

**ATLANTA HISTORICAL SOCIETY, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2012 AND 2011**

**with  
INDEPENDENT AUDITORS' REPORT**

## TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	3
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	4
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS	5-6
CONSOLIDATED STATEMENT OF CASH FLOWS	7-8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	9-27

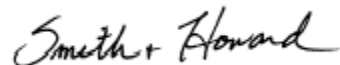
## INDEPENDENT AUDITORS' REPORT

**To the Board of Trustees  
Atlanta Historical Society, Inc.**

We have audited the accompanying consolidated statement of financial position of Atlanta Historical Society, Inc. and Subsidiary (the "Organization") (a not-for-profit organization) as of June 30, 2012 and 2011 and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Atlanta Historical Society, Inc. and Subsidiary as of June 30, 2012 and 2011 and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



November 5, 2012

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2012 AND 2011**

**ASSETS**

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 1,176,848	\$ 1,616,660
Investments	58,176,386	63,099,878
Pledges receivable, net	1,719,745	1,312,812
Other receivables	93,818	106,172
Merchandise inventory	151,254	166,213
Property and equipment, net	25,925,750	27,014,475
Other assets	<u>7,540,875</u>	<u>7,607,566</u>
 Total Assets	 <u>\$ 94,784,676</u>	 <u>\$ 100,923,776</u>

**LIABILITIES AND NET ASSETS**

Financing agreements	\$ 5,932,593	\$ 6,175,154
Accounts payable and accrued expenses	194,590	255,799
Interest rate swap liability	391,164	170,427
Deferred dues and other revenue	<u>481,172</u>	<u>485,498</u>
 Total Liabilities	 <u>6,999,519</u>	 <u>7,086,878</u>
 Net assets		
Unrestricted	59,651,571	64,332,459
Temporarily restricted	10,981,172	12,109,602
Permanently restricted	<u>17,152,414</u>	<u>17,394,837</u>
 Total Net Assets	 <u>87,785,157</u>	 <u>93,836,898</u>
	 <u>\$ 94,784,676</u>	 <u>\$ 100,923,776</u>

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

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

	<b>2012</b>			<b>Total All Funds</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Revenue, gains and other support:				
Contributions	\$ 1,302,760	\$ 1,247,233	\$ -	\$ 2,549,993
Grants	71,454	187,621	-	259,075
Admissions	963,698	-	-	963,698
Membership dues	318,622	-	-	318,622
Program service fees	94,487	2,152	-	96,639
Merchandise sales	1,100,804	1,950	-	1,102,754
Rental income	710,909	-	-	710,909
Investment income (loss)	(1,323,518)	(140,067)	-	(1,463,585)
Net assets released from restrictions	2,427,319	(2,427,319)	-	-
Changes in irrevocable beneficial interest trusts	-	-	(242,423)	(242,423)
Total revenue, gains and other support	<u>5,666,535</u>	<u>(1,128,430)</u>	<u>(242,423)</u>	<u>4,295,682</u>
Expenses and other losses:				
Expenses:				
Program services:				
Library, archival, museum and horticultural collections	1,582,942	-	-	1,582,942
Programs, education and interpretation	749,238	-	-	749,238
Facility and security services	3,782,190	-	-	3,782,190
Auxiliary services	1,054,515	-	-	1,054,515
Total program services	7,168,885	-	-	7,168,885
Support services:				
Administration	1,759,366	-	-	1,759,366
Development	499,622	-	-	499,622
Communications	789,247	-	-	789,247
Total support services	3,048,235	-	-	3,048,235
Total expenses	10,217,120	-	-	10,217,120
Other (gains) losses:				
Loss on interest rate swap	220,737	-	-	220,737
(Gain) loss on disposal of property and equipment	(90,434)	-	-	(90,434)
Total other losses	130,303	-	-	130,303
Total expenses and other losses	<u>10,347,423</u>	<u>-</u>	<u>-</u>	<u>10,347,423</u>
Increase (decrease) in net assets	(4,680,888)	(1,128,430)	(242,423)	(6,051,741)
Net assets:				
Beginning of year	<u>64,332,459</u>	<u>12,109,602</u>	<u>17,394,837</u>	<u>93,836,898</u>
End of year	<u>\$ 59,651,571</u>	<u>\$ 10,981,172</u>	<u>\$ 17,152,414</u>	<u>\$ 87,785,157</u>

