

**NASHVILLE PUBLIC LIBRARY
FOUNDATION**

Financial Statements

June 30, 2006 and 2005

(With Independent Auditors' Report Thereon)



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

NASHVILLE PUBLIC LIBRARY FOUNDATION

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INDEPENDENT AUDITORS' REPORT

**The Board of Directors
Nashville Public Library Foundation:**

We have audited the accompanying statement of financial position of Nashville Public Library Foundation (the "Foundation") as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Nashville Public Library Foundation as of June 30, 2005 and for the year then ended were audited by other auditors whose report dated October 28, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nashville Public Library Foundation as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Lattimore, Black, Morgan & Cain, P.C.

**Brentwood, Tennessee
September 28, 2006**

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NASHVILLE PUBLIC LIBRARY FOUNDATION

Statements of Financial Position

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 4,015,468	\$ 14,115,860
Contributions receivable	481,378	1,864,935
Investments	5,347,381	3,996,991
Accrued rent receivable	4,439	10,174
Computer equipment, net of accumulated depreciation of \$4,626 in 2006 and \$2,828 in 2005	<u>4,365</u>	<u>6,163</u>
	<u>\$ 9,853,031</u>	<u>\$ 19,994,123</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accrued interest payable	\$ -	\$ 32,083
Note payable	<u>-</u>	<u>10,000,000</u>
Total liabilities	<u>-</u>	<u>10,032,083</u>
Net assets:		
Unrestricted:		
Board designated endowment	200,000	200,000
Undesignated	<u>780,226</u>	<u>285,150</u>
Total unrestricted	<u>980,226</u>	<u>485,150</u>
Temporarily restricted	6,297,871	6,996,956
Permanently restricted	<u>2,574,934</u>	<u>2,479,934</u>
Total net assets	<u>9,853,031</u>	<u>9,962,040</u>
	<u>\$ 9,853,031</u>	<u>\$ 19,994,123</u>

See accompanying notes to the financial statements.

NASHVILLE PUBLIC LIBRARY FOUNDATION

Statements of Activities

Years ended June 30, 2006 and 2005

	2006			2005				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions	\$ 3,000	\$ 133,127	\$ 95,000	\$ 231,127	\$ 7,700	\$ 2,099,998	\$ -	\$ 2,107,698
Fundraising events and annual campaign	443,031	-	-	443,031	307,998	-	-	307,998
Sale of posters	241	-	-	241	116	-	-	116
Investment income, net of investment fees of \$20,457 in 2006 and \$21,777 in 2005	333,786	230,306	-	564,092	452,843	256,479	-	709,322
Rental income	13,865	-	-	13,865	13,619	-	-	13,619
Net assets released resulting from satisfaction of donor restrictions	1,062,518	(1,062,518)	-	-	688,148	(688,148)	-	-
Total support and revenue	1,856,441	(699,085)	95,000	1,252,356	1,470,424	1,668,329	-	3,138,753
Expenses:								
Program services:								
Support to the Nashville Public Library	1,067,824	-	-	1,067,824	727,578	-	-	727,578
Supporting services:								
Management and general	166,541	-	-	166,541	379,076	-	-	379,076
Fundraising	127,000	-	-	127,000	123,192	-	-	123,192
Total expenses	1,361,365	-	-	1,361,365	1,229,846	-	-	1,229,846
Change in net assets	495,076	(699,085)	95,000	(109,009)	240,578	1,668,329	-	1,908,907
Net assets at beginning of year	485,150	6,996,956	2,479,934	9,962,040	244,572	5,328,627	2,479,934	8,053,133
Net assets at end of year	\$ 980,226	\$ 6,297,871	\$ 2,574,934	\$ 9,853,031	\$ 485,150	\$ 6,996,956	\$ 2,479,934	\$ 9,962,040

See accompanying notes to the financial statements.

NASHVILLE PUBLIC LIBRARY FOUNDATION

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ (109,009)	\$ 1,908,907
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,798	1,414
Realized and unrealized (gains) losses on investments	(179,387)	(219,510)
(Increase) decrease in:		
Contributions receivable	1,383,557	(1,193,888)
Accounts receivable - other	-	45,630
Accrued rent receivable	5,735	4,347
Increase (decrease) in:		
Accrued interest payable	<u>(32,083)</u>	<u>16,528</u>
Total adjustments	<u>1,179,620</u>	<u>(1,345,479)</u>
Net cash provided by operating activities	<u>1,070,611</u>	<u>563,428</u>
Cash flows from investing activities:		
Purchase of computer equipment	-	(1,920)
Proceeds from sale of investments	973,725	4,483,142
Purchase of investments	<u>(2,144,728)</u>	<u>(2,595,248)</u>
Net cash provided (used) by investing activities	<u>(1,171,003)</u>	<u>1,885,974</u>
Cash flows from financing activities:		
Repayment of note payable	<u>(10,000,000)</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents	(10,100,392)	2,449,402
Cash and cash equivalents at beginning of year	<u>14,115,860</u>	<u>11,666,458</u>
Cash and cash equivalents at end of year	<u>\$ 4,015,468</u>	<u>\$ 14,115,860</u>

See accompanying notes to the financial statements.

