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, 2017 AND 2016

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.
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, 2017 and 2016, and the related consolidated statements of activities 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.

KraftCPAs PLLC • Certified Public Accountants and Consultants
555 Great Circle Road • Nashville, TN 37228 • phone: 615-242-7351 • fax: 615-782-4271 • kraftcpas.com

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, 2017 and 2016, 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 10, 2018

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Cash	$ 36,811,101	$ 23,110,230
Other receivables	753,478	553,492
Investments	389,422,405	355,526,192
Beneficial interest in lead trusts	19,235,226	20,251,281
Property and equipment - at cost, less accumulated depreciation	1,425,754	1,456,660
TOTAL ASSETS	$ 447,647,964	$ 400,897,855
LIABILITIES		
Accounts payable and accrued expenses	$ 208,933	$ 26,216
Grants payable	188,225	419,486
Agency funds liability	8,761,367	7,543,257
TOTAL LIABILITIES	9,158,525	7,988,959
NET ASSETS		
Unrestricted:		
Board directed	15,788,468	14,381,981
Field-of-interest	77,269,712	58,643,479
Designated	34,166,724	29,477,339
Scholarship	17,485,949	14,642,250
Donor advised	272,253,671	253,383,693
Total Unrestricted	416,964,524	370,528,742
Temporarily Restricted:		
Charitable lead trusts	19,235,226	20,251,281
Accumulated purpose restricted earnings from permanently restricted bequest	328,122	167,306
Total Temporarily Restricted	19,563,348	20,418,587
Permanently Restricted	1,961,567	1,961,567
TOTAL NET ASSETS	438,489,439	392,908,896
TOTAL LIABILITIES AND NET ASSETS	$ 447,647,964	$ 400,897,855

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, 2017 AND 2016

	2017				2016			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE								
Contributions	$ 55,434,953	$ -	$ -	$ 55,434,953	$ 49,413,938	$ 15,879,738	$ -	$ 65,293,676
In-kind contributions	59,968	-	-	59,968	48,186	-	-	48,186
Interest, dividends and other investment income	6,496,185	34,357	-	6,530,542	4,955,364	32,019	-	4,987,383
Net realized and unrealized gains on investments	36,866,719	268,329	-	37,135,048	16,398,050	85,605	-	16,483,655
Change in value of split-interest gifts	-	1,552,820	-	1,552,820	-	(583,645)	-	(583,645)
Other	205,588	-	-	205,588	105,800	-	-	105,800
Net assets released resulting from satisfaction of donor restrictions	2,710,745	(2,710,745)	-	-	2,078,466	(2,078,466)	-	-
TOTAL SUPPORT AND REVENUE	101,774,158	(855,239)	-	100,918,919	72,999,804	13,335,251	-	86,335,055
EXPENSES								
Program services:								
Grants	47,162,075	-	-	47,162,075	51,449,804	-	-	51,449,804
Related expenses	3,280,363	-	-	3,280,363	3,423,455	-	-	3,423,455
Supporting services:								
Management and general	4,008,358	-	-	4,008,358	3,412,047	-	-	3,412,047
Investment management and custodial fees:								
Passed through from segregated investments	465,444	-	-	465,444	451,784	-	-	451,784
Other	422,136	-	-	422,136	589,369	-	-	589,369
TOTAL EXPENSES	55,338,376	-	-	55,338,376	59,326,459	-	-	59,326,459
CHANGE IN NET ASSETS	46,435,782	(855,239)	-	45,580,543	13,673,345	13,335,251	-	27,008,596
NET ASSETS:								
Beginning of year	370,528,742	20,418,587	1,961,567	392,908,896	356,855,397	7,083,336	1,961,567	365,900,300
End of year	$ 416,964,524	$ 19,563,348	$ 1,961,567	$ 438,489,439	$ 370,528,742	$ 20,418,587	$ 1,961,567	$ 392,908,896