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

2011

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total All Funds</u>
\$ 1,525,623	\$ 1,703,981	\$ -	\$ 3,229,604
33,012	36,034	-	69,046
987,401	-	-	987,401
332,004	-	-	332,004
103,569	-	-	103,569
1,045,037	5,049	-	1,050,086
674,087	-	-	674,087
8,303,480	3,877,669	-	12,181,149
2,178,422	(2,178,422)	-	-
-	-	866,401	866,401
<u>15,182,635</u>	<u>3,444,311</u>	<u>866,401</u>	<u>19,493,347</u>
1,554,059	-	-	1,554,059
975,125	-	-	975,125
4,328,013	-	-	4,328,013
<u>1,106,494</u>	<u>-</u>	<u>-</u>	<u>1,106,494</u>
7,963,691	-	-	7,963,691
1,845,791	-	-	1,845,791
543,808	-	-	543,808
<u>842,249</u>	<u>-</u>	<u>-</u>	<u>842,249</u>
<u>3,231,848</u>	<u>-</u>	<u>-</u>	<u>3,231,848</u>
11,195,539	-	-	11,195,539
13,594	-	-	13,594
<u>104,470</u>	<u>-</u>	<u>-</u>	<u>104,470</u>
<u>118,064</u>	<u>-</u>	<u>-</u>	<u>118,064</u>
<u>11,313,603</u>	<u>-</u>	<u>-</u>	<u>11,313,603</u>
3,869,032	3,444,311	866,401	8,179,744
<u>60,463,427</u>	<u>8,665,291</u>	<u>16,528,436</u>	<u>85,657,154</u>
<u>\$ 64,332,459</u>	<u>\$ 12,109,602</u>	<u>\$ 17,394,837</u>	<u>\$ 93,836,898</u>

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (6,051,741)	\$ 8,179,744
Adjustments to reconcile increase (decrease) in net assets to net cash required by operating activities		
Depreciation	1,061,316	1,562,771
Capital campaign contributions	(544,735)	(353,244)
Donated property and equipment	-	(87,700)
(Gain) loss on disposal of property and equipment	(90,434)	104,470
Estimated fair value of donated investments	(25,388)	(788,382)
Net realized and unrealized (gains) losses on investments	2,509,859	(10,659,282)
Loss on interest rate swap	220,737	13,594
Change in irrevocable beneficial interest trusts	242,423	(866,401)
Changes in operating assets and liabilities:		
Pledges receivable	(406,933)	354,458
Other receivables	12,354	2,266
Merchandise inventory	14,959	(16,716)
Other assets, net of change in irrevocable beneficial interest trusts	(175,732)	(46,603)
Accounts payable and accrued expenses	(61,209)	(86,915)
Deferred dues and other revenue	(4,326)	62,282
	<u>(3,298,850)</u>	<u>(2,625,658)</u>
Net cash required by operating activities		
Cash flows from investing activities:		
Acquisition of property and equipment	(227,157)	(105,468)
Proceeds from sale of property and equipment	345,000	-
Net proceeds from sales of investments	2,439,021	3,068,192
	<u>2,556,864</u>	<u>2,962,724</u>
Net cash provided by investing activities		
Cash flows from financing activities:		
Proceeds from capital campaign contributions	544,735	353,244
Net borrowings (repayments) under financing agreements	(242,561)	248,353
	<u>302,174</u>	<u>601,597</u>
Net cash provided by financing activities		

(Continued)

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

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u><b>2012</b></u>	<u><b>2011</b></u>
(Continued)		
Net increase (decrease) in cash and cash equivalents	(439,812)	938,663
Cash and cash equivalents at beginning of year	<u>1,616,660</u>	<u>677,997</u>
Cash and cash equivalents at end of year	<u>\$ 1,176,848</u>	<u>\$ 1,616,660</u>
 <b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest	<u>\$ 275,136</u>	<u>\$ 375,704</u>

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



**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Atlanta Historical Society, Inc. (the "Society") and its wholly owned subsidiary, MMH/AHS, LLC (the "Subsidiary"). The accounts of the Subsidiary include all the activities of MMH/AHS, LLC from August 1, 2004, the date of its contribution to the Society. All significant interorganization accounts and transactions have been eliminated in consolidation. The Society and the Subsidiary are together referred to herein as the Organization.

