

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

NASHVILLE, TENNESSEE

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2019 AND 2018

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

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INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of The Community Foundation of Middle Tennessee, Inc. and Subsidiaries (collectively, the "Foundation"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Subsidiaries as of December 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Kraft CPAs PLLC

Nashville, Tennessee
September 11, 2020

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 33,411,056	\$ 23,201,334
Other receivables	348,585	181,319
Investments	402,683,123	378,847,365
Beneficial interest in lead trusts	64,652,585	64,065,863
Property and equipment - at cost, less accumulated depreciation	<u>1,401,465</u>	<u>1,393,767</u>
TOTAL ASSETS	<u><u>\$ 502,496,814</u></u>	<u><u>\$ 467,689,648</u></u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 29,395	\$ 25,851
Grants payable	90,101	872,982
Deferred revenue	23,915	-
Agency funds liability	<u>10,980,241</u>	<u>8,760,923</u>
TOTAL LIABILITIES	<u>11,123,652</u>	<u>9,659,756</u>
NET ASSETS		
Without donor restrictions:		
Board-directed	18,094,090	15,914,044
Field-of-interest	77,858,945	68,496,333
Designated	39,086,661	34,020,209
Scholarship	18,929,512	16,246,470
Donor-advised	<u>270,448,587</u>	<u>257,250,675</u>
Total net assets without donor restrictions	<u>424,417,795</u>	<u>391,927,731</u>
With donor restrictions:		
Charitable lead trusts	64,652,585	64,065,863
Certain bequests	<u>2,302,782</u>	<u>2,036,298</u>
Total net assets with donor restrictions	<u>66,955,367</u>	<u>66,102,161</u>
TOTAL NET ASSETS	<u>491,373,162</u>	<u>458,029,892</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 502,496,814</u></u>	<u><u>\$ 467,689,648</u></u>

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019			2018		
	NET ASSETS WITHOUT DONOR RESTRICTIONS	NET ASSETS WITH DONOR RESTRICTIONS	TOTAL	NET ASSETS WITHOUT DONOR RESTRICTIONS	NET ASSETS WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE						
Contributions	\$ 40,606,230	\$ 923,974	\$ 41,530,204	\$ 45,583,648	\$ 45,969,222	\$ 91,552,870
In-kind contributions	54,469	-	54,469	66,439	-	66,439
Government grants	266,323	-	266,323	-	-	-
Fundraising events	3,086,388	-	3,086,388	4,385,260	-	4,385,260
Less: direct benefits to donors	(952,663)	-	(952,663)	(865,365)	-	(865,365)
Investment income (loss), net	51,345,558	395,917	51,741,475	(11,233,638)	(108,460)	(11,342,098)
Change in value of split-interest gifts	-	4,357,966	4,357,966	-	780,474	780,474
Other	61,526	-	61,526	78,608	-	78,608
Net assets released resulting from satisfaction of donor restrictions	4,824,651	(4,824,651)	-	2,063,990	(2,063,990)	-
TOTAL SUPPORT AND REVENUE	99,292,482	853,206	100,145,688	40,078,942	44,577,246	84,656,188
EXPENSES						
Program services	62,589,723	-	62,589,723	61,014,379	-	61,014,379
Supporting services:						
Management and general	1,579,761	-	1,579,761	1,519,667	-	1,519,667
Fundraising	2,632,934	-	2,632,934	2,581,689	-	2,581,689
TOTAL EXPENSES	66,802,418	-	66,802,418	65,115,735	-	65,115,735
CHANGE IN NET ASSETS	32,490,064	853,206	33,343,270	(25,036,793)	44,577,246	19,540,453
NET ASSETS:						
Beginning of year	391,927,731	66,102,161	458,029,892	416,964,524	21,524,915	438,489,439
End of year	\$ 424,417,795	\$ 66,955,367	\$ 491,373,162	\$ 391,927,731	\$ 66,102,161	\$ 458,029,892

