# CONSOLIDATED FINANCIAL STATEMENTS

The Community Foundation for Greater Atlanta, Inc.,
its Subsidiaries, and Supporting Organizations
For the Years Ended December 31, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

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The Community Foundation for Greater Atlanta, Inc.,
its Subsidiaries, and Supporting Organizations

Consolidated Financial Statements

For the Years Ended December 31, 2010 and 2009

## Contents

Report of Independent Auditors.....1

Audited Consolidated Financial Statements

Consolidated Statements of Financial Position.....2
Consolidated Statements of Activities and Changes in Net Assets.....3
Consolidated Statements of Cash Flows.....4
Notes to Consolidated Financial Statements.....5

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# Report of Independent Auditors

The Board of Directors
The Community Foundation for Greater Atlanta, Inc.

We have audited the accompanying consolidated statements of financial position of The Community Foundation for Greater Atlanta, Inc., its subsidiaries (the Metropolitan Foundation of Atlanta, Inc., and TCF Charitable Real Estate Solutions LLC), and its supporting organizations, (collectively, The Community Foundation) as of December 31, 2010 and 2009, 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 Community Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits and the reports of other auditors. We did not audit the financial statements of CF Foundation Inc. and Subsidiaries, a supporting organization, which statements reflect total assets of 19% and 20% and total net assets of 19% and 20% of the consolidated totals for The Community Foundation for the years ended December 31, 2010 and 2009, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for CF Foundation, Inc. and Subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of The Community Foundation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Community Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of The Community Foundation, as of December 31, 2010 and 2009, and the consolidated changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

September 13, 2011



A member firm of Ernst & Young Global Limited

# The Community Foundation for Greater Atlanta, Inc., its Subsidiaries, and Supporting Organizations

## Consolidated Statements of Financial Position

| | December 31 | |
|---|---|---|
| | **2010** | **2009** |
| **Assets** | | |
| Cash and cash equivalents | **$ 8,442,334** | $ 24,904,022 |
| Investments, at fair value (Note 3) | **666,679,372** | 559,117,292 |
| Bequests and contributions receivable | **1,748,197** | 1,832,783 |
| Notes receivable | **5,209,513** | 4,439,633 |
| Real estate properties used in charitable activities net of accumulated depreciation of $4,229,068 and $3,970,219 at December 31, 2010 and 2009 | **9,014,504** | 9,273,354 |
| Property and equipment, net of accumulated depreciation of $19,099,207 and $17,656,562 at December 31, 2010 and 2009 | **46,334,025** | 47,129,096 |
| Other assets | **3,680,119** | 4,586,008 |
| Total assets | **$ 741,108,064** | $ 651,282,188 |
| | | |
| **Liabilities and net assets** | | |
| Grants payable | **$ 9,731,597** | $ 10,226,861 |
| Accrued expenses and other liabilities | **10,107,175** | 9,485,903 |
| Liabilities under split-interest agreements | **6,554,787** | 6,561,898 |
| Total liabilities | **26,393,559** | 26,274,662 |
| | | |
| Net assets: | | |
| Unrestricted: | | |
| Field-of-interest | **17,731,784** | 16,877,344 |
| Designated | **77,888,289** | 76,557,724 |
| Donor advised | **364,691,586** | 287,868,367 |
| Discretionary | **60,025,715** | 56,632,923 |
| Supporting organizations | **180,726,498** | 171,573,011 |
| Total unrestricted | **701,063,872** | 609,509,369 |
| Temporarily restricted | **13,650,633** | 15,498,157 |
| Total net assets | **714,714,505** | 625,007,526 |
| Total liabilities and net assets | **$ 741,108,064** | $ 651,282,188 |

*See accompanying notes.*

The Community Foundation for Greater Atlanta, Inc.,
its Subsidiaries, and Supporting Organizations