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, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES		
Change in net assets	$ 45,580,543	$ 27,008,596
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	46,898	45,618
Noncash contributions of investments	(10,949,082)	(6,829,911)
Net realized and unrealized gains on investments	(37,135,048)	(16,483,655)
Change in value of split interest gifts	(1,552,820)	583,645
Noncash contribution of beneficial interest in lead trusts	-	(15,879,738)
Distributions received from lead trusts	2,568,875	1,929,704
Bad debt expense	374,101	-
Increase in other receivables	(574,087)	(123,881)
Increase (decrease) in:		
Accounts payable and accrued expenses	182,717	(65,177)
Grants payable	(231,261)	408,406
Agency funds liability	1,218,110	378,269
TOTAL ADJUSTMENTS	(46,051,597)	(36,036,720)
NET CASH USED IN OPERATING ACTIVITIES	(471,054)	(9,028,124)
INVESTING ACTIVITIES		
Purchases of property and equipment	(15,992)	(36,992)
Proceeds from sale of investments	163,699,139	145,769,194
Purchase of investments	(149,511,222)	(134,656,669)
NET CASH PROVIDED BY INVESTING ACTIVITIES	14,171,925	11,075,533
INCREASE IN CASH	13,700,871	2,047,409
CASH - BEGINNING OF YEAR	23,110,230	21,062,821
CASH - END OF YEAR	$ 36,811,101	$ 23,110,230

See accompanying notes to consolidated financial statements.

NOTE 1 - ORGANIZATION AND GENERAL

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

The consolidated financial statements include the accounts of The Community Foundation of Middle Tennessee Properties, Nonprofit LLC, a single-member limited liability company formed to hold real estate donated to the Foundation, 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.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donated marketable securities are recorded at their fair value at the date of contribution based on their quoted market price.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Consolidated Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

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.

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 and non-investment partnership interests without a readily determinable fair value are carried at cost. Net realized and unrealized gains and losses are recognized currently in the Consolidated Statement of Activities.

Split-Interest Gifts

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants Payable

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

Agency Funds Liability

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

Fair Value Measurements

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

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

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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

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, 2017 and 2016.

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 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, fundraising 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 2017 and 2016.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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.

Unrestricted Net Assets

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

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unrestricted Net Assets (Continued)

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 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.

Accumulated 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, 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Goods and Services and In-Kind Contributions (Continued)

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

Fundraising Expenses

Fundraising expenses, which are included in management and general expenses on the Consolidated Statement of Activities, amounted to approximately $2,500,000 for 2017 ($2,200,000 for 2016).

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.

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance outlines a simple comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards, as it is considered in current guidance. The Foundation will also need to apply new guidance to determine whether revenue should be recognized over time or at a point in time. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Foundation has not yet selected a transition method. The Foundation does not expect that the adoption of the updated standard will have a material impact on the consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (*a consensus of the FASB Emerging Issues Task Force*), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Foundation beginning on January 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The adoption of ASU 2016-18 is not expected to have a material impact on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, “net assets with donor restrictions” and “net assets without donor restrictions”, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

Reclassifications

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform to the current year presentation. The reclassifications had no effect on prior year’s change in net assets.

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between December 31, 2017 and September 10, 2018, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

The Foundation maintains cash balances 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.

NOTE 3 - CONCENTRATIONS OF CREDIT RISK (CONTINUED)

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).

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:

	2017	2016
Investments at fair value		
Money market funds and other short-term investments	$ 17,710,089	$ 15,135,360
Corporate bonds	12,557,469	12,238,972
Equities	95,613,200	81,778,000
Government securities	10,716,943	9,660,320
Mutual funds	101,655,596	87,652,795
Alternative investments	150,089,143	149,032,541
	388,342,440	355,497,988
Investments at cost		
Property	1,079,965	22,619
Partnership interests	-	5,585
	1,079,965	28,204
	$ 389,422,405	$ 355,526,192

NOTE 5 - 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 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 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 $2,568,875 and $1,929,704 for the years ended December 31, 2017 and 2016, respectively.