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				2018			
	SUPPORTING SERVICES			TOTAL FUNCTIONAL EXPENSES	SUPPORTING SERVICES			TOTAL FUNCTIONAL EXPENSES
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING		PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	
Grants	\$ 60,396,640	\$ -	\$ -	\$ 60,396,640	\$ 58,949,195	\$ -	\$ -	\$ 58,949,195
Compensation	1,138,669	700,720	1,080,276	2,919,665	1,033,843	636,211	980,826	2,650,880
Other employee benefits	180,837	111,284	171,563	463,684	164,047	100,952	155,635	420,634
Payroll taxes	81,106	49,911	76,947	207,964	73,811	45,423	70,027	189,261
Events and meetings	-	5,410	535,618	541,028	-	6,253	619,100	625,353
Professional fees	196,281	190,509	190,509	577,299	229,438	222,691	222,691	674,820
Marketing	186,594	181,106	181,106	548,806	132,018	128,136	128,136	388,290
Office expenses	110,187	106,946	106,946	324,079	118,363	114,883	114,883	348,129
Information technology	89,039	86,420	86,420	261,879	71,054	68,965	68,965	208,984
Bank and credit card fees	63,169	61,312	61,312	185,793	74,549	72,357	72,357	219,263
Professional development	33,054	-	33,054	66,108	16,940	18,571	20,483	55,994
Insurance coverage	21,184	20,561	20,561	62,306	22,024	21,376	21,376	64,776
Depreciation	18,794	18,241	18,241	55,276	16,672	16,182	16,182	49,036
In-kind professional services	18,519	17,975	17,975	54,469	22,589	21,925	21,925	66,439
Membership and subscriptions	16,947	16,449	16,449	49,845	12,387	12,023	12,023	36,433
Building expenses and maintenance	25,355	12,917	9,568	47,840	65,449	33,342	24,698	123,489
Business and auction sales taxes	-	-	17,424	17,424	-	-	22,115	22,115
Gift cards and gifts	13,348	-	-	13,348	12,000	377	4,186	16,563
Other	-	-	8,965	8,965	-	-	6,081	6,081
Fundraising events:								
Food and beverages	-	-	370,629	370,629	-	-	241,233	241,233
Venue rental	-	-	226,587	226,587	-	-	198,095	198,095
Entertainment	-	-	36,142	36,142	-	-	56,965	56,965
Other direct expenses	-	-	319,305	319,305	-	-	369,072	369,072
TOTAL FUNCTIONAL EXPENSES	\$ 62,589,723	\$ 1,579,761	\$ 3,585,597	\$ 67,755,081	\$ 61,014,379	\$ 1,519,667	\$ 3,447,054	\$ 65,981,100
Less expenses netted against revenues on the consolidated statements of activities - direct benefits to donors	-	-	(952,663)	(952,663)	-	-	(865,365)	(865,365)
TOTAL EXPENSES REPORTED UNDER PROGRAM AND SUPPORTING SERVICES	\$ 62,589,723	\$ 1,579,761	\$ 2,632,934	\$ 66,802,418	\$ 61,014,379	\$ 1,519,667	\$ 2,581,689	\$ 65,115,735

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 33,343,270	\$ 19,540,453
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	55,276	49,036
Noncash contributions of investments	(7,399,672)	(10,115,755)
Net realized and unrealized (gains) losses on investments	(45,619,703)	16,599,199
Change in value of split interest gifts	(4,357,966)	(780,474)
Noncash contribution of beneficial interest in lead trusts	(923,948)	(45,968,900)
Distributions received from lead trusts	4,695,192	1,918,737
Decrease (increase) in other receivables	(167,266)	572,159
Increase (decrease) in:		
Accounts payable and accrued expenses	3,544	(183,082)
Grants payable	(782,881)	684,757
Deferred revenue	23,915	-
Agency funds liability	2,219,318	(444)
TOTAL ADJUSTMENTS	(52,254,191)	(37,224,767)
NET CASH USED IN OPERATING ACTIVITIES	(18,910,921)	(17,684,314)
INVESTING ACTIVITIES		
Purchases of property and equipment	(62,974)	(17,049)
Proceeds from sale of investments	148,498,467	167,996,294
Purchase of investments	(119,314,850)	(163,904,698)
NET CASH PROVIDED BY INVESTING ACTIVITIES	29,120,643	4,074,547
INCREASE (DECREASE) IN CASH	10,209,722	(13,609,767)
CASH - BEGINNING OF YEAR	23,201,334	36,811,101
CASH - END OF YEAR	\$ 33,411,056	\$ 23,201,334

