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, 2018 AND 2017

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

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CONSOLIDATED FINANCIAL STATEMENTS
AND
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DECEMBER 31, 2018 AND 2017

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KraftCPAs PLLC

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, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

KraftCPAs PLLC • Certified Public Accountants and Consultants
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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, 2018 and 2017, 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
October 7, 2019

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash	$ 23,201,334	$ 36,811,101
Other receivables	181,319	753,478
Investments	378,847,365	389,422,405
Beneficial interest in lead trusts	64,065,863	19,235,226
Property and equipment - at cost, less accumulated depreciation	1,393,767	1,425,754
TOTAL ASSETS	$ 467,689,648	$ 447,647,964
LIABILITIES		
Accounts payable and accrued expenses	$ 25,851	$ 208,933
Grants payable	872,982	188,225
Agency funds liability	8,760,923	8,761,367
TOTAL LIABILITIES	9,659,756	9,158,525
NET ASSETS		
Without donor restrictions:		
Board directed	15,914,044	15,788,468
Field-of-interest	68,496,333	77,269,712
Designated	34,020,209	34,166,724
Scholarship	16,246,470	17,485,949
Donor advised	257,250,675	272,253,671
Total net assets without donor restrictions	391,927,731	416,964,524
With donor restrictions:		
Charitable lead trusts	64,065,863	19,235,226
Certain bequests	2,036,298	2,289,689
Total net assets wth donor restrictions	66,102,161	21,524,915
TOTAL NET ASSETS	458,029,892	438,489,439
TOTAL LIABILITIES AND NET ASSETS	$ 467,689,648	$ 447,647,964

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, 2018 AND 2017

	2018			2017		
	NET ASSETS WITHOUT DONOR RESTRICTIONS	NET ASSETS WITH DONOR RESTRICTIONS	TOTAL	NET ASSETS WITHOUT DONOR RESTRICTIONS	NET ASSETS WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE						
Contributions	$ 49,968,908	$ 45,969,222	$ 95,938,130	$ 55,434,953	$ -	$ 55,434,953
In-kind contributions	66,439	-	66,439	59,968	-	59,968
Investment (loss) income, net	(11,233,638)	(108,460)	(11,342,098)	42,475,324	302,686	42,778,010
Change in value of split-interest gifts	-	780,474	780,474	-	1,552,820	1,552,820
Other	78,608	-	78,608	32,912	-	32,912
Net assets released resulting from satisfaction of donor restrictions	2,063,990	(2,063,990)	-	2,710,745	(2,710,745)	-
TOTAL SUPPORT AND REVENUE	40,944,307	44,577,246	85,521,553	100,713,902	(855,239)	99,858,663
EXPENSES						
Program services	61,014,379	-	61,014,379	49,364,841	-	49,364,841
Supporting services:						
Management and general	1,528,321	-	1,528,321	1,421,072	-	1,421,072
Fundraising	3,438,400	-	3,438,400	3,492,207	-	3,492,207
TOTAL EXPENSES	65,981,100	-	65,981,100	54,278,120	-	54,278,120
CHANGE IN NET ASSETS	(25,036,793)	44,577,246	19,540,453	46,435,782	(855,239)	45,580,543
NET ASSETS:						
Beginning of year	416,964,524	21,524,915	438,489,439	370,528,742	22,380,154	392,908,896
End of year	$ 391,927,731	$ 66,102,161	$ 458,029,892	$ 416,964,524	$ 21,524,915	$ 438,489,439

