

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2011 AND 2010

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC.
AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

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CONSOLIDATED FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2011 AND 2010

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
The Community Foundation of Middle Tennessee, Inc.
Nashville, Tennessee

We have audited the accompanying consolidated statements of financial position of The Community Foundation of Middle Tennessee, Inc. and Subsidiary (the "Foundation") as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation of Middle Tennessee, Inc. and Subsidiary as of December 31, 2011 and 2010, 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.

KraftCPAs PLLC

Nashville, Tennessee
September 11, 2012

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 15,777,687 | \$ 21,455,968 |
| Other receivables | 136,859 | 3,047,496 |
| Investments | 340,330,820 | 376,283,599 |
| Beneficial interest in lead trusts | 9,577,031 | 10,221,109 |
| Property and equipment - at cost, less accumulated depreciation | <u>1,648,773</u> | <u>1,689,513</u> |
| TOTAL ASSETS | <u>\$ 367,471,170</u> | <u>\$ 412,697,685</u> |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 39,207 | \$ 170,175 |
| Grants payable | 10,046,606 | 10,084,578 |
| Agency funds liability | <u>5,363,411</u> | <u>5,501,068</u> |
| TOTAL LIABILITIES | <u>15,449,224</u> | <u>15,755,821</u> |
| NET ASSETS | | |
| Unrestricted: | | |
| Board directed | 10,680,668 | 11,505,746 |
| Field-of-interest | 18,241,971 | 27,365,984 |
| Designated | 29,529,212 | 29,443,814 |
| Scholarship | 9,732,041 | 10,225,243 |
| Donor advised | <u>272,239,220</u> | <u>306,049,777</u> |
| Total Unrestricted | <u>340,423,112</u> | <u>384,590,564</u> |
| Temporarily Restricted: | | |
| Charitable lead trusts | 9,577,031 | 10,221,109 |
| Accumulated purpose restricted earnings from permanently restricted bequest | <u>77,671</u> | <u>186,059</u> |
| Total Temporarily Restricted | <u>9,654,702</u> | <u>10,407,168</u> |
| Permanently Restricted | <u>1,944,132</u> | <u>1,944,132</u> |
| TOTAL NET ASSETS | <u>352,021,946</u> | <u>396,941,864</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 367,471,170</u> | <u>\$ 412,697,685</u> |

The accompanying notes are an integral part of these consolidated financial statements.

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

| | 2011 | | | | 2010 | | | |
|--|----------------|---------------------------|---------------------------|----------------|----------------|---------------------------|---------------------------|----------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
| SUPPORT AND REVENUE | | | | | | | | |
| Contributions | \$ 18,714,606 | \$ 443,055 | \$ - | 19,157,661 | \$ 62,477,294 | \$ 1,404,753 | \$ - | \$ 63,882,047 |
| In-kind contributions | 70,088 | - | - | 70,088 | 24,086 | - | - | 24,086 |
| Interest, dividends and other investment income | 4,832,039 | 24,540 | - | 4,856,579 | 5,197,141 | 37,294 | - | 5,234,435 |
| Net realized and unrealized gains on investments | (5,208,518) | (62,083) | - | (5,270,601) | 24,366,542 | 210,071 | - | 24,576,613 |
| Change in value of split-interest gifts | - | 971,756 | - | 971,756 | - | 1,106,147 | - | 1,106,147 |
| Other | 104,991 | - | - | 104,991 | 9,246 | - | - | 9,246 |
| Net assets released resulting from satisfaction of donor restrictions | 2,129,734 | (2,129,734) | - | - | 1,950,111 | (1,950,111) | - | - |
| TOTAL SUPPORT AND REVENUE | 20,642,940 | (752,466) | - | 19,890,474 | 94,024,420 | 808,154 | - | 94,832,574 |
| EXPENSES | | | | | | | | |
| Program services: | | | | | | | | |
| Grants | 57,814,599 | - | - | 57,814,599 | 44,664,210 | - | - | 44,664,210 |
| Related expenses | 2,855,904 | - | - | 2,855,904 | 4,914,266 | - | - | 4,914,266 |
| Supporting services: | | | | | | | | |
| Management and general | 2,867,178 | - | - | 2,867,178 | 2,795,531 | - | - | 2,795,531 |
| Investment management and custodial fees: | | | | | | | | |
| Passed through from segregated investments | 466,520 | - | - | 466,520 | 574,280 | - | - | 574,280 |
| Other | 806,191 | - | - | 806,191 | 341,280 | - | - | 341,280 |
| TOTAL EXPENSES | 64,810,392 | - | - | 64,810,392 | 53,289,567 | - | - | 53,289,567 |
| CHANGE IN NET ASSETS | (44,167,452) | (752,466) | - | (44,919,918) | 40,734,853 | 808,154 | - | 41,543,007 |
| NET ASSETS: | | | | | | | | |
| Beginning of year | 384,590,564 | 10,407,168 | 1,944,132 | 396,941,864 | 343,855,711 | 9,599,014 | 1,944,132 | 355,398,857 |
| End of year | \$ 340,423,112 | \$ 9,654,702 | \$ 1,944,132 | \$ 352,021,946 | \$ 384,590,564 | \$ 10,407,168 | \$ 1,944,132 | \$ 396,941,864 |