See accompanying notes to consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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 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, and Childcare Tennessee, Nonprofit LLC, a single-member limited liability company formed to ensure the accessibility and sustainability of quality child care programs serving the children and families of Tennessee. There are no significant transactions between the three entities.

The consolidated financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), which require the Foundation to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation’s management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities.

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

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue and Support

Contributions are recognized when cash, securities or other assets, an unconditional promise to give or notification of a beneficial interest is received. A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

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

Any gifts of equipment, facilities or materials are reported as net assets without donor restrictions 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 net assets with donor restrictions. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Grants awarded by state and other sponsors are generally considered nonreciprocal transactions restricted by sponsors for certain purposes. Grant revenue is recognized when the conditions upon which it depends are substantially met, which primarily is when qualifying expenses occur. Payments received in advance of conditions being met are recorded as deferred revenue on the consolidated statements of financial position. Deferred revenue consisted of \$23,915 and \$0 at December 31, 2019 and 2018, respectively.

Fundraising event revenues are generated from sponsorships, ticket sales, donations, silent and online auction proceeds and sales of items at events held during the year and revenues are recognized when the events occur, which is the completion of the Foundation's performance obligation. Some of these revenues are comprised of an exchange element based on the value of benefits provided, and a contribution element for the difference between the amount paid and the exchange element. The Foundation records fundraising event revenue equal to the fair value of direct benefits to donors, and contribution revenue for the excess received when the event takes place.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at fair value (money market funds and other short-term investments, corporate bonds, equities, government securities, and mutual funds - generally at quoted market prices; investment partnership interests, private equity funds and hedge funds - based on net asset value). Investments in property without a readily determinable fair value are carried at cost. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are recognized currently in the consolidated statements of activities as investment income.

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 donor-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 net assets with donor restrictions to net assets without donor restrictions. 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 net assets with donor restrictions.

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. The Foundation's policy is to capitalize purchases with a cost of \$1,000 or more and an estimated useful life greater than one year. 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.

Grants Payable

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Money market funds, short-term investments and equities - These investments are valued at the closing price reported on the active market on which the individual funds are traded.

Corporate bonds, government securities and international bond funds - Securities for which quotations are readily available in active markets are valued at the most recent quote in the principal market in which such securities are normally traded. These investments also include securities valued on the basis of information provided by pricing services that employ valuation models reflecting such factors as benchmark yields, reported trades, broker/dealer quotes, bid/offer data and other relevant elements.

Mutual funds (excluding international bond funds included in level 2 valuation hierarchy) - Investments in these funds are valued using the net asset value per unit as quoted in active markets at the valuation date.

Partnership interests and private equity funds - These investments are valued at the Foundation's capital account balance as reported by the fund's general partner. The capital account balance represents the net asset value of the Foundation's share in the fund, which approximates fair value.

Hedge funds - Hedge funds are reported at the net asset value (or its equivalent) of the Foundation's share in the fund as calculated in the fund's audited financial statements, which approximates fair value.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Beneficial interest in lead trusts - The measurement of the Foundation's 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.

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, 2019 and 2018.

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 a different estimate of fair value at the reporting date.

Program and Supporting Services

The following program and supporting services are included in the accompanying consolidated 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

Management and General - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or event 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 creation and distribution of fundraising materials.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses allocated based on estimates of time and effort include compensation, other employee benefits, payroll taxes, professional fees, marketing, professional development, events and meetings, insurance coverage, membership and subscriptions, and gift cards and gifts. Building expenses and maintenance and depreciation are allocated based on a square-footage basis.

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 2019 and 2018.