See accompanying notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				2017			
		SUPPORTING SERVICES				SUPPORTING SERVICES		
	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL FUNCTIONAL EXPENSES	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL FUNCTIONAL EXPENSES
Grants	$ 58,949,195	$ -	$ -	$ 58,949,195	$ 47,162,075	$ -	$ -	$ 47,162,075
Compensation	1,033,843	636,211	980,826	2,650,880	967,914	595,639	918,277	2,481,830
Other employee benefits	164,047	100,952	155,635	420,634	148,595	91,443	140,974	381,012
Payroll taxes	73,811	45,423	70,027	189,261	68,846	42,366	65,315	176,527
Professional fees	229,438	222,691	222,691	674,820	170,896	165,871	165,871	502,638
Marketing	132,018	128,136	128,136	388,290	109,220	106,008	106,008	321,236
Office expenses	118,363	114,883	114,883	348,129	94,263	91,492	91,492	277,247
Information technology	71,054	68,965	68,965	208,984	68,410	66,399	66,399	201,208
Building expenses and maintenance	65,449	33,342	24,698	123,489	31,950	31,011	31,011	93,972
Bank and credit card fees	74,549	72,357	72,357	219,263	75,472	73,252	73,252	221,976
Professional development	16,940	18,571	20,483	55,994	12,553	72,199	21,938	106,690
Special events and meetings	-	14,907	1,475,811	1,490,718	-	17,271	1,709,807	1,727,078
Depreciation	16,672	16,182	16,182	49,036	15,946	15,476	15,476	46,898
Insurance coverage	22,024	21,376	21,376	64,776	25,618	24,865	24,865	75,348
Bad debt expense	-	-	-	-	374,101	-	-	374,101
Business and auction sales taxes	-	-	22,115	22,115	-	-	21,273	21,273
Membership and subscriptions	12,387	12,023	12,023	36,433	9,507	9,226	9,226	27,959
Gift cards and gifts	12,000	377	4,186	16,563	12,315	1,400	2,745	16,460
In-kind professional services	22,589	21,925	21,925	66,439	17,160	17,154	19,654	53,968
Other	-	-	6,081	6,081	-	-	8,624	8,624
TOTAL FUNCTIONAL EXPENSES	$ 61,014,379	$ 1,528,321	$ 3,438,400	$ 65,981,100	$ 49,364,841	$ 1,421,072	$ 3,492,207	$ 54,278,120

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, 2018 AND 2017

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	$ 19,540,453	$ 45,580,543
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	49,036	46,898
Noncash contributions of investments	(10,115,755)	(10,949,082)
Net realized and unrealized losses (gains) on investments	16,599,199	(37,135,048)
Change in value of split interest gifts	(780,474)	(1,552,820)
Noncash contribution of beneficial interest in lead trusts	(45,968,900)	-
Distributions received from lead trusts	1,918,737	2,568,875
Bad debt expense	-	374,101
Decrease (increase) in other receivables	572,159	(574,087)
Increase (decrease) in:		
Accounts payable and accrued expenses	(183,082)	182,717
Grants payable	684,757	(231,261)
Agency funds liability	(444)	1,218,110
TOTAL ADJUSTMENTS	(37,224,767)	(46,051,597)
NET CASH USED IN OPERATING ACTIVITIES	(17,684,314)	(471,054)
INVESTING ACTIVITIES		
Purchases of property and equipment	(17,049)	(15,992)
Proceeds from sale of investments	167,996,294	163,699,139
Purchase of investments	(163,904,698)	(149,511,222)
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,074,547	14,171,925
(DECREASE) INCREASE IN CASH	(13,609,767)	13,700,871
CASH - BEGINNING OF YEAR	36,811,101	23,110,230
CASH - END OF YEAR	$ 23,201,334	$ 36,811,101

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

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

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

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

The 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support

Contributions received are recorded as support without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. The Foundation's practice is to report revenue and support whose restrictions are met in the same reporting period as revenue without donor restrictions. All other donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.

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

Any gifts of equipment, facilities or materials are reported as net assets without donor restrictions unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as net assets with donor restrictions. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Investments

Investments are carried at fair value (money market funds and other short-term investments, corporate bonds, equities, government securities, and mutual funds - generally at quoted market prices; investment partnership interests, private equity funds and hedge funds - based on net asset value). Investments in property without a readily determinable fair value are carried at cost. Net realized and unrealized gains and losses are recognized currently in the consolidated statements 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 donor restricted contribution is recognized in the period in which the trust is established. The contribution and related beneficial interest are measured at the present value of the expected future cash inflows, using the interest rate for U.S. Treasury bonds of similar terms at the time the trust is established as the discount rate. The discount rate is revised at each measurement date to reflect current market conditions. Distributions from the trust are reflected as a reduction in the beneficial interest and a reclassification from net assets with donor restrictions to net assets without donor restrictions. Accretion of the discount and revaluations of expected future cash flows based on changes in investment returns and discount rates used are recognized as adjustments to the beneficial interest and changes in the value of split-interest gifts in the consolidated statements of activities under net assets with donor restrictions.

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. The Foundation’s policy is to capitalize purchases with a cost of $1,000 or more and an estimated useful life greater than one year. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (building - 39 years; furniture, fixtures and equipment - 5 to 7 years). When depreciable assets are sold, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is recognized.

Grants Payable

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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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

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

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

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

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, 2018 and 2017.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

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

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

Supporting Services

Management and General - relates to the overall direction of the organization. These expenses are not identifiable with a particular program or event or with fundraising but are indispensable to the conduct of those activities and are essential to the organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing and other administrative activities.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include creation and distribution of fundraising materials.