NOTE 6 - PROPERTY AND EQUIPMENT

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

	2017	2016
Land	$ 892,800	$ 892,800
Building	656,900	656,900
Furniture, fixtures and equipment	802,526	786,534
	2,352,226	2,336,234
Less accumulated depreciation	(926,472)	(879,574)
	$ 1,425,754	$ 1,456,660

Depreciation expense recognized on property and equipment amounted to: 2017 - $46,898; 2016 - $45,618.

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 of compensation during the plan year. The Foundation contributed approximately $72,000 and $66,000 to the plan during 2017 and 2016, respectively.

NOTE 8 - 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:

2017	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Financial Assets:				
Investments:				
Money market funds and other short-term investments	$ 17,710,089	$ 17,710,089	$ -	$ -
Corporate bonds	12,557,469	-	12,557,469	-
Equities:				
Basic materials	4,759,137	4,759,137	-	-
Communications	1,068	1,068	-	-
Consumer goods	12,654,596	12,654,596	-	-
Energy	4,536,072	4,536,072	-	-
Financial	15,868,667	15,868,667	-	-
Healthcare	11,026,488	11,026,488	-	-
Industrial goods	8,312,733	8,312,733	-	-
Others	1,213,717	1,213,717	-	-
Real Estate	249,499	249,499	-	-
Services	12,354,944	12,354,944	-	-
Technology	21,921,912	21,921,912	-	-
Transportation	944,086	944,086	-	-
Utilities	1,770,281	1,770,281	-	-
Government securities	10,716,943	-	10,716,943	-
Mutual funds:				
Domestic equity funds	19,524,419	19,524,419	-	-
Domestic bond funds	2,302,355	2,302,355	-	-
International equity funds	40,089,937	40,089,937	-	-
International bond funds	39,106,003	16,941,734	22,164,269	-
Other	632,882	632,882	-	-
Total investments in the fair value hierarchy	238,253,297	192,814,616	45,438,681	-
Partnership interests	34,447,716			
Private equity	14,321,652			
Hedge funds	101,319,775			
Total investments measured at net asset value (a)	150,089,143			
Total Investments at Fair Value	388,342,440	192,814,616	45,438,681	-
Beneficial interest in lead trusts	19,235,226	-	19,235,226	-
Total Financial Assets	$ 407,577,666	$ 192,814,616	$ 64,673,907	$ -
Financial Liabilities:				
Agency funds liability	$ (8,761,367)	$ -	$ (8,761,367)	$ -

NOTE 8 - FAIR VALUE MEASUREMENTS (CONTINUED)

2016	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Financial Assets:				
Investments:				
Money market funds and other short-term investments	$ 15,135,360	$ 15,135,360	$ -	$ -
Corporate bonds	12,238,972	-	12,238,972	-
Equities:				
Basic materials	3,332,577	3,332,577	-	-
Consumer goods	8,264,870	8,264,870	-	-
Energy	3,619,950	3,619,950	-	-
Financial	14,286,735	14,286,735	-	-
Healthcare	9,800,128	9,800,128	-	-
Industrial goods	5,829,825	5,829,825	-	-
Others	44,099	44,099	-	-
Services	15,287,247	15,287,247	-	-
Technology	17,597,011	17,597,011	-	-
Transportation	1,944,725	1,944,725	-	-
Utilities	1,770,833	1,770,833	-	-
Government securities	9,660,320	-	9,660,320	-
Mutual funds:				
Domestic equity funds	15,901,904	15,901,904	-	-
Domestic bond funds	1,301,309	1,301,309	-	-
International equity funds	32,853,326	32,853,326	-	-
International bond funds	36,863,558	17,219,438	19,644,120	-
Other	732,698	732,698	-	-
Total investments in the fair value hierarchy	206,465,447	164,922,035	41,543,412	-
Partnership interests	30,045,189			
Private equity	15,434,483			
Hedge funds	103,552,869			
Total investments measured at net asset value (a)	149,032,541			
Total Investments at Fair Value	355,497,988	164,922,035	41,543,412	-
Beneficial interest in lead trusts	20,251,281	-	20,251,281	-
Total Financial Assets	$ 375,749,269	$ 164,922,035	$ 61,794,693	$ -
Financial Liabilities:				
Agency funds liability	$ (7,543,257)	$ -	$ (7,543,257)	$ -

NOTE 8 - 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 4.