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 and Childcare Tennessee, Nonprofit LLC are disregarded entities for tax purposes and any activities of the subsidiaries are included in the Form 990 filed by the Foundation. In addition, the Foundation files a Tennessee state income tax return.

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.

Net Assets Without Donor Restrictions

The following net assets without donor restrictions 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets Without Donor Restrictions (Continued)

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 net assets without donor restrictions.

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

Net Assets With Donor Restrictions

The following net assets with donor-restriction classifications are included in the accompanying consolidated financial statements:

Charitable Lead Trusts - Donors establish and fund a trust with specific distributions to be made to the Foundation over a specified period based on the provisions outlined in the trust agreements. Upon termination of a trust, the remainder of the trust assets is paid to the donor or to beneficiaries designated by the donor.

Certain Bequests - Donors 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 net assets with donor restrictions until applicable restrictions are met.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, were 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.

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.

New Accounting Pronouncements

On January 1, 2019, the Foundation adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customer (Topic 606)* and all subsequent amendments to the ASU (collectively, “ASC 606”), which supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. ASC 606 requires revenue to be recognized in an amount that reflects the considerations to which the entity expects to be entitled in an exchange of goods or services. The Foundation adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2019. The Foundation performed an analysis of revenue streams and transactions to determine in-scope applicability. The revenue streams considered in-scope for purposes of ASC 606 include most revenues associated with performance of fundraising events (sponsorships, ticket sales, sales of items and auction proceeds) and other income. The Foundation recognizes revenues that fall within the scope of ASC 606 as it satisfies its obligation to the customer. The adoption of ASC 606 did not result in a material change to the accounting for any of the in-scope revenue streams; as such, the Foundation did not record a cumulative effect adjustment.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

On January 1, 2019, the Foundation adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)* as amended, as management believes the standard improves the usefulness and understandability of the Foundation's financial reporting. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions and improved guidance to better distinguish between conditional and unconditional contributions. Analysis of various provisions of this standard resulted in no significant changes in the way the Foundation recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on the consolidated activities or changes in net assets as previously reported.

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between December 31, 2019 and September 11, 2020, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 3 - AVAILABILITY AND LIQUIDITY

The following represents the Foundation's financial assets available for general expenditures at December 31:

	<u>2019</u>	<u>2018</u>
Financial assets at year end:		
Cash	\$ 33,411,056	\$ 23,201,334
Other receivables	348,585	181,319
Investments	<u>402,683,123</u>	<u>378,847,365</u>
Total financial assets	<u>436,442,764</u>	<u>402,230,018</u>
Less amounts not available to be used for general expenditures within one year:		
Grants payable	(90,101)	(872,982)
Agency funds liability	(10,980,241)	(8,760,923)
Assets limited to use:		
Field-of-interest	(77,858,945)	(68,496,333)
Designated	(39,086,661)	(34,020,209)
Scholarship	(18,929,512)	(16,246,470)
Donor-advised	(270,448,587)	(257,250,675)
Certain bequests	<u>(2,302,782)</u>	<u>(2,036,298)</u>
Financial assets not available to be used for general expenditures within one year	<u>(419,696,829)</u>	<u>(387,683,890)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 16,745,935</u>	<u>\$ 14,546,128</u>

Included in amounts restricted by donor with time or purpose restrictions are the Foundation's bequests. Income from the donor-restricted bequests are subject to an annual spending rate of approximately 5% as described in Note 10. Donor-restricted bequests are not available for general expenditure.

General expenditures do not include amounts to be given as grants.

As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Surplus cash from the prior year are invested in a reserve account which includes cash and certificates of deposit.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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NOTE 4 - CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash balances at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Foundation's cash balances generally exceed statutory limits. The Foundation has not experienced any losses in such accounts and management considers this to be a normal business risk.

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, bonds and alternative investments. 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).

