

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS

AND

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2010 AND 2009

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

NASHVILLE, TENNESSEE

FINANCIAL STATEMENTS
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DECEMBER 31, 2010 AND 2009

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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 statements of financial position of The Community Foundation of Middle Tennessee, Inc. (the "Foundation") as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation of Middle Tennessee, Inc. as of December 31, 2010 and 2009, 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 13, 2011

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

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 21,455,968	\$ 17,445,371
Other receivables	3,047,496	176,005
Investments	376,378,565	341,410,841
Beneficial interest in lead trusts	10,221,109	9,597,233
Property and equipment - at cost, less accumulated depreciation	<u>1,594,547</u>	<u>1,687,353</u>
TOTAL ASSETS	<u>\$ 412,697,685</u>	<u>\$ 370,316,803</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 170,175	\$ 191,948
Grants payable	10,084,578	10,211,188
Agency funds liability	<u>5,501,068</u>	<u>4,514,810</u>
TOTAL LIABILITIES	<u>15,755,821</u>	<u>14,917,946</u>
NET ASSETS		
Unrestricted:		
Board directed	11,505,746	10,124,388
Field-of-interest	27,365,984	17,138,946
Designated	29,443,814	27,348,669
Scholarship	10,225,243	8,947,893
Donor advised	<u>306,049,777</u>	<u>280,295,815</u>
Total Unrestricted	<u>384,590,564</u>	<u>343,855,711</u>
Temporarily Restricted:		
Charitable lead trusts	10,221,109	9,597,233
Accumulated purpose restricted earnings from permanently restricted bequest	<u>186,059</u>	<u>1,781</u>
Total Temporarily Restricted	<u>10,407,168</u>	<u>9,599,014</u>
Permanently Restricted	<u>1,944,132</u>	<u>1,944,132</u>
TOTAL NET ASSETS	<u>396,941,864</u>	<u>355,398,857</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 412,697,685</u>	<u>\$ 370,316,803</u>

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

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

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			2009				
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE								
Contributions	\$ 62,477,294	\$ 1,404,753	\$ -	63,882,047	\$ 27,498,748	\$ -	\$ 446,657	\$ 27,945,405
In-kind contributions	24,086	-	-	24,086	71,126	-	-	71,126
Interest, dividends and other investment income	5,197,141	37,294	-	5,234,435	4,683,023	27,583	-	4,710,606
Net realized and unrealized gains on investments	24,397,012	210,071	-	24,607,083	63,519,587	160,943	-	63,680,530
Change in value of split-interest gifts	-	1,106,147	-	1,106,147	-	587,885	-	587,885
Other	9,246	-	-	9,246	29,278	-	-	29,278
Net assets released resulting from satisfaction of donor restrictions	1,950,111	(1,950,111)	-	-	1,742,650	(1,742,650)	-	-
TOTAL SUPPORT AND REVENUE (LOSS)	94,054,890	808,154	-	94,863,044	97,544,412	(966,239)	446,657	97,024,830
EXPENSES								
Program services:								
Grants	44,664,210	-	-	44,664,210	46,935,305	-	-	46,935,305
Related expenses	4,914,266	-	-	4,914,266	3,723,983	-	-	3,723,983
Supporting services:								
Management and general	2,826,001	-	-	2,826,001	2,598,253	-	-	2,598,253
Investment management and custodial fees:								
Passed through from segregated investments	574,280	-	-	574,280	606,788	-	-	606,788
Other	341,280	-	-	341,280	217,456	-	-	217,456
TOTAL EXPENSES	53,320,037	-	-	53,320,037	54,081,785	-	-	54,081,785
CHANGE IN NET ASSETS	40,734,853	808,154	-	41,543,007	43,462,627	(966,239)	446,657	42,943,045
NET ASSETS:								
Beginning of year	343,855,711	9,599,014	1,944,132	355,398,857	300,393,084	10,565,253	1,497,475	312,455,812
End 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

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

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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 41,543,007	\$ 42,943,045
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	113,290	82,040
Noncash contributions of securities	(29,174,623)	(17,652,503)
Noncash grant distributions	750,000	750,000
Net realized and unrealized gains on investments	(24,607,083)	(63,680,530)
Change in value of split interest gifts	(2,510,900)	(587,885)
Distributions received from lead trusts	1,887,024	1,555,905
Increase in other assets	(2,871,491)	(144,350)
Increase (decrease) in:		
Accounts payable and accrued expenses	(21,773)	128,753
Grants payable	(126,610)	10,029,696
Agency funds liability	986,258	928,969
TOTAL ADJUSTMENTS	<u>(55,575,908)</u>	<u>(68,589,905)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(14,032,901)</u>	<u>(25,646,860)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(20,484)	(11,993)
Proceeds from sale of investments	201,795,048	171,909,813
Purchase of investments	<u>(183,731,066)</u>	<u>(137,889,391)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>18,043,498</u>	<u>34,008,429</u>
INCREASE IN CASH AND CASH EQUIVALENTS	4,010,597	8,361,569
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>17,445,371</u>	<u>9,083,802</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 21,455,968</u>	<u>\$ 17,445,371</u>

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

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

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 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 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 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.