Basis of Accounting

The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("GAAP").

Nature of Business

The Atlanta Historical Society through its collections, facilities, programs, exhibitions, and publications preserves and interprets historical subjects pertaining to Atlanta and its environs and of interest to Atlanta's diverse audiences.

The Atlanta History Center includes five signature exhibitions and three changing exhibition galleries in the Atlanta History Museum, two historic houses, archives/special libraries and 33 acres of gardens. The Atlanta History Center offers historical perspectives integrating history, education and life-enrichment programs through lecture series, seminars and tours. Admission and program service fees are received for certain of these activities. Auxiliary operations maintained by the Society include a museum store and facility rentals. Additional sources of revenue include contributions and grants from governmental agencies and private donors and membership dues from Society members.

The Subsidiary operates a third historic property, the Margaret Mitchell House. The Margaret Mitchell House, located in Midtown Atlanta, is a two-acre campus featuring the apartment where Margaret Mitchell wrote her Pulitzer Prize-winning novel *Gone with the Wind*, a visitors' center and exhibition gallery; a *Gone With the Wind* movie museum; and a museum shop. In addition, the Margaret Mitchell House is the home of the Literary Center at the Margaret Mitchell House which preserves the legacy of Margaret Mitchell through regular literary events, creative writing classes for adults and youth, and community initiatives that engage younger generations in the process of writing, reading and reciting literature.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Presentation

To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the resources are classified for accounting and reporting purposes into categories established according to their nature and purpose. The assets, liabilities and net assets of the Organization are reported in three self-balancing categories as follows:

- Unrestricted net assets are resources that are neither permanently nor temporarily restricted by donor-imposed stipulations. The only limits on unrestricted net assets are those resulting from the nature of the Organization and its purposes.
- Temporarily restricted net assets are resources that are used by the Organization and limited by donor-imposed restrictions that either expire by the passage of time or can be removed by actions of the Organization (see Note 7).
- Permanently restricted net assets are resources that are used by the Organization and limited by donor-imposed stipulations that neither expire by the passage of time nor can be removed by actions of the Organization (see Note 8). Permanently restricted net assets are adjusted for unrealized gains and losses on permanently restricted investments; interest, dividends and realized gains and losses are recognized as temporarily restricted or unrestricted investment income, depending on donor-imposed restrictions.

Cash and Cash Equivalents

The Organization considers all highly liquid investments, except for those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents.

Endowment Fund

FASB requires the following consolidated financial statement disclosure for the Organization for the years ended June 30, 2012 and 2011.

- Classification of net assets

Endowment funds are used to account for investments in which the principal is temporarily or permanently restricted or Board-designated for a specific purpose.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Endowment Fund (Continued)

- Interpretation of Relevant Law

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the Organization and the donor-restricted endowment fund.
- (3) General economic conditions.
- (4) The possible effect of inflation and deflation.
- (5) The expected total return from income and the appreciation of investments.
- (6) Other resources of the Organization.
- (7) The investment policies of the Organization.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Endowment Fund (Continued)

- Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Organization, the endowment assets are invested in a manner to attain an average annual real total return, net of investment management fees, of at least 5% over the long term. The annual real return should equal or exceed the spending rate indicated in the Organization's spending policy described below. Actual returns in any given year may vary from this amount.

- Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

- Spending Policy

The Organization has a spending policy approved by the Organization's Board of Trustees that is designed to ensure that the real value of both the funds and of the spending stream is maintained over time. To this end, spending for each fiscal year will be increased by an amount equal to the previous calendar year's rate of Consumer Price Inflation (CPI), plus one percent. In the event this amount exceeds 6% of the market value of the fund as of December 31 of the previous calendar year, spending will be limited to this latter amount.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Endowment Fund (Continued)

Changes in endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2010	\$ 36,935,796	\$ 7,635,573	\$ 10,149,037	\$ 54,720,406
Cash contributions	201,076	23,190	-	224,266
Investment return				
Income	827,539	360,973	-	1,188,512
Net appreciation	7,235,626	3,146,337	-	10,381,963
Used in operations	<u>(2,684,582)</u>	<u>(730,687)</u>	<u>-</u>	<u>(3,415,269)</u>
Endowment net assets, June 30, 2011	42,515,455	10,435,386	10,149,037	63,099,878
Cash contributions	358,307	123,174	-	481,481
Investment return				
Income	555,283	175,353	-	730,636
Net depreciation	(2,072,494)	(654,472)	-	(2,726,965)
Used in operations	<u>(1,171,466)</u>	<u>(2,237,177)</u>	<u>-</u>	<u>(3,408,644)</u>
Endowment net assets, June 30, 2012	<u>\$ 40,185,085</u>	<u>\$ 7,842,264</u>	<u>\$ 10,149,037</u>	<u>\$ 58,176,386</u>

Concentration of Credit Risk

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, investments and pledges receivable. At times, cash and cash equivalent balances exceed federally insured amounts. The Organization's non-interest bearing cash balances are fully insured by the Federal Deposit Insurance Corporation through December 31, 2012. The Organization believes it reduces risks associated with balances in excess of federally insured amounts by maintaining its cash with major financial institutions with sound financial standing. Management continually monitors receivable balances and believes that its exposure to credit risk is limited. Investment securities are exposed to various risks, such as interest rate risk, market risk and credit risk.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments

Investments are carried at fair value. The Organization has investments in common stocks and a fixed income mutual fund for which fair value is determined based on quoted market prices. Additionally, the Organization has investments in a nonpublic investment partnership and a nonpublic investment trust, both of which invest primarily in publicly-traded international equities. Fair value of these two investments is based on the Organization's relative ownership interest in the net asset value of the partnership and trust.

The investment return of the Organization includes interest and dividends and realized and unrealized gains and losses. Investment income (interest and dividends) and gains and losses on investments carried at fair value are recorded as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Income is recognized from interest and dividends as earned.

The Organization maintains master investment accounts for its endowment net assets. Investment income and gains and losses are allocated annually to the individual net assets based on the relationship of the fair value of each fund to the total fair value of the master investment accounts, as adjusted for additions to or deductions from the individual net assets.

Fair Values Measured on Recurring Basis

The FASB issued a pronouncement on fair value measurement defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. The statement, when adopted by the Organization, did not have any impact on the Organization's consolidated financial statements.

FASB establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs in which little or no market data exists (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Fair Value Measurement

*Level 1* - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

*Level 2* - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

*Level 3* - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Total net assets (liabilities) at fair value classified within Level 3 were \$18,423,997 and \$14,939,679, as of June 30, 2012 and 2011, respectively; which consists of a hedge fund investment, irrevocable beneficial interest trusts and interest rate swap liability. Such amounts were 22% and 15% of total assets as of June 30, 2012 and 2011, respectively. The table below represents fair value measurement hierarchy of the Organization's net assets (liabilities) at fair value as of June 30:

		<u>2012</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Temporary cash	\$ 1,125,556	\$ 1,125,556	\$ -	\$ -	
Common stocks	18,204,711	18,204,711	-	-	
Fixed income mutual fund	12,925,498	12,925,498	-	-	
International equities	12,965,223	-	11,758,641	1,206,582	
Alternative investments	10,605,202	-	-	10,605,202	
Commodities	2,029,518	-	2,029,518	-	
Certificate of deposit	320,678	320,678	-	-	
Irrevocable beneficial interest trusts	7,003,377	-	-	7,003,377	
Interest rate swap liability	(391,164)	-	-	(391,164)	
	<u>\$ 64,788,599</u>	<u>\$ 32,576,443</u>	<u>\$ 13,788,159</u>	<u>\$ 18,423,997</u>	

