

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, 2008 AND 2007

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, 2008 AND 2007

TABLE OF CONTENTS

	<u>PAGE</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS .....	1
FINANCIAL STATEMENTS	
Statements of Financial Position .....	2
Statements of Activities .....	3
Statements of Cash Flows .....	4
Notes to Financial Statements .....	5 - 20



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, 2008 and 2007, 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, 2008 and 2007, 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  
October 21, 2009

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

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents - Note 3	\$ 34,807,092	\$ 59,752,946
Investments - at fair value - Notes 3 and 4	269,124,940	363,696,928
Beneficial interest in lead trusts - Note 5	10,565,253	11,876,838
Property and equipment - at cost, less accumulated depreciation - Note 6	1,757,400	1,660,443
Other	<u>31,655</u>	<u>93,278</u>
TOTAL ASSETS	<u>\$ 316,286,340</u>	<u>\$ 437,080,433</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 244,687	\$ 218,228
Obligation relating to guarantee of indebtedness - Note 9	-	535,713
Agency funds liability	<u>3,585,841</u>	<u>4,878,978</u>
TOTAL LIABILITIES	<u>3,830,528</u>	<u>5,632,919</u>
NET ASSETS - Note 9		
Unrestricted:		
Board directed	10,420,634	12,649,560
Field-of-interest	15,365,001	19,552,530
Designated	24,228,849	61,315,796
Scholarship	7,494,024	10,440,187
Donor advised	<u>242,884,576</u>	<u>314,631,362</u>
Total Unrestricted	<u>300,393,084</u>	<u>418,589,435</u>
Temporarily Restricted:		
Charitable lead trusts	10,565,253	11,876,838
Purpose restricted earnings from permanently restricted bequest	<u>-</u>	<u>251,812</u>
Total Temporarily Restricted	<u>10,565,253</u>	<u>12,128,650</u>
Permanently Restricted	<u>1,497,475</u>	<u>729,429</u>
TOTAL NET ASSETS	<u>312,455,812</u>	<u>431,447,514</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 316,286,340</u>	<u>\$ 437,080,433</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, 2008 AND 2007

	2008				2007			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE								
Contributions	\$ 96,504,012	\$ -	\$ 768,046	\$ 97,272,058	\$ 33,473,774	\$ -	\$ 4,250	\$ 33,478,024
In-kind contributions - Note 7	17,034	-	-	17,034	42,192	-	-	42,192
Interest, dividends and other								
investment income	7,339,004	20,896	-	7,359,900	13,922,994	41,858	-	13,964,852
Net realized and unrealized gains (losses)								
on investments - Note 4	(139,142,234)	(285,440)	-	(139,427,674)	17,852,659	57,538	-	17,910,197
Change in value of split-interest gifts	-	578,169	-	578,169	-	762,364	-	762,364
Amortization of guarantee obligation - Note 9	535,713	-	-	535,713	21,429	-	-	21,429
Other	61,522	-	-	61,522	41,478	-	-	41,478
Net assets released resulting from								
satisfaction of donor restrictions	1,877,022	(1,877,022)	-	-	1,505,830	(1,505,830)	-	-
TOTAL SUPPORT AND REVENUE (LOSS)	(32,807,927)	(1,563,397)	768,046	(33,603,278)	66,860,356	(644,070)	4,250	66,220,536
EXPENSES								
Program services:								
Grants	79,825,120	-	-	79,825,120	44,399,342	-	-	44,399,342
Related expenses	1,469,457	-	-	1,469,457	1,434,738	-	-	1,434,738
Supporting services:								
Management and general	2,683,001	-	-	2,683,001	2,530,252	-	-	2,530,252
Investment management and custodial fees:								
Passed through from segregated investments	1,157,004	-	-	1,157,004	1,355,087	-	-	1,355,087
Other	253,842	-	-	253,842	233,644	-	-	233,644
TOTAL EXPENSES	85,388,424	-	-	85,388,424	49,953,063	-	-	49,953,063
CHANGE IN NET ASSETS	(118,196,351)	(1,563,397)	768,046	(118,991,702)	16,907,293	(644,070)	4,250	16,267,473
NET ASSETS:								
Beginning of year	418,589,435	12,128,650	729,429	431,447,514	401,682,142	12,772,720	725,179	415,180,041
End of year	\$ 300,393,084	\$ 10,565,253	\$ 1,497,475	\$ 312,455,812	\$ 418,589,435	\$ 12,128,650	\$ 729,429	\$ 431,447,514