NOTE 5 - 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>2019</u>	<u>2018</u>
<u>Investments at fair value</u>		
Money market funds and other short-term investments	\$ 20,283,651	\$ 15,972,931
Corporate bonds	15,564,427	15,286,723
Equities	106,536,969	88,526,254
Government securities	13,273,049	11,475,615
Mutual funds	107,873,687	95,400,844
Alternative investments	<u>139,123,700</u>	<u>152,155,150</u>
	<u>402,655,483</u>	<u>378,817,517</u>
<u>Investments at cost</u>		
Property	<u>27,640</u>	<u>29,848</u>
	<u>\$ 402,683,123</u>	<u>\$ 378,847,365</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 6 - CHARITABLE LEAD TRUSTS

The Foundation is named beneficiary of various irrevocable charitable lead trusts. 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 contributions with donor restrictions, 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 four to twenty one 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 \$4,695,192 and \$1,918,737 for the years ended December 31, 2019 and 2018, respectively.

NOTE 7 - PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Land	\$ 892,800	\$ 892,800
Building	656,900	656,900
Furniture, fixtures and equipment	<u>882,549</u>	<u>819,575</u>
	2,432,249	2,369,275
Less accumulated depreciation	<u>(1,030,784)</u>	<u>(975,508)</u>
	<u>\$ 1,401,465</u>	<u>\$ 1,393,767</u>

Depreciation expense recognized on property and equipment amounted to: 2019 - \$55,276
2018 - \$49,036.

NOTE 8 - 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 of compensation during the plan year. The Foundation contributed approximately \$71,000 and \$66,000 to the plan during 2019 and 2018, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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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:

2019	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Financial Assets:				
Investments:				
Money market funds and other				
short-term investments	\$ 20,283,651	\$ 20,283,651	\$ -	\$ -
Corporate bonds	15,564,427	-	15,564,427	-
Equities:				
Basic materials	2,281,826	2,281,826	-	-
Consumer goods	9,095,305	9,095,305	-	-
Energy	4,212,900	4,212,900	-	-
Financial	18,463,634	18,463,634	-	-
Healthcare	14,754,034	14,754,034	-	-
Industrial goods	13,564,651	13,564,651	-	-
Others	2,345,017	2,345,017	-	-
Services	13,169,210	13,169,210	-	-
Technology	26,794,880	26,794,880	-	-
Transportation	23,065	23,065	-	-
Utilities	1,832,447	1,832,447	-	-
Government securities	13,273,049	-	13,273,049	-
Mutual funds:				
Domestic equity funds	16,909,190	16,909,190	-	-
Domestic bond funds	2,352,898	2,352,898	-	-
International equity funds	46,652,338	46,652,338	-	-
International bond funds	40,854,481	9,677,115	31,177,366	-
Other	1,104,780	1,104,780	-	-
Total investments in the fair value hierarchy	<u>263,531,783</u>	<u>203,516,941</u>	<u>60,014,842</u>	<u>-</u>
Partnership interests	39,881,139			
Private equity	9,420,354			
Hedge funds	<u>89,822,207</u>			
Total investments measured at net asset value (a)	<u>139,123,700</u>			
Total Investments at Fair Value	<u>402,655,483</u>	<u>203,516,941</u>	<u>60,014,842</u>	<u>-</u>
Beneficial interest in lead trusts	<u>64,652,585</u>	<u>-</u>	<u>64,652,585</u>	<u>-</u>
Total Financial Assets	<u>\$467,308,068</u>	<u>\$203,516,941</u>	<u>\$124,667,427</u>	<u>\$-</u>
Financial Liabilities:				
Agency funds liability	<u>\$ (10,980,241)</u>	<u>\$ -</u>	<u>\$ (10,980,241)</u>	<u>\$ -</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