The accompanying notes are an integral part of these consolidated financial statements.

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--|----------------------|----------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ (44,919,918) | \$ 41,543,007 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation | 82,186 | 82,820 |
| Noncash contributions of investments | (1,612,628) | (29,174,623) |
| Noncash grant distributions | 750,000 | 750,000 |
| Net realized and unrealized gains on investments | 5,270,601 | (24,576,613) |
| Change in value of split interest gifts | (971,756) | (1,106,147) |
| Noncash contribution of beneficial interest in lead trusts | (443,055) | (1,404,753) |
| Distributions received from lead trusts | 2,058,889 | 1,887,024 |
| (Increase) decrease in other assets | 2,910,637 | (2,871,491) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (130,968) | (21,773) |
| Grants payable | (37,972) | (126,610) |
| Agency funds liability | (137,657) | 986,258 |
| TOTAL ADJUSTMENTS | <u>7,738,277</u> | <u>(55,575,908)</u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u>(37,181,641)</u> | <u>(14,032,901)</u> |
| INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (41,446) | (20,484) |
| Proceeds from sale of investments | 186,484,237 | 201,795,048 |
| Purchase of investments | (154,939,431) | (183,731,066) |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>31,503,360</u> | <u>18,043,498</u> |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (5,678,281) | 4,010,597 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>21,455,968</u> | <u>17,445,371</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 15,777,687</u> | <u>\$ 21,455,968</u> |

The accompanying notes are an integral part of these consolidated financial statements.

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NOTE 1 - ORGANIZATION AND GENERAL

The Community Foundation of Middle Tennessee, Inc. (the "Foundation") is a charitable organization whose purpose is to be a leader, catalyst, and resource for philanthropy by building and holding a permanent and growing endowment for the Middle Tennessee community's changing needs and opportunities. The Foundation provides flexible and cost-effective ways for civic-minded individuals, families, and companies to contribute to their community. The assets of the Foundation are devoted to charitable uses of a public nature primarily benefiting the residents of Middle Tennessee in fields such as social services, education, health, the environment, and the arts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements present the Foundation's financial position and changes in net assets on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP").

The consolidated financial statements include the accounts of The Community Foundation of Middle Tennessee Properties, Nonprofit LLC, a single member limited liability company formed to hold real estate donated to the Foundation. There are no significant transactions between the two entities.

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. Donated marketable securities are recorded at their fair value at the date of contribution based on their quoted market price.

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 Consolidated Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

Any gifts of equipment, facilities, 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 funds restricted for the acquisition of 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.

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

The Foundation defines cash equivalents as investments that are both convertible to cash and have an original maturity when acquired of three months or less. Cash equivalents consist of money market trust accounts and other short-term investments.

Investments

Investments are carried at fair value (money market funds, corporate bonds, equities, government securities, international securities and mutual funds - generally at quoted market prices; investment partnership interests, private equity funds and hedge funds - based on quoted market prices of underlying securities or net asset value). Investments in property and non-investment partnership interests without a readily determinable fair value are carried at cost. Net realized and unrealized gains and losses are recognized currently in the Consolidated Statement of Activities.

