



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
Nashville Public Library Foundation
Nashville, Tennessee

We have audited the accompanying statements of financial position of the Nashville Public Library Foundation (the "Foundation") as of June 30, 2004 and December 31, 2002, and the related statements of activities and cash flows for the eighteen-month period from January 1, 2003 through June 30, 2004, and the year ended December 31, 2002. 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 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 financial position of the Nashville Public Library Foundation as of June 30, 2004 and December 31, 2002, and the changes in its net assets and its cash flows for the eighteen-month period from January 1, 2003 through June 30, 2004, and the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
September 8, 2004

NASHVILLE PUBLIC LIBRARY FOUNDATION

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS

AND

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2004 AND DECEMBER 31, 2002

NASHVILLE PUBLIC LIBRARY FOUNDATION

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS

AND

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2004 AND DECEMBER 31, 2002

TABLE OF CONTENTS

	<u>PAGE</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 10

NASHVILLE PUBLIC LIBRARY FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	<u>June 30, 2004</u>	<u>December 31, 2002</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 11,666,458	\$ 5,941,207
Contributions receivable - Note 2	671,047	1,480,748
Accounts receivable - other	45,630	17,500
Investments - Note 3	5,665,375	621,051
Accrued rent receivable	14,521	18,500
Computer equipment, net of accumulated depreciation of: 2004 - \$1,414; 2002 - \$2,137	<u>5,657</u>	<u>1,328</u>
TOTAL ASSETS	<u>\$ 18,068,688</u>	<u>\$ 8,080,334</u>

LIABILITIES AND NET ASSETS

<u>LIABILITIES</u>		
Accrued interest payable - Note 4	\$ 15,555	\$ -
Note payable - Note 4	<u>10,000,000</u>	<u>-</u>
TOTAL LIABILITIES	<u>10,015,555</u>	<u>-</u>
COMMITMENTS AND CONTINGENCIES - Notes 5 and 8		
<u>NET ASSETS</u>		
Unrestricted	244,572	98,814
Temporarily restricted - Note 9	5,328,627	6,001,586
→ Permanently restricted	<u>2,479,934</u>	<u>1,979,934</u>
TOTAL NET ASSETS	<u>8,053,133</u>	<u>8,080,334</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,068,688</u>	<u>\$ 8,080,334</u>

CFMT Endowment \$951,681

See accompanying notes to financial statements.

NASHVILLE PUBLIC LIBRARY FOUNDATION

STATEMENTS OF ACTIVITIES

	For the Eighteen-Month Period From January 1, 2003 through June 30, 2004				For the Year Ended December 31, 2002			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
	SUPPORT AND REVENUE							
Contributions	\$ 55,721	\$ 734,833	\$ 500,000	\$ 1,290,554	\$ 25,262	\$ 147,091	\$ 44,933	\$ 217,286
Fundraising events and annual campaign	154,645	-	-	154,645	104,560	-	-	104,560
Sale of posters	479	-	-	479	1,056	-	-	1,056
Investment income, net of investment fees of \$12,049 in 2004 (\$0 in 2002)	88,569	164,074	-	252,643	19,690	62,258	-	81,948
Rental income	51,556	-	-	51,556	33,200	-	-	33,200
Sponsorships	21,680	-	-	21,680	-	17,000	-	17,000
Net assets released resulting from satisfaction of donor restrictions	1,571,866	(1,571,866)	-	-	249,081	(249,081)	-	-
TOTAL SUPPORT AND REVENUE	1,944,516	(672,959)	500,000	1,771,557	432,849	(22,732)	44,933	455,050
EXPENSES								
Program services:								
Support to the Nashville Public Library	1,571,866	-	-	1,571,866	216,868	-	-	216,868
Supporting services:								
Management and general	138,290	-	-	138,290	160,268	-	-	160,268
Fundraising	88,602	-	-	88,602	9,913	-	-	9,913
TOTAL EXPENSES	1,798,758	-	-	1,798,758	387,049	-	-	387,049
CHANGE IN NET ASSETS	145,758	(672,959)	500,000	(27,201)	45,800	(22,732)	44,933	68,001
NET ASSETS - BEGINNING OF YEAR OR PERIOD	98,814	6,001,586	1,979,934	8,080,334	53,014	6,024,318	1,935,001	8,012,333
NET ASSETS - END OF YEAR OR PERIOD	\$ 244,572	\$ 5,328,627	\$ 2,479,934	\$ 8,053,133	\$ 98,814	\$ 6,001,586	\$ 1,979,934	\$ 8,080,334

See accompanying notes to financial statements.

NASHVILLE PUBLIC LIBRARY FOUNDATION

STATEMENTS OF CASH FLOWS

	For the Eighteen-Month Period From January 1, 2003 Through June 30, 2004	For the Year Ended December 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (27,201)	\$ 68,001
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,742	693
Donated securities	(94,275)	(65,304)
Realized and unrealized (gains) losses on investments	(101,718)	(9,643)
(Increase) decrease in:		
Contributions receivable	809,701	1,339,135
Accounts receivable - other	(28,130)	(17,500)
Accrued rent receivable	3,979	(18,500)
Increase (decrease) in:		
Accrued interest payable	15,555	-
NET ADJUSTMENTS	<u>607,854</u>	<u>1,228,881</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>580,653</u>	<u>1,296,882</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of computer equipment	(7,071)	-
Proceeds from sale of securities	488,235	27,307
Purchase of securities	(5,336,566)	(546,104)
NET CASH USED IN INVESTING ACTIVITIES	<u>(4,855,402)</u>	<u>(518,797)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	10,000,000	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,725,251	778,085
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR OR PERIOD	<u>5,941,207</u>	<u>5,163,122</u>
CASH AND CASH EQUIVALENTS - END OF YEAR OR PERIOD	<u>\$ 11,666,458</u>	<u>\$ 5,941,207</u>

See accompanying notes to financial statements.