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Fair Value Measurement (Continued)

	<u>Fair Value</u>	<u>2011</u> <u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Temporary cash	\$ 4,165,397	\$ 4,165,397	\$ -	\$ -
Common stocks	23,570,885	23,570,885	-	-
Fixed income mutual fund	14,475,857	14,475,857	-	-
International equities	17,417,040	-	13,023,433	4,393,607
Alternative investments	3,470,699	-	-	3,470,699
Irrevocable beneficial interest trusts	7,245,800	-	-	7,245,800
Interest rate swap liability	<u>(170,427)</u>	<u>-</u>	<u>-</u>	<u>(170,427)</u>
	<u>\$ 70,175,251</u>	<u>\$ 42,212,139</u>	<u>\$ 13,023,433</u>	<u>\$ 14,939,679</u>

Fair values for investments are determined by reference to quoted market prices, market transactions and other relevant information.

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended June 30, 2012 and 2011:

Balance, July 1, 2010	\$ 13,210,260
Market gains and changes in fair value	<u>1,729,419</u>
Balance, June 30, 2011	14,939,679
Market losses and changes in fair value	(2,979,884)
Purchases and transfers, net	<u>6,464,202</u>
Balance, June 30, 2012	<u>\$ 18,423,997</u>

Merchandise Inventory

Merchandise inventory represents inventory in the museum store; such inventory is valued at the lower of cost or market, with cost determined using the specific identification method.



**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment

Property and equipment acquired or constructed with unrestricted operating or temporarily restricted resources are transferred to unrestricted net assets in the year the assets are placed in service. Purchased property and equipment is carried at cost. Costs associated with constructed property, primarily construction costs and related labor costs, are included in construction in process until the property is placed in service. Donated property and equipment are recorded at estimated fair value as of the date received.

Costs associated with permanent exhibitions, including design, development, procurement and construction costs, are capitalized. Such costs do not include additions to collections. The Organization expenses the costs associated with nonpermanent exhibits the first time the exhibit is shown on public display. Nonpermanent exhibit costs incurred prior to public display are included in other assets.

Property and equipment are depreciated over their estimated useful lives using the straight-line method.

Impairment

Long-lived assets, such as property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When indicators of impairment are present, the Organization evaluates the carrying amount of such assets in relation to the operating performance and future estimated undiscounted net cash flows expected to be generated by the assets or underlying operations. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The assessment of the recoverability of assets will be impacted if estimated future operating cash flows are not achieved. In the opinion of management, no long-lived assets were impaired as of June 30, 2012 and 2011.

Derivative Financial Instruments

The Organization accounts for derivative financial instruments in accordance with GAAP, which requires that all derivative instruments be recorded on the consolidated statements of financial position at their respective fair values.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Derivative Financial Instruments (Continued)

The Organization uses an interest rate swap agreement in the management of interest rate risk and carries this derivative instrument on the consolidated statements of financial position at fair value. The interest rate swap agreement effectively fixes the interest rate on a portion of variable rate borrowings under the Organization's note payable (see Note 6). The initial fair value and subsequent changes in the fair value of the agreement are reported as a gain or loss in the accompanying consolidated statement of activities and changes in net assets.

Historical Collections

The Organization's historical buildings and collections are essential in enabling the Organization to fulfill its mission and purpose. The Organization's collections are made up of artifacts of historical significance and art objects that are held for educational, research and curatorial purposes. Each of the items is cataloged, preserved and cared for, and activities verifying their existence and assessing their condition are regularly performed.

The Organization carries its historical buildings and collections at no value. The cost of purchased historical buildings or collections is reported as an expense. Contributed historical buildings or collections are not valued. During 2012 and 2011, approximately \$18,000 and \$28,000 was charged to Organization, archival, museum, and horticultural collections for the purchase of historical collections, respectively.

Betterments and improvements to historical buildings are capitalized and carried at cost. Except for betterments and improvements to historical buildings, expenditures for restoration, stabilization and reconstruction are charged to expense when incurred.