Split-Interest Gifts

A charitable lead trust is an arrangement in which a donor establishes and funds a trust that provides for specific distributions to be made to the Foundation over a specified period. When a gift of this nature is received and the Foundation is not the trustee, a temporarily restricted contribution is recognized in the period in which the trust is established. The contribution and related beneficial interest are measured at the present value of the expected future cash inflows, using the interest rate for U.S. Treasury bonds of similar terms at the time the trust is established as the discount rate. The discount rate is revised at each measurement date to reflect current market conditions. Distributions from the trust are reflected as a reduction in the beneficial interest and a reclassification from temporarily restricted to unrestricted net assets. Accretion of the discount and revaluations of expected future cash flows based on changes in investment returns and discount rates used are recognized as adjustments to the beneficial interest and changes in the value of split-interest gifts in the Consolidated Statements of Activities under temporarily restricted net assets.

Property and Equipment

Property and equipment are stated at acquisition cost, or at estimated fair value at date of gift, if donated, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (building - 39 years; furniture, fixtures and equipment - 5 to 7 years). When depreciable assets are sold, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is recognized.

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Payable

Unconditional promises to give are recognized as grants payable and expenses in the period the grant award is approved by the Foundation.

Agency Funds Liability

The Foundation maintains certain funds to benefit other nonprofit agencies. Such funds are pooled with other funds for investment. A pro rata share of the investment income or loss and a fee retained by the Foundation are debited or credited to each agency fund each year.

Fair Value Measurements

The Foundation classifies its assets and liabilities measured at fair value based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs).

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Investments - Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid securities and certain other products, such as mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity, or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Beneficial interest in lead trusts - The measurement of the Foundations' beneficial interest in charitable lead trusts was determined at the date of the gift and is adjusted annually for the change in present value of the estimated future cash flows. The valuation is based on the term of the trust or the actuarial life expectancy of the donor.

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Agency funds liability - The value of the agency funds liability is determined based on the fair value of underlying investments held by the Foundation on behalf of participating agencies.

There have been no changes in the methodologies used at December 31, 2011 and 2010.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimate of fair value at the reporting date.

Program and Supporting Services

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

Program Services - includes grants and the cost of activities carried out to fulfill the Foundation's mission to provide support to nonprofit organizations.

Supporting Services - relates to the overall direction of the organization. These expenses are not identifiable with a particular program, 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, investment management, and other administrative activities.

Income Taxes

The Foundation qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation pays tax on unrelated business income from certain activities. These activities and the related tax were insignificant in 2011 and 2010.

The Foundation files U.S. Federal Form 990 for organizations exempt from income tax and Form 990-T, an exempt organization business income tax return. The Community Foundation of Middle Tennessee Properties, Nonprofit LLC is a disregarded entity for tax purposes and any activity of the subsidiary is included in the Form 990 filed by the Foundation. In addition, the Foundation files a Tennessee state income tax return. Tax returns for years prior to fiscal year 2008 are no longer open for examination by the taxing authorities.

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Foundation's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying consolidated financial statements.

Unrestricted Net Assets

The following unrestricted net asset classifications are included in the accompanying consolidated financial statements:

Board Directed - The Board of Directors is responsible for approving distributions of income and, where permitted, principal, solely for those charitable purposes established by the Foundation.

Field-of-Interest - The donor may designate a functional area or field of interest, within which specific projects or beneficiaries are selected by the Foundation's Board.

Designated - Represents funds given by a donor who is committed to a specific charitable organization(s). The Foundation gives the donor assurance that the spirit of the gift is protected and the assets given are prudently managed.

Scholarship - Scholarships or loans can be provided so that deserving young people can get an education they might not otherwise receive. Through these funds the donor can, for example, specify the schools the young people are to come from or the ones they are to attend.

Donor Advised - The donor has the privilege of making recommendations relating to distributions. Such recommendations are taken into consideration by the Board when grants are decided upon but are advisory only and non-binding.

The Foundation has the ultimate authority and control over all net assets of these funds, and income derived therefrom (variance power), for the charitable purposes of the Foundation; therefore, the net assets of the above funds are classified as unrestricted.