NASHVILLE PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004 AND DECEMBER 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The 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.

The Foundation has changed its fiscal reporting year from December 31 to June 30. Accordingly, the current financial statements cover the eighteen-month period ended June 30, 2004.

Contributions and support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Investment earnings on permanently restricted net assets are available for unrestricted use unless the donor specifies certain restrictions, in which case, those earnings are classified as temporarily restricted.

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

Cash and cash equivalents

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

NASHVILLE PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004 AND DECEMBER 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 discount on those amounts is computed using a risk-free interest rate applicable to the year in which the promise is received (2.78% in 2003 and 2002). Amortization of the discount is recognized on the interest method over the term of the gift and included in contributions revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Donated assets

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

Investments

Investments are carried at the quoted fair market value of the securities on the last business day of the reporting period. The changes in unrealized gains and losses are recognized in the statement of activities for the year.

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 on the statement of activities based on the absence or existence and nature of donor-imposed restrictions.

Property and depreciation

Property and equipment are reported at cost at the date of purchase, at fair market value at the date of gift if the value is readily determinable, or other reasonable basis, as determined by the Board of Directors, if cost is unknown. Depreciation is calculated by the straight-line method, down to the estimated salvage value of the assets, over their estimated useful lives.

NASHVILLE PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004 AND DECEMBER 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

Income taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made.

NASHVILLE PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004 AND DECEMBER 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of estimates in the preparation of financial statements

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.

NOTE 2 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>June 30, 2004</u>	<u>December 31, 2002</u>
Temporarily restricted:		
Less than one year	\$ 455,307	\$ 753,950
One to five years	<u>230,805</u>	<u>790,813</u>
Total contributions receivable	686,112	1,544,763
Less discount to net present value	<u>(15,065)</u>	<u>(64,015)</u>
Contributions receivable - net	<u>\$ 671,047</u>	<u>\$ 1,480,748</u>

NOTE 3 - INVESTMENTS

Investments consist of the following:

	<u>June 30, 2004</u>	<u>December 31, 2002</u>
Money market funds	\$ 458,206	\$ -
Common stock	1,421,344	65,746
Preferred stock	100,480	106,600
Corporate bonds	985,345	256,537
Government bonds	2,700,000	-
United States agency securities	<u>-</u>	<u>192,168</u>
	<u>\$ 5,665,375</u>	<u>\$ 621,051</u>

NASHVILLE PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004 AND DECEMBER 31, 2002

NOTE 4 - NOTE PAYABLE

On May 27, 2004, the Foundation obtained a \$10,000,000 loan, evidenced by a note payable to SunTrust Bank (the "Bank"). Interest on the loan is payable monthly on the outstanding balance at the Bank's Index rate plus .5% per annum (1.6% at June 30, 2004). The principal balance is payable on June 1, 2005, the maturity date of the loan. The loan is secured by a specific cash account held by Bank in the amount of \$11,034,186 at June 30, 2004. The account is interest-bearing (3.45% at June 30, 2004). Total interest expense recognized on the loan amounted to \$15,555 in 2004, all of which is accrued as of June 30, 2004.

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and contributions receivable. Contributions receivable represent concentrations of credit risk to the extent they are receivable from concentrated sources. The Foundation maintains cash accounts with several financial institutions. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation or the Security Investors Protection Corporation up to \$100,000 or \$1,000,000, respectively. In addition, one financial institution insures balances over the SIPC limit up to \$10,000,000. Balances per bank in excess of applicable insurance limits totaled approximately \$11.2 million at December 31, 2003.

NOTE 6 - ENDOWMENT FUND IN TRUST

In August 2001, an individual established the Nashville Public Library Endowment Fund, an agency endowment fund in trust with the Community Foundation of Middle Tennessee. Earnings on this fund are designated for general operations and programs of the Foundation. Total funds held in the trust, which are excluded from the assets of the Foundation, amounted to \$951,681 at June 30, 2004 (\$891,957 at December 31, 2002). This endowment fund distributed \$142,537 to the Foundation during the 18-month period ended June 30, 2004 (\$0 in 2002), which is included in temporarily restricted contributions.

NASHVILLE PUBLIC LIBRARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2004 AND DECEMBER 31, 2002

NOTE 7 - RELATED PARTY TRANSACTIONS

During the 18-month period ended June 30, 2004, the Foundation paid \$6,000 for document preparation and legal services related to a certain lease (see Note 8) to a law firm, of which the Chairman of the Foundation's Board is a member.

Approximately \$5.5 million in cash and investments as of June 30, 2004, is held with a financial institution, of which a Board member is Senior Vice President. During the eighteen-month period ended June 30, 2004, the Foundation paid \$12,049 in investment fees on the brokerage account (\$0 in 2002).

NOTE 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. 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, 2004, were as follows: \$42,088 in 2005; \$43,475 in 2006; and \$29,600 in 2007.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	<u>June 30, 2004</u>	<u>December 31, 2002</u>
Specific program services	<u>\$ 5,328,627</u>	<u>\$ 6,001,586</u>