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

DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (Continued)

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.

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 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 Statements of Activities under temporarily restricted net assets.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Grants Payable

Unconditional promises to give are recognized as grants payable and expenses in the period the grant award is approved by the Foundation. 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 at the Foundation's discretion, not later than July 31, 2012.

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 investments based on a hierarchy consisting of: Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market but for which observable market inputs are readily available), and Level 3 (securities 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.

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

DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

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, 2010 and 2009.

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 2010 and 2009.

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. In addition, the Foundation files a Tennessee state income tax return. Tax returns for years prior to fiscal year 2007 are closed.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted Net Assets

The following unrestricted net asset classifications are included in the accompanying 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.
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets

The following temporarily restricted net asset classifications are included in the accompanying 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 Statements of Activities, amounted to approximately \$344,000 for 2010 (\$424,000 for 2009).

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

DECEMBER 31, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of 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, 2010 and September 13, 2011, the date the financial statements were available to be issued, for possible recognition or disclosure in the 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, 2010, uninsured cash deposits at financial institutions were approximately \$20,842,000.

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.
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

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>2010</u>	<u>2009</u>
<u>Investments at fair value</u>		
Money market funds and other short term investments	\$ 37,968,669	\$ 31,688,775
Corporate bonds	16,781,266	35,502,389
Equities	98,916,701	87,629,793
Alternative investments:		
Partnership interests	22,457,699	21,293,059
Private equity	5,327,812	3,543,734
Hedge funds	83,017,320	71,616,913
Government securities	2,379,992	1,549,566
International securities	2,500,814	-
Mutual funds:		
Domestic equity funds	16,717,847	25,056,557
Domestic bond funds	29,809,246	15,599,109
International equity funds	41,820,429	26,292,874
International bond funds	16,296,315	14,711,804
Other	912,633	5,183,776
	<u>374,906,743</u>	<u>339,668,349</u>
 <u>Investments at cost</u>		
Property	920,581	920,581
Partnership interests	551,241	821,911
	<u>1,471,822</u>	<u>1,742,492</u>
	<u>\$ 376,378,565</u>	<u>\$ 341,410,841</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 5 - CHARITABLE LEAD TRUSTS

The Foundation is named beneficiary of various irrevocable charitable lead trusts as of December 31, 2010. 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 \$1,887,024 and \$1,555,905 for the years ended December 31, 2010 and 2009, respectively.

NOTE 6 - PROPERTY AND EQUIPMENT

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

	<u>2010</u>	<u>2009</u>
Land	\$ 892,800	\$ 892,800
Building	753,722	753,722
Furniture, fixtures and equipment	<u>564,060</u>	<u>582,205</u>
	2,210,582	2,228,727
Less accumulated depreciation	<u>(616,035)</u>	<u>(541,374)</u>
	<u>\$ 1,594,547</u>	<u>\$ 1,687,353</u>

Depreciation expense recognized on property and equipment amounted to: 2010 - \$113,290; 2009 - \$82,040.

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 \$49,000 and \$46,500 to the plan during 2010 and 2009, respectively.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 8 - FAIR VALUE MEASUREMENTS

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

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:				
Asset management	-	-	-	-
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.
(A TENNESSEE NOT-FOR-PROFIT CORPORATION)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 8 - FAIR VALUE MEASUREMENTS (CONTINUED)

2009	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Financial Assets:				
Investments:				
Money market funds and other				
short-term investments	\$ 31,688,775	\$ 31,688,775	\$ -	\$ -
Corporate bonds	35,502,389	-	35,502,389	-
Equities:				
Asset management	6,691	6,691	-	-
Basic materials	8,001,068	8,001,068	-	-
Conglomerates	477,743	477,743	-	-
Consumer goods	3,053,963	3,053,963	-	-
Energy	949,936	949,936	-	-
Financial	7,298,547	7,298,547	-	-
Healthcare	5,368,899	5,368,899	-	-
Industrial goods	4,019,385	4,019,385	-	-
Others	6,045,772	6,045,772	-	-
Services	43,645,626	43,645,626	-	-
Technology	7,461,197	7,461,197	-	-
Utilities	1,300,966	1,300,966	-	-
Alternative investments:				
Partnership interests	21,293,059	-	-	21,293,059
Private equity	3,543,734	-	-	3,543,734
Hedge funds	71,616,913	-	-	71,616,913
Government securities	1,549,566	-	1,549,566	-
Mutual funds:				
Domestic equity funds	25,056,557	25,056,557	-	-
Domestic bond funds	15,599,109	15,599,109	-	-
International equity funds	26,292,874	26,292,874	-	-
International bond funds	14,711,804	14,711,804	-	-
Other	5,183,776	5,183,776	-	-
	339,668,349	206,162,688	37,051,955	96,453,706
Beneficial interest in lead trusts	9,597,233	-	9,597,233	-
Total Financial Assets	<u>\$349,265,582</u>	<u>\$206,162,688</u>	<u>\$ 46,649,188</u>	<u>\$ 96,453,706</u>
Financial Liabilities:				
Agency funds liability	<u>\$ (4,514,810)</u>	<u>\$ -</u>	<u>\$ (4,514,810)</u>	<u>\$ -</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 8 - 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, 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	<u>(814,097)</u>	<u>1,489,986</u>	<u>11,085,357</u>	<u>11,761,246</u>
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>