All funds can be created with a minimum gift of \$5,000, except Scholarship Funds, which have a \$10,000 minimum gift.

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets

The following temporarily restricted net asset classifications are included in the accompanying consolidated financial statements:

Charitable Lead Trusts - The donor establishes and funds a trust with specific distributions to be made to the Foundation, over a specified period, based on the trust's fair market value as determined annually. Upon termination of the trust, the remainder of the trust assets is paid to the donor or to beneficiaries designated by the donor.

Purpose Restricted Earnings from Permanently Restricted Bequest - Consist of unexpended earnings from permanently restricted bequests.

Permanently Restricted Net Assets

The Foundation's permanently restricted net assets consist of bequests and other gifts from donors which stipulate that the principal is to be invested in perpetuity by the Foundation. Income from the invested funds may be restricted to a specific field of interest and, therefore, is classified as temporarily restricted until applicable restrictions are met.

Donated Goods and Services and In-Kind Contributions

Donated facilities and materials are recorded as gifts in the period received at fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized if they create or enhance nonfinancial assets or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Foundation if not donated. Such services are recognized at fair value as support and expense in the period the services are performed and primarily include professional services.

A number of unpaid volunteers have made significant contributions of their time to assist the Foundation in implementing various programs. The value of contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

Fundraising Expenses

Fundraising expenses, which are included in management and general expenses on the Consolidated Statements of Activities, amounted to approximately \$1,266,000 for 2011 (\$344,000 for 2010).

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of financial statements in conformity with GAAP 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.

Reclassifications

Certain reclassifications have been made to prior year amounts to be comparative with the current year presentation.

Events Occurring after Reporting Date

The Foundation has evaluated events and transactions that occurred between December 31, 2011 and September 11, 2012, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash balances and certificates of deposit at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of December 31, 2011, uninsured cash deposits at financial institutions were approximately \$11,515,000.

The Foundation also maintains investment balances at various brokerage and investment companies. These investments consist of money market funds and other short-term investments, various mutual funds, stocks, and bonds. Generally, they are not insured by the FDIC or any other government agency and are subject to investment risk, including the risk of loss of principal. Investors are provided limited protection by the Securities Investor Protection Corporation ("SIPC"), a nonprofit membership corporation funded by its member securities broker dealers. SIPC covers investor losses, in some cases, attributable to bankruptcy or fraudulent practices of brokerage firms up to \$500,000 per broker (including \$250,000 of cash).

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 4 - INVESTMENTS

Foundation investments are generally pooled. Segregated accounts are created at the Foundation's discretion, generally at the request of the donor or due to the nature of the gift.

Investments consisted of the following as of December 31:

| | <u>2011</u> | <u>2010</u> |
|---|-----------------------|-----------------------|
| <u>Investments at fair value</u> | | |
| Money market funds and other short term investments | \$ 20,197,772 | \$ 37,968,669 |
| Corporate bonds | 15,694,617 | 16,781,266 |
| Equities | 80,861,374 | 98,916,701 |
| Alternative investments: | | |
| Partnership interests | 22,435,109 | 22,457,699 |
| Private equity | 6,592,917 | 5,327,812 |
| Hedge funds | 89,863,798 | 83,017,320 |
| Government securities | 1,236,025 | 2,379,992 |
| International securities | 2,572,598 | 2,500,814 |
| Mutual funds: | | |
| Domestic equity funds | 10,365,434 | 16,717,847 |
| Domestic bond funds | 29,809,941 | 29,809,246 |
| International equity funds | 55,077,902 | 41,820,429 |
| International bond funds | 2,220,500 | 16,296,315 |
| Other | 2,858,112 | 912,633 |
| | <u>339,786,099</u> | <u>374,906,743</u> |
| <u>Investments at cost</u> | | |
| Property | 40,379 | 825,615 |
| Partnership interests | 504,342 | 551,241 |
| | <u>544,721</u> | <u>1,376,856</u> |
| | <u>\$ 340,330,820</u> | <u>\$ 376,283,599</u> |

NOTE 5 - CHARITABLE LEAD TRUSTS

The Foundation is named beneficiary of various irrevocable charitable lead trusts as of December 31, 2011. The Foundation is not the trustee and does not exercise control over the trusts' assets; therefore, the Foundation recognizes a receivable for its beneficial interest in those assets in the period the trust is created, with a corresponding credit to temporarily restricted contributions, based on the present value of the expected future cash inflows. The trust instruments provide for distributions to be made to the Foundation in amounts ranging from three to twelve percent of the trust assets each year for periods of two years or more. Total cash distributions received by the Foundation from these trusts amounted to \$2,058,889 and \$1,887,024 for the years ended December 31, 2011 and 2010, respectively.