Recognition of Revenue

Contributions and grants (including unconditional promises to give, i.e., pledges) are recognized as revenue in the year they are received or pledged, with allowances provided for pledges estimated to be uncollectible. Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional pledges are not included as support until the conditions are substantially met.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recognition of Revenue (Continued)

The Organization is the beneficiary of certain irrevocable beneficial interest trusts held and administered by others. Either fair value of the trusts, if known, or the present value of the estimated future cash receipts from the trusts is recognized as an asset (included in other assets on the accompanying consolidated statement of financial position) and contribution revenue in the appropriate class of net assets at the date such trusts are established. The carrying value of the assets is adjusted annually for changes in fair value of the trusts or changes in the estimates of future receipts. Distributions associated with such trusts are recognized as investment income when earned.

The Organization recognizes contributions and grants as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor-imposed temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted operating net assets and presented in the accompanying consolidated statements of activities and changes in net assets as net assets released from restrictions.

Except for contributions of historical buildings or collections, the Organization recognizes contributions of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-term assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-term assets are recognized as restricted support. In the absence of explicit donor stipulations about how long those long-term assets must be maintained, the Organization reports expirations of donor-imposed restrictions when the donated or acquired long-term assets are placed in service.

The Organization receives grants from governmental agencies and private donors. Grants from governmental agencies primarily relate to the study and research of the museum and archival collection of the Organization.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recognition of Revenue (Continued)

Admissions revenue to tour the museum and other collections of the Organization is recognized upon the commencement of each tour. The Organization receives advance payments for membership dues, which are deferred and recognized ratably as revenue over the one-year period to which the dues relate. Sales from the museum stores are recognized when the goods are sold. Program service fees primarily relate to educational and family programs and lectures and are recorded as revenue at the time of the program or lecture. Rental income, which primarily relates to the rental of facilities at the museum, including a ballroom and restaurant for events and parties, is recorded as revenue at the time of the event. Management fees primarily relate to monthly fees collected for the storage and maintenance of collections in addition to expenses incurred relating to those collections such as compensation and utilities. Revenue is recognized as services are provided.

Donated Goods and Services

Donated goods, such as materials, equipment or other assets, are reported as contributions at their estimated fair values at the date of donation. Donated services that create or enhance non-financial assets or that require specialized skills, that are provided by individuals possessing those skills and that would typically need to be purchased if not provided by donation are recorded as contributions at their estimated fair values in the period the services are performed. These services totaled approximately \$123,000 in 2012 \$92,000 in 2011.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fund-Raising Expenses

Fund-raising expenses are reflected as development expenses in the accompanying consolidated statement of activities and changes in net assets.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs totaled approximately \$146,000 in 2012 and \$318,000 in 2011.

Income Tax Status

The Subsidiary is treated as a partnership for federal and state income tax purposes. Since the Society is the sole member of the Subsidiary, all income, losses and tax credits from the Subsidiary's activities are reported on the Society's income tax returns.

The Society qualifies as a tax-exempt organization as described in Internal Revenue Code Section 501 (c)(3). Income from certain activities not directly related to the Organization's tax exempt purpose is subject to taxation as unrelated business income. In the opinion of management, the Society had no significant taxable unrelated business income during 2012 or 2011. Additionally, in the opinion of management, the activities of the Subsidiary are not subject to unrelated business taxable income. Accordingly, no provision or benefit for income taxes has been recorded in the accompanying consolidated financial statements.

The Organization annually evaluates all federal and state income tax positions. This process includes an analysis of whether these income tax positions the Organization takes meet the definition of an uncertain tax position under the Income Taxes Topic of the Financial Accounting Standards Codification. In the normal course of business, the Organization is subject to examination by the federal and state taxing authorities. In general, the Organization is no longer subject to tax examinations for the years ending before June 30, 2009.

Use of Estimates

The Organization prepares its consolidated financial statements in accordance with GAAP. The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Subsequent Event

Management has evaluated subsequent events through the date of this report, which is the date the consolidated financial statements were available to be issued.

