Purchase of leasehold improvements	(19,466)	(209,746)
Proceeds from sale of investments	1,424,098	1,137,078
Purchase of investments	(899,290)	(1,816,313)
Net cash provided (used) by investing activities	505,342	(888,981)
Cash flows from financing activities - permanently restricted contributions	18,950	48,100
Increase (decrease) in cash and cash equivalents	465,294	(1,050,545)
Cash and cash equivalents at beginning of year	2,964,923	4,015,468
Cash and cash equivalents at end of year	$ 3,430,217	$ 2,964,923

See accompanying notes to the financial statements.

(1) Nature of operations

Nashville Public Library Foundation (the "Foundation") was organized in 1997 as a tax-exempt publicly supported charitable organization. The Foundation was formed to enhance and support the programs and facilities of the Nashville Public Library.

(2) Summary of significant accounting policies

The financial statements of the Foundation are presented on the accrual basis. The significant accounting policies followed are described below.

(a) Basis of presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

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

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

(b) Cash equivalents

Cash and cash equivalents consist principally of checking account balances, cash held in a brokerage account, and certificates of deposit.

(c) Contributions receivable

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 discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

(d) Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are shown at their fair values in the statements of financial position. Investment income shown in the statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income is reported in the period earned as an increase in unrestricted net assets unless the use of the assets received is limited by donor-imposed restrictions. Investment income that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions are met or expire in the year in which the income is recognized. All other donor-restricted investment income is reported as an increase in temporarily restricted net assets depending on the nature of the restrictions.

(e) Leasehold improvements and computer equipment

Leasehold improvements and computer equipment are stated at cost. Depreciation is provided over the assets' estimated useful lives using the straight-line method. Leasehold improvements are amortized over the shorter of their estimated lives or the respective lease term. Computer equipment is generally depreciated over five years.

Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. When property is retired or sold, the cost and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is included in operations.

(f) Income taxes

The Foundation is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3), and, accordingly, no provision for income taxes is included in the financial statements.

(g) Donated assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

(h) Collections

Collection items acquired either through purchase or donations are not capitalized. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets and as decreases in temporarily restricted or permanently restricted net assets if purchased with donor-restricted assets. Contributions of collection items are not recognized in the statement of activities. Proceeds from deaccessions or insurance recoveries are reflected in the statement of activities based on the absence or existence and nature of donor-imposed restrictions.

(i) Program and supporting services - functional allocation

The following program and supporting services are included in the accompanying financial statements:

Program services - includes activities carried out to fulfill the Foundation's mission to enhance and support the programs and facilities of the Nashville Public Library.

Supporting services:

Management and general - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or with fundraising, but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distributions of fundraising materials.

(j) Allocation of functional expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among two or more programs or activities benefited based on objectively evaluated financial and nonfinancial data or reasonable subjective methods determined by management.

(k) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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.

(l) New accounting pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. SFAS 157 also requires organizations to disclose the fair value of their financial instruments according to a fair value hierarchy as defined in the standard. Additionally, organizations are required to provide enhanced disclosure regarding financial instruments, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. However, in February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. Therefore, the Foundation expects to adopt certain provisions of SFAS 157 during fiscal year 2009.

In October 2008, the FASB issued FASB Staff Position No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ("FSP 157-3"). FSP 157-3 is effective immediately.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value at specific election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007.

In August 2008, the FASB issued FASB Staff Position No. FAS 117-1 *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* ("FSP 117-1"). FSP 117-1 requires that the amount of permanently restricted net assets should not be reduced by losses on investments of the funds or by an organization's expenditures from the fund. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds, a description of the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization's endowment investment policies and additional disclosures not presently required. FSP 117-1 is effective for financial statements for fiscal years ending after December 15, 2008.

The Foundation is currently assessing the impact of adopting these accounting standards.

(3) Credit risk and other concentrations

Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation or the Security Investors Protection Corporation ("SIPC") up to $100,000 (temporarily increased to $250,000 on October 3, 2008) or $1,000,000, respectively. The Foundation generally maintains accounts at financial institutions in excess of insured amounts. The Foundation has not experienced any losses in such accounts and management believes the Foundation is not exposed to any significant credit risk related to these accounts.

The Foundation utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

As of June 30, 2008, the Foundation owned $2.7 million of auction rate preferred securities for which the monthly auctions have consistently failed to produce the option for liquidity. The financial institution which holds these securities for the Foundation has agreed to buy these securities from the Foundation over time at their par value. As of November 30, 2008, the Foundation had liquidated all of these securities at no loss to the Foundation. Therefore, management believes that the valuation of these securities at par value appropriately reflects fair value at June 30, 2008.