## Consolidated Statements of Activities and Changes in Net Assets

| | Year Ended December 31 | |
|---|---|---|
| | **2010** | **2009** |
| Changes in unrestricted net assets: | | |
| Revenue and support: | | |
| Contributions | **$ 138,352,721** | $ 92,613,249 |
| Interest and dividends | **8,079,066** | 17,273,265 |
| Income from rents | **894,244** | 892,744 |
| Other investment income (loss) | **899,037** | (148,382) |
| Special projects loss, net | **(902,053)** | (418,579) |
| Administrative fees | **265,388** | 130,134 |
| Net realized gain (loss) on investment securities | **7,240,057** | (19,254,491) |
| Net unrealized appreciation on investment securities | **43,399,556** | 80,234,622 |
| | **198,228,016** | 171,322,562 |
| Net assets released from restrictions | **5,554,604** | 27,613,465 |
| Total contributions, gains (losses) and depreciation on investments, and other support | **203,782,620** | 198,936,027 |
| Expenses: | | |
| Grants | **99,000,534** | 142,189,820 |
| Programs | **6,427,710** | 7,011,740 |
| Fund raising | **231,510** | 239,432 |
| General and administrative | **6,568,364** | 5,112,868 |
| Total expenses | **112,228,118** | 154,553,860 |
| Change in unrestricted net assets | **91,554,502** | 44,382,167 |
| Changes in temporarily restricted net assets: | | |
| Revenue and support: | | |
| Contributions | **1,538,443** | 23,682,448 |
| Change in value of split interest agreements | **517,328** | 986,746 |
| Interest and dividends | **128,800** | 240,347 |
| Net realized gain (loss) on investments | **816,387** | (432,352) |
| Net unrealized appreciation (depreciation) on investments | **706,123** | (582,305) |
| Net assets released from restrictions | **(5,554,604)** | (27,613,465) |
| Change in temporarily restricted net assets | **(1,847,523)** | (3,718,581) |
| Change in net assets | **89,706,979** | 40,663,586 |
| Net assets at January 1 | **625,007,526** | 584,343,940 |
| Net assets at December 31 | **$ 714,714,505** | $ 625,007,526 |

*See accompanying notes.*

# The Community Foundation for Greater Atlanta, Inc., its Subsidiaries, and Supporting Organizations

## Consolidated Statements of Cash Flows

| | Year Ended December 31 | |
|---|---|---|
| | **2010** | **2009** |
| **Operating activities** | | |
| Changes in net assets | **$ 89,706,979** | $ 40,663,586 |
| Adjustments to reconcile change in net assets to cash used by operating activities: | | |
| Net unrealized and realized (appreciation) on investments in securities | **(52,162,123)** | (59,965,474) |
| Change in value of split interest agreements | **(517,328)** | (986,746) |
| Donation of investments/stock to or from the Foundation | **(100,866,057)** | (76,296,231) |
| Depreciation | **1,751,422** | 1,990,844 |
| Changes in operating assets and liabilities: | | |
| Bequests and contribution receivable | **84,586** | 3,211,489 |
| King Collection | **–** | 32,000,000 |
| Other assets | **905,889** | 106,822 |
| Grants payable and other liabilities | **126,008** | 682,613 |
| Liabilities under split-interest agreements | **(7,111)** | 439,138 |
| Net cash (used by) operating activities | **(60,977,735)** | (58,153,959) |
| **Investing activities** | | |
| Purchase of property and equipment | **(697,501)** | (771,057) |
| Purchase of investments | **(389,167,888)** | (254,067,756) |
| Proceeds from sale of investments | **435,151,316** | 329,385,988 |
| Net cash provided by investing activities | **45,285,927** | 74,547,175 |
| **Financing activities** | | |
| Payments of debt | **–** | (11,667,045) |
| Net change in notes receivable | **(769,880)** | 432,870 |
| Net cash (used by) financing activities | **(769,880)** | (11,234,175) |
| Net increase (decrease) in cash and cash equivalents | **(16,461,688)** | 5,159,041 |
| Cash and cash equivalents, beginning of period | **24,904,022** | 19,744,981 |
| Cash and cash equivalents, end of period | **$ 8,442,334** | $ 24,904,022 |
| **Supplemental cash flow data** | | |
| Cash received from contributors and bequests | **$ 39,109,693** | $ 43,210,956 |
| Interest and dividends received | **$ 8,127,708** | $ 17,513,612 |
| Cash paid to employees, suppliers and other service providers | **$ 12,965,963** | $ 11,136,851 |
| Grants paid | **$ 99,495,798** | $ 142,734,356 |

*See accompanying notes.*

The Community Foundation for Greater Atlanta, Inc.,
its Subsidiaries, and Supporting Organizations

Notes to Consolidated Financial Statements

December 31, 2010

## 1. Significant Accounting Policies

### Nature of Financial Statements

The Community Foundation for Greater Atlanta, Inc. (The Foundation) is a tax-exempt publicly supported charitable organization. The assets of the Foundation are devoted to charitable uses of a public nature primarily benefiting the residents of the metropolitan Atlanta area community. The accompanying consolidated financial statements are presented on the accrual basis of accounting and include the accounts of subsidiaries ATLCF Collections, LLC, Metropolitan Foundation of Atlanta, Inc., TCF Charitable Real Estate Solutions LLC, and the following supporting organizations for 2010 and 2009: The CF Foundation, Inc., The Conlee Family Supporting Foundation, Inc., The F. T. Stent Family Foundation, Inc., The Redd Family Foundation, The RFP Fund, Inc. Inc., The Shumard Foundation, Inc., and The Waterfall Foundation. These subsidiaries and supporting organizations are consolidated with the financial statements of the Foundation (collectively, The Community Foundation) in accordance with Accounting Standards Codification Topic (ASC) 858, *Not-for-Profit Entities* since it has both control and economic interest in these entities. During 2010, the ATLCF Collections, LLC subsidiary and The Redd Family Foundation supporting organization were dissolved. All material interorganization transactions and balances have been eliminated in preparing the consolidated financial statements.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from estimates.