NASHVILLE PUBLIC LIBRARY FOUNDATION

Notes to the Financial Statements

June 30, 2006 and 2005

(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.

NASHVILLE PUBLIC LIBRARY FOUNDATION

Notes to the Financial Statements

June 30, 2006 and 2005

(c) **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.

(d) **Computer equipment**

Computer equipment is stated at cost. Depreciation is provided over the assets' estimated useful lives using the straight-line method.

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.

(e) **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.

(f) **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.

(g) **Donated assets**

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

NASHVILLE PUBLIC LIBRARY FOUNDATION

Notes to the Financial Statements

June 30, 2006 and 2005

(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) Accrued rent receivable

Rental income from leases with scheduled rent increases is recognized on the straight-line basis over the term of the related lease. Actual amounts billed in accordance with the lease terms during a given period may be higher or lower than the amount of rental income recognized for the period. Accrued rent receivable represents the amount by which straight-line rental income exceeds rents currently billed in accordance with the lease agreement.

(j) 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.

(k) 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.

NASHVILLE PUBLIC LIBRARY FOUNDATION

Notes to the Financial Statements

June 30, 2006 and 2005

(1) 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.

(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 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.

(4) Contributions receivable

A summary of contributions receivable as of June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Temporarily restricted:		
Receivable in less than one year	\$ 302,000	\$ 1,406,895
Receivable in one to five years	<u>199,462</u>	<u>490,644</u>
Total contributions receivable	501,462	1,897,539
Less discount to net present value	<u>(20,084)</u>	<u>(32,604)</u>
Contributions receivable, net	<u>\$ 481,378</u>	<u>\$ 1,864,935</u>

The discount rate used to determine the present value of contributions receivable is 3.50% for 2006 and 3.69% for 2005.

NASHVILLE PUBLIC LIBRARY FOUNDATION

Notes to the Financial Statements

June 30, 2006 and 2005

(5) Investments

A summary of investments as of June 30, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Money market funds	\$ 199,806	\$ 108,059
Common stocks and mutual funds	1,930,503	2,463,429
Preferred stocks	174,995	105,000
Government bonds and U.S. agency securities	1,991,096	195,312
Corporate bonds	<u>1,050,981</u>	<u>1,125,191</u>
	<u>\$ 5,347,381</u>	<u>\$ 3,996,991</u>

(6) Note payable

On June 1, 2005, the Foundation renewed a \$10,000,000 loan (originally obtained on May 27, 2004), evidenced by a note payable to SunTrust Bank (the "Bank"). Interest on the loan was payable monthly on the outstanding balance at a variable rate equal to the Bank's Index Rate plus .5% per annum. The loan was secured by certificates of deposit held by the Bank in the amount of \$10,000,000 at June 30, 2005. Total interest expense recognized for 2006 and 2005 was \$65,236 and \$285,038, respectively.

On September 1, 2005, the certificates of deposit were redeemed and the loan was paid off.

(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, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Board-designated	\$ 200,000	\$ 200,000
Undesignated	<u>780,226</u>	<u>285,150</u>
	<u>\$ 980,226</u>	<u>\$ 485,150</u>

Temporarily restricted net assets as of June 30, 2006 and 2005 are available for the following purposes:

	<u>2006</u>	<u>2005</u>
Specific program reserves	<u>\$ 6,297,871</u>	<u>\$ 6,996,956</u>

NASHVILLE PUBLIC LIBRARY FOUNDATION

Notes to the Financial Statements

June 30, 2006 and 2005

(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, 2008. Pursuant to a Sublease Agreement, dated May 18, 2001, as amended in December 2001, between the Foundation, as sublessor, and Renaissance Food Group, LLC, as sublessee, approximately 2,775 square feet of the Leased Space is subleased to a commercial tenant at a fixed minimum rent, plus a percentage rent on annual breakpoint sales, and the cost of utilities, for a term of five years commencing February 15, 2002, with two five-year renewal options. Future minimum rental commitments under the sublease as of June 30, 2006 were as follows: \$29,600 in 2007.

By verbal agreement, the Foundation has agreed to reduce the rental paid by the commercial tenant to approximately 50%.

(9) Related party transactions

Approximately \$5.0 million and \$3.8 million in cash and investments as of June 30, 2006 and 2005, respectively, is held in a brokerage account with a financial institution of which a Board member is Senior Vice President. The Foundation paid \$20,457 and \$21,777 in investment fees on the account in 2006 and 2005, respectively.

(10) Supplemental disclosures of cash flow statement information

	<u>2006</u>	<u>2005</u>
Interest paid	\$ <u>97,319</u>	\$ <u>268,510</u>

(11) 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 \$1,029,162 at June 30, 2006 and \$1,001,669 at June 30, 2005. This fund distributed \$48,955 to the Foundation during 2006 (none during 2005), which is included in temporarily restricted contributions.