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

| | <u>2011</u> | <u>2010</u> |
|-----------------------------------|---------------------|---------------------|
| Land | \$ 892,800 | \$ 892,800 |
| Building | 656,900 | 656,900 |
| Furniture, fixtures and equipment | <u>702,328</u> | <u>660,882</u> |
| | 2,252,028 | 2,210,582 |
| Less accumulated depreciation | <u>(603,255)</u> | <u>(521,069)</u> |
| | <u>\$ 1,648,773</u> | <u>\$ 1,689,513</u> |

Depreciation expense recognized on property and equipment amounted to: 2011 - \$82,186; 2010 - \$82,820.

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Foundation has a Simplified Employee Pension Plan covering eligible employees age 21 years or older who have been employed by the Foundation for at least one year, and received more than \$300 compensation during the plan year. The Foundation contributed approximately \$51,000 and \$49,000 to the plan during 2011 and 2010, respectively.

NOTE 8 - GRANTS

In May 2009, the Foundation approved a \$10,000,000 grant to a not-for-profit organization. The grant is payable from donor advised funds and was paid in 2012.

During 2012, the Foundation made grants of approximately \$32,000,000 from donor advised funds to an organization to renovate and maintain their facility.

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(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 9 - FAIR VALUE MEASUREMENTS

The following table sets forth the Foundation's major categories of assets and liabilities measured at fair value on a recurring basis, by level within the fair value hierarchy, as of December 31:

| 2011 | Fair Value | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Financial Assets: | | | | |
| Investments: | | | | |
| Money market funds and other short-term investments | \$ 20,197,772 | \$ 20,197,772 | \$ - | \$ - |
| Corporate bonds | 15,694,617 | - | 15,694,617 | - |
| Equities: | | | | |
| Basic materials | 8,359,997 | 8,359,997 | - | - |
| Conglomerates | 973,449 | 973,449 | - | - |
| Consumer goods | 6,925,344 | 6,925,344 | - | - |
| Energy | 4,588,108 | 4,588,108 | - | - |
| Financial | 8,946,489 | 8,946,489 | - | - |
| Healthcare | 9,125,499 | 9,125,499 | - | - |
| Industrial goods | 8,394,528 | 8,394,528 | - | - |
| Others | 3,145,486 | 3,145,486 | - | - |
| Services | 14,354,049 | 14,354,049 | - | - |
| Technology | 14,007,303 | 14,007,303 | - | - |
| Utilities | 2,041,122 | 2,041,122 | - | - |
| Alternative investments: | | | | |
| Partnership interests | 22,435,109 | - | - | 22,435,109 |
| Private equity | 6,592,917 | - | - | 6,592,917 |
| Hedge funds | 89,863,798 | - | - | 89,863,798 |
| Government securities | 1,236,025 | - | 1,236,025 | - |
| International securities | 2,572,598 | - | 2,572,598 | - |
| Mutual funds: | | | | |
| Domestic equity funds | 10,365,434 | 10,365,434 | - | - |
| Domestic bond funds | 29,809,941 | 29,809,941 | - | - |
| International equity funds | 55,077,902 | 55,077,902 | - | - |
| International bond funds | 2,220,500 | 2,220,500 | - | - |
| Other | 2,858,112 | 2,858,112 | - | - |
| | <u>339,786,099</u> | <u>201,391,035</u> | <u>19,503,240</u> | <u>118,891,824</u> |
| Beneficial interest in lead trusts | <u>9,577,031</u> | <u>-</u> | <u>9,577,031</u> | <u>-</u> |
| Total Financial Assets | <u>\$ 349,363,130</u> | <u>\$ 201,391,035</u> | <u>\$ 29,080,271</u> | <u>\$ 118,891,824</u> |
| Financial Liabilities: | | | | |
| Agency funds liability | <u>\$ (5,363,411)</u> | <u>\$ -</u> | <u>\$ (5,363,411)</u> | <u>\$ -</u> |