Functional Expenses

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

Income Taxes

The Foundation qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation pays tax on unrelated business income from certain activities. These activities and the related tax were insignificant in 2018 and 2017.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

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

Net Assets Without Donor Restrictions

The following net assets without donor restrictions classifications are included in the accompanying consolidated financial statements:

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

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

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

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

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

The Foundation has the ultimate authority and control over all net assets of these funds, and income derived therefrom (variance power), for the charitable purposes of the Foundation; therefore, the net assets of the above funds are classified as net assets without donor restrictions.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets With Donor Restrictions

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

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

Certain Bequests - Donors stipulate that the principal is to be invested in perpetuity by the Foundation. Income from the invested funds may be restricted to a specific field of interest and, therefore, is classified as net assets with donor restrictions until applicable restrictions are met.

Donated Goods and Services and In-Kind Contributions

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

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

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

Use of Estimates in the Preparation of Consolidated Financial Statements

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Additionally, ASU 2016-14 requires all not-for-profit entities to present expenses by their natural and functional expense classification. The Foundation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Recent Authoritative Accounting Guidance

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. 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 is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the organization is a resource recipient, the ASU is effective for annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019. Where the organization is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019 and interim periods within annual periods beginning after December 15, 2020. The adoption of ASU 2018-08 is not expected to have a material impact on the Foundation's consolidated financial statements.

Reclassifications

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

Events Occurring After Reporting Date

The Foundation has evaluated events and transactions that occurred between December 31, 2018 and October 7, 2019, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - AVAILABILITY AND LIQUIDITY

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

	2018	2017
Financial assets at year end:		
Cash and cash equivalents	$ 23,201,334	$ 36,811,101
Other receivables	181,319	753,478
Investments	378,847,365	389,422,405
Total financial assets	402,230,018	426,986,984
Less amounts not available to be used for general expenditures within one year:		
Agency funds liability	(8,760,923)	(8,761,367)
Assets limited to use:		
Field-of-interest	(68,496,333)	(77,269,712)
Designated	(34,020,209)	(34,166,724)
Scholarship	(16,246,470)	(17,485,949)
Donor advised	(257,250,675)	(272,253,671)
Certain bequests	(2,036,298)	(2,289,689)
Financial assets not available to be used for general expenditures within one year	(386,810,908)	(412,227,112)
Financial assets available to meet general expenditures over the next twelve months	$ 15,419,110	$ 14,759,872

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

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

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

NOTE 4 - CONCENTRATIONS OF CREDIT RISK

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

The Foundation also maintains investment balances at various brokerage and investment companies. These investments consist of money market funds and other short-term investments, various mutual funds, stocks 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 5 - INVESTMENTS

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

Investments consisted of the following as of December 31:

	2018	2017
Investments at fair value		
Money market funds and other short-term investments	$ 15,972,931	$ 17,710,089
Corporate bonds	15,286,723	12,557,469
Equities	88,526,254	95,613,200
Government securities	11,475,615	10,716,943
Mutual funds	95,400,844	101,655,596
Alternative investments	152,155,150	150,089,143
	378,817,517	388,342,440
Investments at cost		
Property	29,848	1,079,965
	$ 378,847,365	$ 389,422,405

NOTE 6 - CHARITABLE LEAD TRUSTS

The Foundation is named beneficiary of various irrevocable charitable lead trusts. The Foundation is not the trustee and does not exercise control over the trusts' assets; therefore, the Foundation recognizes a receivable for its beneficial interest in those assets in the period the trust is created, with a corresponding credit to contributions with donor restrictions, based on the present value of the expected future cash inflows. The trust instruments provide for distributions to be made to the Foundation in amounts ranging from four to eighteen 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 $1,918,737 and $2,568,875 for the years ended December 31, 2018 and 2017, respectively.

NOTE 7 - PROPERTY AND EQUIPMENT

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

	2018	2017
Land	$ 892,800	$ 892,800
Building	656,900	656,900
Furniture, fixtures and equipment	819,575	802,526
	2,369,275	2,352,226
Less accumulated depreciation	(975,508)	(926,472)
	$ 1,393,767	$ 1,425,754

Depreciation expense recognized on property and equipment amounted to: 2018 - $49,036 2017 - $46,898.