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, 2009:

	Financial Assets			
	Partnership Interests	Private Equity	Hedge Funds	Total
Fair value, beginning of year	\$24,759,369	\$ 3,750,050	\$ 45,201,268	\$ 73,710,687
Realized and unrealized gains and losses	(1,317,469)	(280,948)	21,160,895	19,562,478
Purchases, issuances and settlements	<u>(2,148,841)</u>	<u>74,632</u>	<u>5,254,750</u>	<u>3,180,541</u>
Fair value, end of year	<u>\$21,293,059</u>	<u>\$ 3,543,734</u>	<u>\$ 71,616,913</u>	<u>\$ 96,453,706</u>

Unrealized gains and losses on assets included in Level 3 of the valuation hierarchy amounted to a gain of \$22,917 in 2010 and a loss of \$21,211,172 in 2009. Unrealized gains and losses are included in net realized and unrealized gains (losses) on investments in the Statement of Activities and relate to assets still held at the Statement of Financial Position date.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 8 - 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	\$ 22,457,699	\$ 2,762,573	quarterly, annually	30-90 days
Private equity	\$ 5,327,812	\$ 6,769,080	quarterly, annually	30-90 days
Hedge funds	\$ 83,017,320	\$ 13,429,713	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 \$6,442,000 in 2010 (\$5,898,800 in 2009) 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 \$4,805,000 in 2010 (\$5,326,300 in 2009) 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 \$3,451,000 in 2010 (\$2,920,200 in 2009) 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 \$2,461,000 in 2010 (\$2,213,100 in 2009) in GT Offshore Fund, Ltd. The investment objective of the fund is to achieve capital appreciation through direct and indirect investments in securities, derivative instruments and commodities.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 8 - FAIR VALUE MEASUREMENTS (CONTINUED)

Hedge funds

The Foundation holds an investment with a fair value of approximately \$48,554,000 in 2010 (\$50,250,000 in 2009) in Courage Special Situations Offshore Fund, Ltd. These investments are reported as hedge funds. 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 \$5,851,000 in 2010 (\$5,420,300 in 2009) in Acorn Overseas Fund, Ltd. The investment objective of the fund is to invest through investment funds and managed accounts to purchase, sell and hold securities in futures contracts.

The Foundation holds an investment with a fair value of approximately \$5,580,000 in 2010 (\$-0- in 2009) 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 \$3,231,000 in 2010 (\$-0- in 2009) in Global Strategies Fund, Ltd. The fund invests in a master fund which employs an investment strategy that focuses on limited partnerships and other entities which invest and trade in securities.

The Foundation holds an investment with a fair value of approximately \$-0- in 2010 (\$2,469,100 in 2009) in CCM Credit Opportunities Fund, L.P. The investment objective of the fund is to achieve superior risk-adjusted returns while emphasizing the preservation of capital by investing only in senior secured, senior unsecured and second lien corporate term loans made to leveraged companies, including those of companies that may, or have become involved in reorganization or bankruptcy proceedings.

In addition to the above funds, the Foundation invests in approximately 46 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, 2010, does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying 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 FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 9 - 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 9 - 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 therefrom 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 FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 9 - CERTAIN BEQUESTS (CONTINUED)

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

	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>
	2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 1,781</u>	<u>\$ 1,944,132</u>	<u>\$ 1,945,913</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, 2009 and 2010.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2010 AND 2009

NOTE 9 - CERTAIN BEQUESTS (CONTINUED)

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

	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>

	2009			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2009	\$ (113,320)	\$ -	\$ 1,497,475	\$1,384,155
Contributions	-	-	446,657	446,657
Investment income	-	27,583	-	27,583
Net appreciation (realized and unrealized)	113,320	47,623	-	160,943
Amounts appropriated for expenditure	-	(73,425)	-	(73,425)
Endowment net assets, December 31, 2009	<u>\$ -</u>	<u>\$ 1,781</u>	<u>\$ 1,944,132</u>	<u>\$1,945,913</u>