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

| 2010 | Fair Value | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Financial Assets: | | | | |
| Investments: | | | | |
| Money market funds and other | | | | |
| short-term investments | \$ 37,968,669 | \$ 37,968,669 | \$ - | \$ - |
| Corporate bonds | 16,781,266 | - | 16,781,266 | - |
| Equities: | | | | |
| Basic materials | 10,508,876 | 10,508,876 | - | - |
| Conglomerates | 645,169 | 645,169 | - | - |
| Consumer goods | 7,300,578 | 7,300,578 | - | - |
| Energy | 4,378,774 | 4,378,774 | - | - |
| Financial | 10,304,736 | 10,304,736 | - | - |
| Healthcare | 8,193,249 | 8,193,249 | - | - |
| Industrial goods | 8,573,718 | 8,573,718 | - | - |
| Others | 6,323,448 | 6,323,448 | - | - |
| Services | 24,911,728 | 24,911,728 | - | - |
| Technology | 16,252,644 | 16,252,644 | - | - |
| Utilities | 1,523,781 | 1,523,781 | - | - |
| Alternative investments: | | | | |
| Partnership interests | 22,457,699 | - | - | 22,457,699 |
| Private equity | 5,327,812 | - | - | 5,327,812 |
| Hedge funds | 83,017,320 | - | - | 83,017,320 |
| Government securities | 2,379,992 | - | 2,379,992 | - |
| International securities | 2,500,814 | - | 2,500,814 | - |
| Mutual funds: | | | | |
| Domestic equity funds | 16,717,847 | 16,717,847 | - | - |
| Domestic bond funds | 29,809,246 | 29,809,246 | - | - |
| International equity funds | 41,820,429 | 41,820,429 | - | - |
| International bond funds | 16,296,315 | 16,296,315 | - | - |
| Other | 912,633 | 912,633 | - | - |
| | 374,906,743 | 242,441,840 | 21,662,072 | 110,802,831 |
| Beneficial interest in lead trusts | 10,221,109 | - | 10,221,109 | - |
| Total Financial Assets | <u>\$ 385,127,852</u> | <u>\$ 242,441,840</u> | <u>\$ 31,883,181</u> | <u>\$ 110,802,831</u> |
| Financial Liabilities: | | | | |
| Agency funds liability | <u>\$ (5,501,068)</u> | <u>\$ -</u> | <u>\$ (5,501,068)</u> | <u>\$ -</u> |

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

The table below presents a reconciliation of the change in the amount reported for assets included within Level 3 of the valuation hierarchy for the year ended December 31, 2011:

| | Financial Assets | | | |
|---|--------------------------|---------------------|----------------------|----------------------|
| | Partnership Interests | Private Equity | Hedge Funds | Total |
| Fair value, beginning of year | \$22,457,699 | \$ 5,327,812 | \$ 83,017,320 | \$110,802,831 |
| Realized and unrealized gains and losses | 1,723,853 | 427,846 | (1,257,071) | 894,628 |
| Purchases, issuances and settlements | (1,746,443) | 837,259 | 8,103,549 | 7,194,365 |
| Fair value, end of year | <u>\$22,435,109</u> | <u>\$ 6,592,917</u> | <u>\$ 89,863,798</u> | <u>\$118,891,824</u> |

The table below presents a reconciliation of the change in the amount reported for assets included within Level 3 of the valuation hierarchy for the year ended December 31, 2010:

| | Financial Assets | | | |
|---|--------------------------|---------------------|----------------------|----------------------|
| | Partnership Interests | Private Equity | Hedge Funds | Total |
| Fair value, beginning of year | \$21,293,059 | \$ 3,543,734 | \$ 71,616,913 | \$ 96,453,706 |
| Realized and unrealized gains and losses | 1,978,737 | 294,092 | 315,050 | 2,587,879 |
| Purchases, issuances and settlements | (814,097) | 1,489,986 | 11,085,357 | 11,761,246 |
| Fair value, end of year | <u>\$22,457,699</u> | <u>\$ 5,327,812</u> | <u>\$ 83,017,320</u> | <u>\$110,802,831</u> |