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

	Fair Value 2017	Fair Value 2016	Unfunded Commitments	Redemption Frequency	Redemption Notice
Partnership interests	$ 34,447,716	$ 30,045,189	$ 1,879,000	monthly, quarterly, bi-annually	30-180 days
Private equity	$ 14,321,652	$ 15,434,483	$ 7,892,271	daily, quarterly	65-90 days
Hedge funds	$101,319,775	$ 103,552,869	$ 4,580,958	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 $5,282,000 in 2017 ($4,962,000 in 2016) 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 $4,496,000 in 2017 ($0 in 2016) 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 $4,391,000 in 2017 ($4,250,000 in 2016) 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 $5,144,000 in 2017 ($4,803,000 in 2016) 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.

NOTE 8 - FAIR VALUE MEASUREMENTS (CONTINUED)

Partnership interests (continued)

The Foundation holds an investment with a fair value of approximately $6,702,000 in 2017 ($5,762,000 in 2016) 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 $2,268,000 in 2017 ($3,219,000 in 2016) in HC PR Offshore Fund VII. The investment objective of the fund is to realize long-term total returns by investing in a diversified group of pooled investment vehicles.

The Foundation holds an investment with a fair value of approximately $2,501,000 in 2017 ($1,476,000 in 2016) 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 $70,228,000 in 2017 ($68,687,000 in 2016) 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 $656,000 in 2017 ($8,332,000 in 2016) 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 $17,933,000 in 2017 ($8,263,000 in 2016) 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 held an investment with a fair value of approximately $4,891,000 in 2016 (sold in 2017) in Titan Masters International Fund, Ltd. The objective of the fund was to achieve capital appreciation through the use of a fund of funds, multi-manager investment strategy by allocating its assets around limited liability companies and/or separate investment accounts which utilized a variety of investment strategies.

NOTE 8 - FAIR VALUE MEASUREMENTS (CONTINUED)

Hedge Funds (continued)

The Foundation holds an investment with a fair value of approximately $6,192,000 in 2017 ($5,999,000 in 2016) in Ironwood Institutional Multi-Strategy Fund LLC. The investment objective of the fund is capital appreciation with limited variability of returns.

The Foundation holds an investment with a fair value of approximately $2,518,000 in 2017 ($3,000,000 in 2016) in Edge Discovery. The investment objective of the fund is to deliver high risk-adjusted absolute returns with low correlation to market indices.

In addition to the above funds, the Foundation invests in approximately 44 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, 2017 and 2016, does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying Consolidated Statement of Financial Position. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies.

NOTE 9 - CERTAIN BEQUESTS

The Foundation’s endowment consists of five permanently restricted bequests for donor restricted funds established for a variety of purposes. 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).

NOTE 9 - 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 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.

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.

NOTE 9 - CERTAIN BEQUESTS (CONTINUED)

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.

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

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 328,122	$ 1,961,567	$ 2,289,689

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 167,306	$ 1,961,567	$ 2,128,873

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, 2017 or 2016.

NOTE 9 - CERTAIN BEQUESTS (CONTINUED)

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

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2017	$ -	$ 167,306	$ 1,961,567	$ 2,128,873
Investment income	-	34,357	-	34,357
Net appreciation (realized and unrealized)	-	268,329	-	268,329
Amounts appropriated for expenditure	-	(141,870)	-	(141,870)
Endowment net assets, December 31, 2017	$ -	$ 328,122	$ 1,961,567	$ 2,289,689

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	$ -	$ 198,444	$ 1,961,567	$ 2,160,011
Investment income	-	32,019	-	32,019
Net appreciation (realized and unrealized)	-	85,605	-	85,605
Amounts appropriated for expenditure	-	(148,762)	-	(148,762)
Endowment net assets, December 31, 2016	$ -	$ 167,306	$ 1,961,567	$ 2,128,873