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, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (118,991,702)	\$ 16,267,473
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	95,708	60,642
Noncash contributions of securities	(82,527,311)	(22,571,834)
Noncash grant distributions	4,762,757	-
Net realized and unrealized (gains) losses on investments	139,427,674	(17,910,197)
Change in value of split interest gifts	(578,169)	(762,364)
Distributions received from lead trusts	1,889,754	1,448,076
Amortization of guarantee obligation	(535,713)	(21,429)
(Increase) decrease in other assets	61,623	(87,278)
Increase (decrease) in:		
Accounts payable and accrued expenses	26,459	164,866
Agency funds liability	(1,293,137)	633,598
TOTAL ADJUSTMENTS	<u>61,329,645</u>	<u>(39,045,920)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(57,662,057)</u>	<u>(22,778,447)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(192,665)	(65,836)
Proceeds from sale of investments	198,602,704	164,941,191
Purchase of investments	<u>(165,693,836)</u>	<u>(114,305,366)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>32,716,203</u>	<u>50,569,989</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,945,854)	27,791,542
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>59,752,946</u>	<u>31,961,404</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 34,807,092</u>	<u>\$ 59,752,946</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, 2008 AND 2007

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 results of operations 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.

Any gifts of equipment, facilities, or materials are reported as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash equivalents

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

Investments

Investments are carried at fair value (stocks, bonds, notes, options and mutual funds - generally at quoted market prices; investment partnership interests - based on quoted market prices of underlying securities). Investments in land 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. See Note 10 for additional information on fair value measurements.

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 statement of activities under temporarily restricted net assets.

Property and equipment

Property and equipment are stated at acquisition cost, or at estimated fair value at date of gift, if donated, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (building - 39 years; equipment, furniture and fixtures - 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.

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.



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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Accordingly, income taxes are not provided.

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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted net assets (continued)

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.

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.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

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, 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.

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.

Reclassification

Certain amounts in the prior year's financial statements have been reclassified in order to be comparative with the current year's presentation. The reclassification had no effect on the change in net assets as previously reported.

Recent accounting pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*. FIN 48 provides guidance regarding the recognition, measurement, presentation and disclosure in the financial statements of tax positions taken or expected to be taken on a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. The cumulative effect of changes arising from the initial application of FIN 48 is required to be reported as an adjustment to the opening balance of net assets in the period of adoption. In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected this deferral and, accordingly, will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to adopting FIN 48, the Foundation will continue to evaluate uncertain tax positions and related income tax contingencies under SFAS No. 5, *Accounting for Contingencies*. SFAS No. 5 requires annual accrual for losses that are considered probable and can be reasonably estimated, or disclosure for losses that are considered reasonably possible and/or cannot be reasonably estimated.

The Foundation is currently evaluating the impact, if any, of the adoption of this standard on the financial statements.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash accounts at a reputable financial institution whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. The Emergency Economic Stabilization Act of 2008 temporarily increased FDIC coverage from \$100,000 to \$250,000 per depositor, effective October 3, 2008 through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act extended the temporary increase in FDIC coverage through December 31, 2013. On October 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program. Under the program, all non-interest bearing funds held by qualifying financial institutions for the period October 14, 2008 through December 31, 2009 are fully insured. As of December 31, 2008, uninsured cash deposits at financial institutions were approximately \$7,447,000.