**NOTE 2 - INVESTMENTS**

The components of investment income (loss) for fiscal 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Investment income, including income (loss) from beneficial interest trusts	\$ 1,046,274	\$ 1,521,867
Net realized and unrealized gains (losses) on investments	<u>(2,509,859)</u>	<u>10,659,282</u>
	<u>\$ (1,463,585)</u>	<u>\$ 12,181,149</u>

The investment income (loss) for fiscal 2012 and 2011 is included in unrestricted and temporarily restricted investment income in the accompanying consolidated statement of activities and changes in net assets. Such investment income also includes interest income, primarily associated with cash and cash equivalents.

**NOTE 3 - PLEDGES RECEIVABLE**

At June 30, pledges receivable were as follows:

	<u>2012</u>	<u>2011</u>
Capital improvements	\$ 1,596,597	\$ 1,311,000
Other	<u>192,956</u>	<u>83,950</u>
	1,789,553	1,394,950
Less discount for present value	<u>(69,808)</u>	<u>(82,138)</u>
	<u>\$ 1,719,745</u>	<u>\$ 1,312,812</u>

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 3 - PLEDGES RECEIVABLE (Continued)**

The estimated future cash flows are as follows for years ending June 30:

2013	\$ 1,098,539
2014	445,609
2015	239,583
2016	<u>5,822</u>
	<u>\$ 1,789,553</u>

At June 30, 2012 and 2011, the allowance for uncollectible pledges was not significant.

At June 30, 2012 and 2011, pledges receivable were discounted to their present values using an interest rate of 3%.

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30:

	<u>Life</u> <u>(in Years)</u>	<u>2012</u>	<u>2011</u>
Land		\$ 3,630,565	\$ 3,718,265
Buildings and improvements	15 – 40	33,697,163	34,302,184
Grounds improvements	15	1,869,546	1,869,546
Furnishings and fixtures	10	382,018	382,018
Office furniture and equipment	7	189,905	189,905
Computer equipment	5 – 10	221,734	221,734
Other equipment	7	1,436,892	1,436,892
Permanent exhibitions	5 – 10	9,898,822	9,898,822
Construction in progress		<u>702,114</u>	<u>474,961</u>
		52,028,759	52,494,327
Less accumulated depreciation		<u>(26,103,009)</u>	<u>(25,479,852)</u>
		<u>\$ 25,925,750</u>	<u>\$ 27,014,475</u>

Construction in progress consisted of capital expenditures related to the development of the master site plan and renovation and improvement of the gardens and grounds.

Depreciation expense totaled \$1,061,316 and \$1,562,771 in 2012 and 2011, respectively.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 5 - OTHER ASSETS**

Other assets were as follows at June 30:

	<u>2012</u>	<u>2011</u>
Irrevocable beneficial interest trusts	\$ 7,003,377	\$ 7,245,800
Prepaid and other	<u>537,498</u>	<u>361,766</u>
	<u>\$ 7,540,875</u>	<u>\$ 7,607,566</u>

**NOTE 6 - FINANCING AGREEMENTS**

In the year ended June 30, 2011, the Organization entered into two line of credit agreements with a financial institution in the amounts of \$500,000 and \$800,000. The agreements carry interest at the rate of LIBOR plus 0.90%, an effective rate of 1.13% at June 30, 2012 and are secured by certain investments of the Organization. Interest payments are due monthly and the unpaid principal is due at the end of the term of the agreements, which expire in January 2013. The outstanding borrowings at June 30, 2012 and 2011 totaled \$689,771 and \$832,332, respectively. Amounts available under the line of credit totaled \$610,229 at June 30, 2012.

During the year ended June 30, 2011, the Organization refinanced two existing debt agreements with a financial institution and entered in a \$5,500,000 non-revolving master borrowing loan. The loan carries interest at LIBOR plus 0.90%. Interest and principal is due at the end of the term of the agreement, which expires in November 2015. The agreement requires a reduction of the principal amount during the term of the agreement. The outstanding principal balances shall not exceed \$5,300,000 on January 1, 2013 and the requirement is reduced by \$100,000 per year over the next 2 years. At June 30, 2012 and 2011, outstanding borrowings totaled \$5,242,822 and \$5,342,822, respectively.