(4) Contributions receivable

A summary of contributions receivable as of June 30, 2008 and 2007 is as follows:

	2008	2007
Temporarily restricted:		
Receivable in less than one year	$ 252,962	$ 80,162
Receivable in one to five years	84,150	148,600
Total contributions receivable	337,112	228,762
Less discount to net present value	(10,040)	(14,367)
Contributions receivable, net	$ 327,072	$ 214,395

The discount rate used to determine the present value of contributions receivable is 3.77% for 2008 and 4.19% for 2007.

(5) Investments

A summary of investments as of June 30, 2008 and 2007 is as follows:

	2008	2007
Common stocks and mutual funds	$ 1,812,591	$ 2,316,904
Preferred stocks	101,040	153,592
Government bonds and U.S. agency securities	1,300,000	1,790,419
Corporate bonds and convertible bonds	2,161,119	2,138,693
Hedge funds	312,069	-
	$ 5,686,819	$ 6,399,608

The following schedule summarizes the investment income in the statements of activities for 2008 and 2007:

	2008	2007
Interest and dividend income	$ 379,740	$ 423,900
Net gain (loss) on investments	(187,981)	372,992
Fees paid	(21,202)	(21,326)
	$ 170,557	$ 775,566

(6) Leasehold improvements and computer equipment

A summary of leasehold improvements and computer equipment as of June 30, 2008 and 2007 is as follows:

	2008	2007
Leasehold improvements	$ 229,212	$ 209,746
Computer equipment	8,991	8,991
	238,203	218,737
Accumulated depreciation	(152,514)	(41,382)
	$ 85,689	$ 177,355

(7) Net assets

The Board of Directors has designated that certain types of support received are not to be used for current operating purposes. Such designation may be terminated at the discretion of the Board and does not represent donor restrictions. A summary of unrestricted net assets at June 30, 2008 and 2007 is as follows:

	2008	2007
Board-designated	$ 450,000	$ 450,000
Undesignated	1,448,967	1,200,140
	$ 1,898,967	$ 1,650,140

Temporarily restricted net assets as of June 30, 2008 and 2007 are available for the following purposes:

	2008	2007
Specific program reserves	$ 4,949,254	$ 5,482,071

(8) Leases

Pursuant to a Commercial Lease Agreement, dated April 12, 2000, between The Metropolitan Development and Housing Agency, as lessor, and the Foundation, as lessee, the Foundation leases a portion of the downtown public library (the "Leased Space"), at a rental of $1 per year. The lease terminates on July 1, 2098. A portion of the leased space is subleased to two unaffiliated organizations. Approximate future minimum lease payments receivable under the subleases as of June 30, 2008 are as follows: $46,000 in 2009; $10,000 in 2010; $10,000 in 2011; and $4,000 in 2012.

(9) Related party transactions

Cash and investments of approximately $6.4 million and $6.7 million as of June 30, 2008 and 2007, respectively, is held in various accounts with a financial institution and its affiliates of which a Board member is Senior Vice President. The Foundation paid $21,202 and $21,326 in investment fees related to investment management in 2008 and 2007, respectively.

Contributions from board members amounted to approximately $275,000 and $145,000 in 2008 and 2007, respectively. The Foundation was owed pledges receivable from these board members amounting to approximately $145,000 and $87,000 at June 30, 2008 and 2007, respectively.

(10) Fund with Community Foundation of Middle Tennessee

In August 2001, an individual established the Nashville Public Library Endowment Fund, an agency endowment fund with the Community Foundation of Middle Tennessee (the "Community Foundation"). Earnings on this fund are designated for general operations and programs of the Foundation. Total funds held by the Community Foundation, which are excluded from the assets of the Foundation, amounted to $1,042,291 at June 30, 2008 and $1,136,732 at June 30, 2007. This fund distributed $51,800 to the Foundation during 2008 and $49,800 during 2007, which is included in temporarily restricted contributions.

(11) Subsequent event

During October and November 2008, the United States and global economies experienced unprecedented market events, including liquidity concerns and credit-standing deterioration for financial institutions and other entities. These conditions resulted in significant declines in the fair value of marketable securities and other investments. As of November 30, 2008, the Foundation's investments had a fair value of approximately $2.1 million, which was a result the Foundation's liquidation of approximately 50% (resulting in net realized losses of approximately $100,000) and a decline in market value of approximately $625,000. In management's opinion, there are no significant impairments in investments since June 30, 2008 which should be classified as other than temporary.