Unrealized gains and losses on assets included in Level 3 of the valuation hierarchy amounted to a loss of \$827,877 in 2011 and a gain of \$22,917 in 2010. Unrealized gains and losses are included in net realized and unrealized gains (losses) on investments in the Consolidated Statement of Activities and relate to assets still held at the Consolidated Statement of Financial Position date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value of investments in certain entities that calculate net asset value per share (or its equivalent) are as follows:

| | <u>Fair Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency</u> | <u>Redemption Notice</u> |
|-----------------------|-------------------|---------------------------------|---------------------------------|------------------------------|
| Partnership interests | \$ 22,435,109 | \$ 5,187,837 | quarterly, annually | 30-90 days |
| Private equity | \$ 6,592,917 | \$ 5,269,777 | quarterly, annually | 30-90 days |
| Hedge funds | \$ 89,863,798 | \$ 11,410,189 | quarterly, annually | 30-90 days |

A summary of the investment strategies for significant investments follows:

Partnership interests

The Foundation holds an investment with a fair value of approximately \$6,523,000 in 2011 (\$6,442,000 in 2010) in Davidson Kempner Institutional Partners, L.P. The investment objective of the fund is to achieve capital appreciation through event-driven investments which seek to exploit situations in which announced or anticipated events create inefficiencies in the pricing of investments.

The Foundation holds an investment with a fair value of approximately \$5,074,000 in 2011 (\$4,805,000 in 2010) in Pointer Offshore, Ltd fund. The investment objective of the fund is to trade and invest in various securities, private investment companies and other investments.

The Foundation holds an investment with a fair value of approximately \$3,934,000 in 2011 (\$3,451,000 in 2010) in FCA Venture Fund IV. The investment objective of the fund is to achieve long-term capital gain primarily through privately negotiated equity and equity-related investments in private companies through the Southeastern United States with an emphasis in healthcare, healthcare-related services and healthcare technology industries.

The Foundation holds an investment with a fair value of approximately \$2,071,000 in 2011 (\$1,811,000 in 2010) in Guggenheim Plus II, LP. The investment objective of the fund is to permit insurance companies, foundations, endowments, high net worth individuals, and other investors to commingle a portion of their assets for investment in both publicly-owned real estate securities and privately-owned real estate investments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

Hedge funds

The Foundation holds an investment with a fair value of approximately \$48,982,000 in 2011 (\$48,554,000 in 2010) in Courage Special Situations Offshore Fund, Ltd. The investment objective of the fund is to achieve significant capital gains while minimizing risks associated with the broad security markets. The fund invests in a master fund which employs an investment strategy that focuses on event-driven, special situations and value oriented investment opportunities.

The Foundation holds an investment with a fair value of approximately \$5,468,000 in 2011 (\$0- in 2010) in Double Eagle Capital Management, LP. The investment objective of the fund is to achieve investment returns by trading and investing in private investment companies. The fund invests in a master fund that has the same investment objectives as the fund.

The Foundation holds an investment with a fair value of approximately \$10,673,000 in 2011 (\$5,580,000 in 2010) in Courage Credit Opportunities Offshore Fund II, L.P. The investment objective of the fund is to achieve investment returns while emphasizing distressed investments in financially troubled companies, including those of companies that may, or have become involved in reorganization or bankruptcy proceedings.

The Foundation holds an investment with a fair value of approximately \$6,118,000 in 2011 (\$0- in 2010) in Titan Masters International Fund, Ltd. The objective of the fund is to achieve capital appreciation through the use of a fund of funds, multi-manager investment strategy by allocating its assets around limited liability companies and/or separate investment accounts which utilize a variety of investment strategies.

In addition to the above funds, the Foundation invests in approximately 54 other investments in certain entities that calculate net asset value per share (ranging in value up to approximately \$2,000,000) which engage in multi-strategy approaches for both domestic and international investments in public and private companies and other objectives.