The Foundation also maintains investment balances at various brokerage and investment companies. These investments consist of 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

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>2008</u>	<u>2007</u>
<u>Investments at fair value</u>		
Corporate bonds	\$ 19,841,639	\$ 34,849,584
Common stocks	114,274,912	119,067,695
Alternative investments:		
Partnership interests (1)	24,759,369	27,146,336
Hedge funds	45,201,268	74,500,784
Government securities	951,290	3,182,267
International securities	1,126,536	1,794,433
Mutual funds:		
Domestic equity funds	17,987,792	27,619,024
Domestic bond funds	10,143,870	22,349,489
International equity funds	17,584,105	28,638,468
International bond funds	8,292,089	11,503,415
Other	7,737,407	12,043,808
<u>Investments at cost</u>		
Property	704,724	300,000
Partnership interests	519,939	701,625
	<u>\$ 269,124,940</u>	<u>\$ 363,696,928</u>

(1) At December 31, 2008, the Foundation was committed to invest an additional \$8,238,251 in certain investment partnerships.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 5 - CHARITABLE LEAD TRUSTS

The Foundation is named beneficiary of various irrevocable charitable lead trusts as of December 31, 2008. 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 \$1,889,754 and \$1,448,076 for the years ended December 31, 2008 and 2007, respectively.

NOTE 6 - PROPERTY AND EQUIPMENT

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

	<u>2008</u>	<u>2007</u>
Land	\$ 892,800	\$ 892,800
Building	751,971	707,751
Equipment	330,561	207,238
Furniture and fixtures	<u>241,402</u>	<u>216,280</u>
	2,216,734	2,024,069
Less accumulated depreciation	<u>(459,334)</u>	<u>(363,626)</u>
	<u>\$ 1,757,400</u>	<u>\$ 1,660,443</u>

Depreciation expense recognized on property and equipment amounted to: 2008 - \$95,708; 2007 - \$60,642.

NOTE 7 - DONATED SERVICES

The Foundation received donated professional services approximating \$17,192 and \$42,192 during 2008 and 2007, respectively.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Foundation has a Simplified Employee Pension Plan covering eligible employees aged 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 \$134,000 and \$120,000 to the plan during 2008 and 2007, respectively.

NOTE 9 - GUARANTEE OF INDEBTEDNESS OF OTHER NONPROFIT ORGANIZATION

As part of its support of charitable organizations, the Foundation may choose, under certain circumstances, to guarantee the indebtedness of other nonprofit organizations to facilitate borrowings by those organizations and/or to secure more favorable terms.

At December 31, 2007, the Foundation was committed under an agreement to guarantee a \$20 million loan obligation of a certain nonprofit organization over its 28-year term. At the agreement's inception in 2004, the Foundation recorded the \$600,000 estimated fair value of the loan guarantee as a liability and grant/contribution expense. The liability was being amortized as a credit to operations by the straight-line method over the term of the guarantee. In June 2008, the Foundation granted the nonprofit organization funds to retire the loan obligation and was released from the loan guarantee. Accordingly, the remaining unamortized balance of \$535,713 relating to the guarantee was recognized as revenue in the statement of activities in 2008.

NOTE 10 - FAIR VALUE MEASUREMENTS NOTE 10 - FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Foundation adopted the provisions of SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value for financial assets and financial liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below.

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
---------	---

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 10 - FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2      Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The 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 need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial assets measured at fair value on a recurring basis include the following:

*Money market funds and other short-term investments* - Valued using amortized cost which approximates fair value.

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

*Beneficial interest in lead trusts* - The measurement of the Foundations' beneficial interest in charitable lead trusts was determined at the date of the gift and is adjusted annually for the change in present value of the estimated future cash flows. The valuation is based on the term of the trust or the actuarial life expectancy of the remainder beneficiary. (See Note 5.)

*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.



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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 10 - FAIR VALUE MEASUREMENTS (CONTINUED)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation method is 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 fair value measurement at the reporting date, and the difference could be significant.