### Net Assets

*Net Asset Classification*

ASC Subtopic 958-205 (*Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds)* provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is

**1. Significant Accounting Policies (continued)**

subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA was enacted by the State of Georgia on July 1, 2008. This ASC also requires additional disclosures about a not-for-profit organization's donor-restricted and board-designated endowment funds whether or not the organization is subject to UPMIFA. See Note 3 for supplemental disclosures related to the Foundation's investment and related spending policy.

*Interpretation of Relevant Law*

The Foundation's board has determined that the Foundation is not subject to the net asset classification of funds requirements of this ASC because (1) the Foundation's board retains complete variance power pursuant to its governing instruments and fund agreements over the spending purpose and amount (including principal) for all assets owned by the Foundation, and (2) the Foundation's board has never earmarked or otherwise designated any portion of the Foundation's assets as a permanent or temporary endowment that is not subject to expenditure if circumstances warrant.

*Classification of Net Assets*

The Foundation does not accept contributions that are not wholly expendable by the institution on a current basis. The Foundation's governing documents and fund agreements give the Foundation's board variance power to modify donor instructions that are incapable of fulfillment or inconsistent with the charitable needs of the community. As a result of variance power most contributions are classified as unrestricted net assets for financial statement purposes.

The Foundation's temporarily restricted net assets are comprised of irrevocable charitable remainder trusts, charitable gift annuities, pooled income funds, bequests receivable and life insurance funds. These assets are classified as temporarily restricted due to time restrictions as the assets will not become available for the Foundation's use until the time a stated event occurs. Once the event occurs these assets are subject to the same variance power as those aforementioned and are reclassified to unrestricted and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

The Foundation's board and the boards of the associated supporting organizations have not taken action to declare any portion of the Foundation's assets as permanent or temporary endowment funds that are not subject to expenditure if circumstances warrant.

**1. Significant Accounting Policies (continued)**

Consistent with the National Standards for U.S. Community Foundations, the Foundation classifies its unrestricted net assets (noting that all are subject to the aforementioned variance power) as follows:

*Field-of-interest:* Funds that are used for a specific charitable purpose.

*Designated:* Funds in which the beneficiaries are specified by the grantors.

*Donor advised*: Funds that have at least three characteristics (1) a donor or person appointed or designated by the donor has, or reasonably expects to have, advisory privileges with respect to the fund's distribution of investments, (2) the fund is separately identified by reference to contributions of the donors(s), and (3) the fund is owned and controlled by a sponsoring organization. A fund possessing these characteristics may be exempt from the donor advised fund classification if it grants to one single public charity or government unit or if the fund meets certain requirements applicable to scholarship funds.

*Discretionary*: Scholarship, administrative, and other funds available for the Foundation's unrestricted use.

*Supporting organizations*: Unrestricted net assets of the Foundation's supporting organizations.

**Revenue and Support Recognition**

Unrestricted and temporarily restricted gifts, grants, and other income are recorded as revenue and support when received by The Community Foundation. Such revenue and support is recorded at fair value. The Community Foundation's policy is to record temporarily restricted revenue and support as temporarily restricted revenue and support and net assets released from restrictions, if the restriction is satisfied in the year the revenue and support is recognized. Revenue and support is available for unrestricted use unless specifically restricted by the donor. Investment income is recognized when earned. Contributed services are recorded as contributions at their fair value if such services create or enhance nonfinancial assets, would

**1. Significant Accounting Policies (continued)**

have been purchased if not provided by contribution, or require specialized skills and are provided by individuals possessing such specialized skills. In addition, the appropriate value of donated services of individuals is recorded as an expense when such services qualify for cost reimbursement from third-party providers.

**Functional Allocation of Expenses**

The expenses of The Community Foundation are allocated to functions in the accompanying consolidated statements of activities and changes in net assets based on the underlying purpose of the expense.

**Cash and Cash Equivalents**

Cash equivalents are short-term, highly liquid marketable securities or investments with original maturities of three months or less.