2018	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Financial Assets:				
Investments:				
Money market funds and other				
short-term investments	\$ 15,972,931	\$ 15,972,931	\$ -	\$ -
Corporate bonds	15,286,723	-	15,286,723	-
Equities:				
Basic materials	2,315,291	2,315,291	-	-
Consumer goods	13,324,226	13,324,226	-	-
Energy	3,936,656	3,936,656	-	-
Financial	13,902,471	13,902,471	-	-
Healthcare	13,190,816	13,190,816	-	-
Industrial goods	9,037,108	9,037,108	-	-
Others	2,638,716	2,638,716	-	-
Services	8,546,874	8,546,874	-	-
Technology	19,828,355	19,828,355	-	-
Transportation	91,419	91,419	-	-
Utilities	1,714,322	1,714,322	-	-
Government securities	11,475,615	-	11,475,615	-
Mutual funds:				
Domestic equity funds	14,265,789	14,265,789	-	-
Domestic bond funds	2,644,162	2,644,162	-	-
International equity funds	38,038,923	38,038,923	-	-
International bond funds	37,283,603	16,270,380	21,013,223	-
Other	3,168,367	3,168,367	-	-
Total investments in the fair value hierarchy	<u>226,662,367</u>	<u>178,886,806</u>	<u>47,775,561</u>	<u>-</u>
Partnership interests	35,966,268			
Private equity	10,880,632			
Hedge funds	<u>105,308,250</u>			
Total investments measured at net asset value (a)	<u>152,155,150</u>			
Total Investments at Fair Value	<u>378,817,517</u>	<u>178,886,806</u>	<u>47,775,561</u>	<u>-</u>
Beneficial interest in lead trusts	<u>64,065,863</u>	<u>-</u>	<u>64,065,863</u>	<u>-</u>
Total Financial Assets	<u>\$ 442,883,380</u>	<u>\$ 178,886,806</u>	<u>\$ 111,841,424</u>	<u>\$ -</u>
Financial Liabilities:				
Agency funds liability	<u>\$ (8,760,923)</u>	<u>\$ -</u>	<u>\$ (8,760,923)</u>	<u>\$ -</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

(a) *In accordance with Accounting Standards Codification Subtopic 820-10, certain investments that were measured at fair value using the net asset value per share (or the equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the investments at fair value presented in Note 5.*

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

	Fair Value 2019	Fair Value 2018	Unfunded Commitments	Redemption Frequency	Redemption Notice
Partnership interests	\$ 39,881,139	\$ 35,966,268	\$ 1,584,210	monthly, quarterly, bi-annually	30-180 days
Private equity	\$ 9,420,354	\$ 10,880,632	\$ 4,587,970	daily, quarterly, bi-annually	30-90 days
Hedge funds	\$ 89,822,207	\$ 105,308,250	\$ 16,007,413	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 \$5,776,000 in 2019 (\$5,393,000 in 2018) 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 \$4,857,000 in 2019 (\$4,641,000 in 2018) in Renaissance Institutional Diversified Fund LLC. The investment objective of the fund is to employ a quantitative global investment strategy with exposure to a diversified universe of equity securities, futures, and forwards, using long-term alpha signals.

The Foundation holds an investment with a fair value of approximately \$4,860,000 in 2019 (\$4,743,000 in 2018) in Whiteoak Capital Partners. The investment objective of the fund is the earning of substantial current income by lending and investing in a diversified portfolio of fixed income securities.

The Foundation holds an investment with a fair value of approximately \$5,419,000 in 2019 (\$3,314,000 in 2018) in American Strategic Value Realty Fund. The investment objective of the fund is to offer institutional investors the opportunity to participate in a real estate investment strategy that targets enhanced yield and value-added return opportunities, with a secondary goal of diversification to reduce overall investment risk.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

Partnership interests (continued)

The Foundation holds an investment with a fair value of approximately \$6,064,000 in 2019 (\$5,612,000 in 2018) in Intercontinental Real Estate Corporation. The investment objective of the fund is to invest in a pool of real estate assets that are diversified by geography and property type, with a focus on yield-driven investments and value-added investments.

The Foundation holds an investment with a fair value of approximately \$7,501,000 in 2019 (\$6,329,000 in 2018) in Pointer Offshore, Ltd. The investment objective of the fund is to trade and invest in various securities, private investment companies and other investments.

Private equity funds

The Foundation holds an investment with a fair value of approximately \$1,955,000 in 2019 (\$2,307,000 in 2018) in Strategic Value Special Situations Feeder Fund III, L.P. The investment objective of the fund is to generate capital appreciation through global investments in a range of distressed financial and other assets.