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Foundation has a Simplified Employee Pension Plan covering eligible employees age 21 years or older who have been employed by the Foundation for at least one year, and received more than $300 of compensation during the plan year. The Foundation contributed approximately $66,000 and $72,000 to the plan during 2018 and 2017, respectively.

NOTE 9 - FAIR VALUE MEASUREMENTS

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

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

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

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 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

	Fair Value 2018	Fair Value 2017	Unfunded Commitments	Redemption Frequency	Redemption Notice
Partnership interests	$ 35,966,268	$ 34,447,716	$ 2,238,875	monthly, quarterly, bi-annually	30-180 days
Private equity	$ 10,880,632	$ 14,321,652	$ 6,665,071	daily, quarterly	65-90 days
Hedge funds	$105,308,250	$ 101,319,775	$ 16,007,413	quarterly, annually	30-90 days

A summary of the investment strategies for significant investments follows:

Partnership interests

The Foundation holds an investment with a fair value of approximately $5,393,000 in 2018 ($5,282,000 in 2017) 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 $4,641,000 in 2018 ($4,496,000 in 2017) 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 $4,743,000 in 2018 ($4,391,000 in 2017) 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 $3,314,000 in 2018 ($1,518,000 in 2017) in American Strategic Value Realty Fund. The investment objective of the fund is to offer institutional investors the opportunity to participate in a real estate investment strategy that targets enhanced yield and value-added return opportunities, with a secondary goal of diversification to reduce overall investment risk.

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

Partnership interests (continued)

The Foundation holds an investment with a fair value of approximately $5,612,000 in 2018 ($5,144,000 in 2017) in Intercontinental Real Estate Corporation. The investment objective of the fund is to invest in a pool of real estate assets that are diversified by geography and property type, with a focus on yield-driven investments and value-added investments.

The Foundation holds an investment with a fair value of approximately $6,329,000 in 2018 ($6,702,000 in 2017) in Pointer Offshore, Ltd. The investment objective of the fund is to trade and invest in various securities, private investment companies and other investments.

Private equity funds

The Foundation holds an investment with a fair value of approximately $1,939,000 in 2018 ($2,268,000 in 2017) 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 $2,307,000 in 2018 ($2,501,000 in 2017) 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 $69,568,000 in 2018 ($70,228,000 in 2017) 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 $21,580,000 in 2018 ($17,933,000 in 2017) in Courage Credit Opportunities Offshore Fund III, L.P. The investment objective of the fund is to achieve investment returns while emphasizing distressed investments in financially troubled companies, including those of companies that may be or have become involved in reorganization or bankruptcy proceedings.

The Foundation holds an investment with a fair value of approximately $3,833,000 in 2018 ($0 in 2017) in Courage Credit Opportunities Offshore Fund IV, L.P. The investment objective of the fund is to achieve investment returns while emphasizing distressed investments in financially troubled companies, including those of companies that may be or have become involved in reorganization or bankruptcy proceedings.

NOTE 9 - FAIR VALUE MEASUREMENTS (CONTINUED)

Hedge Funds (continued)

The Foundation holds an investment with a fair value of approximately $6,540,000 in 2018 ($6,192,000 in 2017) in Ironwood Institutional Multi-Strategy Fund LLC. The investment objective of the fund is capital appreciation with limited variability of returns.

The Foundation held an investment with a fair value of approximately $2,518,000 in 2017 (sold in 2018) in Edge Discovery. The investment objective of the fund was to deliver high risk-adjusted absolute returns with low correlation to market indices.

In addition to the above funds, the Foundation invests in approximately 39 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, 2018 and 2017, does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying consolidated statements of financial position. The estimated fair value amounts have been determined by the Foundation using available market information and appropriate valuation methodologies.

NOTE 10 - CERTAIN BEQUESTS

The Foundation’s endowment consists of five permanently restricted bequests for donor restricted funds established for a variety of purposes including support for public education, the acquisition of affordable housing, children, animals and the performing arts. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation’s donor restricted endowment funds are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”) and the State of Tennessee’s State Uniform Prudent Management of Institutional Funds Act (“SUPMIFA”).

NOTE 10 - 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 retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA.

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 10 - 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:

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

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Accumulated investment gains	$ -	$ 328,122	$ 328,122
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	1,961,567	1,961,567
Total endowment funds	$ -	$ 2,289,689	$ 2,289,689

NOTE 10 - CERTAIN BEQUESTS (CONTINUED)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SUPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies at December 31, 2018 or 2017.

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

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

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, January 1, 2017	$ -	$ 2,128,873	$ 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	$ -	$ 2,289,689	$ 2,289,689