Estimated Fair Value of Other Financial Instruments

The Foundation estimates that the fair value of all other financial instruments at December 31, 2011, does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying Consolidated Statement of Financial Position. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 10 - CERTAIN BEQUESTS

The Foundation's endowment consists of five individual funds established for a variety of purposes which are donor restricted. The Foundation's permanently restricted endowment funds are based on the spending policies described below which follow the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and the State of Tennessee's State Uniform Prudent Management of Institutional Funds Act (SUPMIFA).

Interpretation of applicable law - The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of the investments
- The investment policies of the Foundation

Spending policy - The Foundation has a policy of appropriating for distribution each year a payout range of 4% to 6% of total fund assets as determined annually by the Investment and Finance Committee. This payout will approximate 5% but may be adjusted by the committee at its sole discretion.

THE COMMUNITY FOUNDATION OF MIDDLE TENNESSEE, INC. AND SUBSIDIARY
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 10 - CERTAIN BEQUESTS (CONTINUED)

Interpretation of applicable law (continued)

Investment return objective, risk parameters and strategies - The Foundation holds the assets in endowment funds to apply income there, both for long-term development purposes as well as for responding to current and changing charitable needs in Middle Tennessee. These circumstances require a growing asset base as well as a growing annual return on that base and dictate the following general philosophy guiding the Foundation's investments:

- Primary emphasis shall be placed on safety of principal by minimizing risks from either market or credit factors, and
- Moderate growth of principal and total return will be expected consistent with maintaining safety of principal.

The objective of the Foundation's investment management is to earn a real total rate of return averaging at least 4% per annum measured over a full market cycle (usually three to five years). The total fund objective is to compare favorably with the upper end performance (that is, the top 40%) of balanced fund managers, averaged over a full market cycle.

Investments of the Foundation are diversified to prevent adverse effects of any given investment from unduly penalizing the overall portfolio performance. Diversification is interpreted to include different types, characteristics, and numbers of investments.

Asset allocation between equities and fixed income instruments is one method of diversification of investments of endowment funds. The portfolio is structured to consist of 40% to 80% equity securities and 60% to 20% fixed income securities, with the normal range being 65% equities and 35% fixed income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 10 - CERTAIN BEQUESTS (CONTINUED)

A schedule of endowment net asset composition by type of fund as of December 31 follows:

| | 2011 | | | |
|-------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Donor-restricted endowment funds | <u>\$ -</u> | <u>\$ 77,671</u> | <u>\$ 1,944,132</u> | <u>\$ 2,021,803</u> |
| | | | | |
| | 2010 | | | |
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Donor-restricted endowment funds | <u>\$ -</u> | <u>\$ 186,059</u> | <u>\$ 1,944,132</u> | <u>\$ 2,130,191</u> |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SUPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, such deficiencies are reported in unrestricted net assets. There were no such deficiencies at December 31, 2011 or 2010.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2011 AND 2010

NOTE 10 - CERTAIN BEQUESTS (CONTINUED)

A schedule of changes in endowment net assets follows for the years ended December 31:

| | 2011 | | | |
|--|---------------------|-----------------------------------|-----------------------------------|--------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Endowment net assets, January 1, 2011 | \$ - | \$ 186,059 | \$ 1,944,132 | \$2,130,191 |
| Investment income | - | 24,540 | - | 24,540 |
| Net appreciation (realized and unrealized) | - | (62,083) | - | (62,083) |
| Amounts appropriated for expenditure | - | (70,845) | - | (70,845) |
| Endowment net assets, December 31, 2011 | <u>\$ -</u> | <u>\$ 77,671</u> | <u>\$ 1,944,132</u> | <u>\$2,021,803</u> |

| | 2010 | | | |
|--|---------------------|-----------------------------------|-----------------------------------|--------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| Endowment net assets, January 1, 2010 | \$ - | \$ 1,781 | \$ 1,944,132 | \$1,945,913 |
| Investment income | - | 37,294 | - | 37,294 |
| Net appreciation (realized and unrealized) | - | 210,071 | - | 210,071 |
| Amounts appropriated for expenditure | - | (63,087) | - | (63,087) |
| Endowment net assets, December 31, 2010 | <u>\$ -</u> | <u>\$ 186,059</u> | <u>\$ 1,944,132</u> | <u>\$2,130,191</u> |