Hedge funds

The Foundation holds an investment with a fair value of approximately \$67,769,000 in 2019 (\$69,568,000 in 2018) 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 \$10,201,000 in 2019 (\$21,580,000 in 2018) in Courage Credit Opportunities Offshore Fund III, 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 be or have become involved in reorganization or bankruptcy proceedings.

The Foundation holds an investment with a fair value of approximately \$3,901,000 in 2019 (\$3,833,000 in 2018) in Courage Credit Opportunities Offshore Fund IV, 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 be or have become involved in reorganization or bankruptcy proceedings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

Hedge Funds (continued)

The Foundation holds an investment with a fair value of approximately \$6,900,000 in 2019 (\$6,540,000 in 2018) in Ironwood Institutional Multi-Strategy Fund LLC. The investment objective of the fund is capital appreciation with limited variability of returns.

In addition to the above funds, the Foundation invests in approximately 36 other investments in certain entities that calculate net asset value per share or its equivalent (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, 2019 and 2018, does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying consolidated statements of financial position. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies.

NOTE 10 - CERTAIN BEQUESTS

The Foundation's endowment consists of five permanently restricted bequests for donor-restricted funds established for a variety of purposes including support for public education, the acquisition of affordable housing, children, animals and the performing arts. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation's donor-restricted endowment funds are subject to 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 retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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NOTE 10 - CERTAIN BEQUESTS (CONTINUED)

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.

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, fixed income instruments and alternative investments is one method of diversification of investments of endowment funds. The portfolio is structured to consist of 40% to 80% equity securities, 60% to 20% fixed income securities, and up to 20% in alternative investment strategies.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 10 - CERTAIN BEQUESTS (CONTINUED)

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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Accumulated investment gains	\$ -	\$ 340,865	\$ 340,865
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	1,961,917	1,961,917
Total endowment funds	\$ -	\$ 2,302,782	\$ 2,302,782

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Accumulated investment gains	\$ -	\$ 74,409	\$ 74,409
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	1,961,889	1,961,889
Total endowment funds	\$ -	\$ 2,036,298	\$ 2,036,298

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. There were no such deficiencies at December 31, 2019 or 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 10 - CERTAIN BEQUESTS (CONTINUED)

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

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2019	\$ -	\$ 2,036,298	\$ 2,036,298
Contributions	-	28	28
Investment income	-	42,589	42,589
Net appreciation (realized and unrealized)	-	353,328	353,328
Amounts appropriated for expenditure	-	(129,461)	(129,461)
Endowment net assets, December 31, 2019	<u>\$ -</u>	<u>\$ 2,302,782</u>	<u>\$ 2,302,782</u>

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2018	\$ -	\$ 2,289,689	\$ 2,289,689
Contributions	-	322	322
Investment income	-	36,258	36,258
Net depreciation (realized and unrealized)	-	(144,718)	(144,718)
Amounts appropriated for expenditure	-	(145,253)	(145,253)
Endowment net assets, December 31, 2018	<u>\$ -</u>	<u>\$ 2,036,298</u>	<u>\$ 2,036,298</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2019 AND 2018

NOTE 11 - SUBSEQUENT EVENTS

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Foundation operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Foundation, to date, the Foundation is experiencing increased volatility in the fair value of investments. Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term as a result of these conditions. The Foundation’s leadership team is evaluating the evolving situation and will implement appropriate countermeasures as determined to be appropriate.

In March 2020, the Foundation entered into an agreement with the State of Tennessee, Department of Human Services, to administer approximately \$10,000,000 of disaster and emergency response and recovery grants to childcare providers over the next year. In April 2020, in response to the coronavirus pandemic, the agreement was amended to revise the scope and increase the amount of the grant to approximately \$18,000,000, and in June 2020, the grant was amended a second time to increase the amount of the grant to approximately \$53,800,000.

In August 2020, the Foundation acquired property at a cost of approximately \$6,000,000 to be used for the development and construction of new office space for the Foundation.