**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 6 - FINANCING AGREEMENTS (Continued)**

Principal maturities on the loan at June 30 are as follows:

2013	\$ 100,000
2014	100,000
2015	100,000
2016	<u>4,942,822</u>
	<u>\$ 5,242,822</u>

During 2011, the Organization terminated an existing swap agreement and incurred an early termination fee of approximately \$147,000. During 2011, the Organization entered into a new interest rate swap agreement, which converted \$5,275,287 of the \$5,500,000 non-revolving loan to a 2.72% fixed rate liability. The interest rate swap had a notional principal amount of \$5,275,287 and matures in November 2015.

The Organization is subject to certain financial and non-financial covenants on all of its agreements. The Organization was in compliance with these covenants for the years ended June 30, 2012 and 2011.

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

At June 30, 2012 and 2011, the components of temporarily restricted net assets were as follows:

	<u>2012</u>	<u>2011</u>
Capital improvements	\$ 9,849,709	\$ 10,874,057
Exhibits, research projects and special programs	<u>1,131,463</u>	<u>1,235,545</u>
	<u>\$ 10,981,172</u>	<u>\$ 12,109,602</u>

Net assets were released from donor restrictions during fiscal 2012 and 2011 by incurring expenses satisfying the purpose specified by donors as follows:

	<u>2012</u>	<u>2011</u>
Capital improvements	\$ 1,700,840	\$ 1,363,508
Exhibits, research projects and special programs	<u>726,479</u>	<u>814,914</u>
	<u>\$ 2,427,319</u>	<u>\$ 2,178,422</u>

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS**

At June 30, 2012 and 2011, the components of permanently restricted net assets were as follows:

	<u>2012</u>	<u>2011</u>
General operating purposes	\$ 10,149,037	\$ 10,149,037
Irrevocable beneficial interest trusts	<u>7,003,377</u>	<u>7,245,800</u>
	<u>\$ 17,152,414</u>	<u>\$ 17,394,837</u>

**NOTE 9 - RETIREMENT PLANS**

The Organization has a contributory defined contribution retirement plan covering all full-time employees. The Organization contributed to the plan a sum equivalent to 5% of each eligible employee's salary up to January 26, 2009, at which time the Board of Trustees approved suspension of all employer contributions. All such contributions are fully vested in each participant's account when made. There were no employer contributions to the plan in 2012 and 2011.

**NOTE 10 - COMMITMENTS**

The Organization leases certain equipment under noncancelable operating agreements. The leases generally require the Organization to pay taxes, maintenance and insurance. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases.

Future minimum rental payments required under operating leases with initial or remaining lease terms in excess of one year are as follows for years ending June 30:

2013	\$ 137,850
2014	137,850
2015	<u>112,043</u>
	<u>\$ 387,743</u>

Rent expense under all operating leases totaled approximately \$165,000 and \$169,000 in 2012 and 2011, respectively.

**ATLANTA HISTORICAL SOCIETY, INC. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**NOTE 10 - COMMITMENTS (Continued)**

The Organization has entered into construction contracts for capital improvements. The Organization's remaining commitment for construction contracts entered into was not significant as of June 30, 2012. Additionally, the Organization contracts for certain maintenance and consulting services. The remaining commitments for these contracts totaled approximately \$4,547,000 and \$5,112,000 at June 30, 2012 and 2011 and will be paid out over the next 6 years when the contract expires.

**NOTE 11 - RENTAL INCOME**

The Organization has four agreements to lease commercial space. The lease agreements range from 5 to 10 years. One of the leases has a tenant improvement allowance of \$200,000, which is to be deducted from the base rent over the lease term. Future minimum rental income under the operating leases for years ending June 30 are as follows:

2013	\$ 102,115
2014	125,860
2015	149,744
2016	147,329
2017	101,683
Thereafter	<u>1,601,507</u>
	<u>\$ 2,228,238</u>