The following table summarizes the Foundation's financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2008, segregated by level of valuation inputs within the fair value hierarchy utilized to measure fair value:

	<u>Level 1</u> <u>Inputs</u>	<u>Level 2</u> <u>Inputs</u>	<u>Level 3</u> <u>Inputs</u>	<u>Total</u> <u>Carrying</u> <u>Value</u>
Financial Assets:				
Money market funds and other				
short-term investments	\$ 25,723,290	\$ -	\$ -	\$ 25,723,290
Corporate bonds	-	19,841,639	-	19,841,639
Common stocks	110,524,862	-	3,750,050	114,274,912
Alternative investments:				
Partnership interests	-	-	24,759,369	24,759,369
Hedge funds	-	-	45,201,268	45,201,268
Government securities	-	951,290	-	951,290
International securities	-	1,126,536	-	1,126,536
Mutual funds:				
Domestic equity funds	17,987,792	-	-	17,987,792
Domestic bond funds	10,143,870	-	-	10,143,870
International equity funds	17,584,105	-	-	17,584,105
International bond funds	8,292,089	-	-	8,292,089
Other	7,737,407	-	-	7,737,407
Beneficial interest in lead trusts	-	10,565,253	-	10,565,253
Total Financial Assets	197,993,415	32,484,718	73,710,687	304,188,820
Financial Liabilities:				
Agency funds liability	-	(3,585,841)	-	(3,585,841)
Financial Assets and Liabilities - Net	<u>\$ 197,993,415</u>	<u>\$28,898,877</u>	<u>\$ 73,710,687</u>	<u>\$300,602,979</u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 10 - 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, 2008:

	Financial Assets			
	Common Stocks	Partnership Interests	Hedge Funds	Total
Fair value, beginning of year	\$ 4,104,037	\$ 29,984,709	\$ 43,350,061	\$ 77,438,807
Realized and unrealized gains and losses	(698,810)	(6,907,916)	(17,503,501)	(25,110,227)
Purchases, issuances and settlements	344,823	1,682,576	19,354,708	21,382,107
Transfers in and out of Level 3 valuation hierarchy	-	-	-	-
Fair value, end of year	<u>\$ 3,750,050</u>	<u>\$ 24,759,369</u>	<u>\$ 45,201,268</u>	<u>\$ 73,710,687</u>

NOTE 11 - 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). This Act became effective July 1, 2007.

In August 2008, the FASB issued FASB Staff Position (FSP) No. SFAS 117-1, *Endowments of Not for Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP No. SFAS 117-1). FSP No. SFAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. FSP No. SFAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 11 - CERTAIN BEQUESTS (CONTINUED)

*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 donor-restricted 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. 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 UPMIFA and the State of Tennessee's SUPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 11 - CERTAIN BEQUESTS (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 will be 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 shall be one method of diversification of investments of endowment funds. The portfolio shall be 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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 11 - CERTAIN BEQUESTS (CONTINUED)

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

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ (113,320)	\$ -	\$ 1,497,475	\$ 1,384,155

  

	2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 251,812	\$ 729,429	\$ 981,241

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, which are reported in unrestricted net assets, were \$113,320 as of December 31, 2008. This deficiency resulted from unfavorable market fluctuations. There were no such deficiencies at December 31, 2007.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2008 AND 2007

NOTE 11 - CERTAIN BEQUESTS (CONTINUED)

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

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2008	\$ -	\$ 251,812	\$ 729,429	\$ 981,241
Contributions	-	-	768,046	768,046
Investment income	-	20,896	-	20,896
Net depreciation (realized and unrealized)	(113,320)	(210,819)	-	(324,139)
Amounts appropriated for expenditure	-	(61,889)	-	(61,889)
Endowment net assets, December 31, 2008	<u>\$ (113,320)</u>	<u>\$ -</u>	<u>\$ 1,497,475</u>	<u>\$1,384,155</u>

  

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2007	\$ -	\$ 210,170	\$ 725,179	\$ 935,349
Contributions	-	-	4,250	4,250
Investment income	-	41,858	-	41,858
Net appreciation (realized and unrealized)	-	57,538	-	57,538
Amounts appropriated for expenditure	-	(57,754)	-	(57,754)
Endowment net assets, December 31, 2007	<u>\$ -</u>	<u>\$ 251,812</u>	<u>\$ 729,429</u>	<u>\$ 981,241</u>