**Investments in Securities**

Marketable securities are reported at fair value (generally quoted market prices). The cost of marketable securities represents amounts paid for purchased securities or fair value as of the date of donation for contributed securities. The unrealized depreciation and appreciation on marketable securities represents the change in the difference between cost or previous year-end fair value and current value of investments, as determined at the end of each period. Gains and losses on sales of marketable securities are determined using the average cost method.

Investment income is reported net of related expenses, such as investment management fees and custody fees. For the years ended December 31, 2010 and 2009, such expenses for The Community Foundation's consolidated investments were $2,918,645 and $2,373,182, respectively.

**1. Significant Accounting Policies (continued)**

**Investments Without Readily Determinable Values**

Investments without readily determinable values, including alternative investments, consist of funds of funds, investments in private equity funds, direct investments in real estate, and direct investments in nonpublic entities. These investments and the underlying assets are reflected at estimated fair value. Because alternatives may not be immediately marketable given the nature of the underlying strategies and the terms of the governing agreements, the estimated fair value is subject to uncertainty and, therefore, may differ from the value that may be received if a ready market for these investments had been in existence, and the difference could be material. The Foundation's alternatives are recorded at fair value pursuant to ASC 820, *Fair Value Measurements and Disclosures*, as noted further below, after consideration of certain pertinent factors, including, but not limited to, liquidity features of the holdings, the underlying portfolio of holdings, the current market conditions for observable, corroborated, or correlated transactions, comparable or similar investments' fair valuations, third party valuation and the audit opinions from the independent auditors of the funds.

**Receivables**

Receivables represent unconditional promises to give. Upon determination of its legal rights, The Community Foundation records bequests as contributions at the fair value of assets expected to be received, upon notification of resolution of probate or other administrative proceedings.

**Real Estate Properties Used in Charitable Activities**

These properties consist of land and buildings leased to other not-for-profit organizations, at nominal amounts, for use in their organizations' service activities. These properties are carried at cost if acquired or fair value at the date of donation to The Foundation and are depreciated using straight-line methods over their estimated lives ranging from 25 to 30 years.

**Property and Equipment**

Property and equipment are carried at cost if purchased. Donated property and equipment is carried at the estimated fair value on the date of the donation. Depreciation is computed using primarily the straight-line method over the estimated useful lives ranging from 3 to 39 years.

**1. Significant Accounting Policies (continued)**

**Grants Payable and Commitments**

Grants are recognized as expenses in the consolidated statements of activities and changes in net assets at the time recipients are entitled to such grants. Generally, this occurs when The Community Foundation's Board of Directors approves a specific grant or when the grantee is notified. Each supporting organization has a similar process, in that grants are approved by the respective Board of Directors. Grants that are approved but contingent upon future conditions are accrued in the consolidated financial statements once the conditions are substantially met.

**Liabilities Under Split-Interest Agreements**

Liabilities under split-interest agreements represent the net present value of the estimated amount due to other beneficiaries of charitable remainder trusts and charitable gift annuities when The Foundation acts as trustee. The discount rates used in the calculation for this liability are derived from IRS actuarial tables, which consider market risk. The Foundation had $10,978,887 and $10,606,574 at December 31, 2010 and 2009, respectively, in assets held under split-interest agreements which are included in investments in securities in the accompanying consolidated statements of financial position.

**Income Taxes**

The Internal Revenue Service has ruled that The Foundation, TCF Charitable Real Estate Solutions LLC, and The Metropolitan Foundation of Atlanta, Inc., are tax-exempt under Section 501(a) as organizations described in Sections 501(c)(3), 509(a)(1), and 170(b)(1)(A)(vi) of the Internal Revenue Code. The CF Foundation, Inc., The Conlee Family Supporting Foundation, Inc., The F.T. Stent Family Foundation, Inc., The RFP Fund, Inc., The Shumard Foundation, Inc., and The Waterfall Foundation are tax-exempt under Section 501(a) as organizations as described in Sections 501(c)(3), 509(a)(3).

Two subsidiaries of a supporting organization are tax-exempt under Section 501(c)(2). One subsidiary of a supporting organization (a C corporation) is liable for any taxable income.

**1. Significant Accounting Policies (continued)**

On January 1, 2009, the Foundation adopted Accounting Standards Codification Topic 740 (formerly FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of ASC 740 (formerly FASB Statement 109), Accounting for Income Taxes)*. ASC 740 creates a single model to address uncertain tax positions and clarifies the accounting for income taxes by prescribing a "more likely than not" minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. Under the requirements of ASC 740, tax-exempt organizations may be required to record an obligation as the result of a tax position they have historically taken on various tax exposure items. Prior to ASC 740, the determination of when to record a liability for a tax exposure was based on whether a liability was considered probable and reasonably estimable in accordance with ASC 450 (formerly FASB Statement No. 5), *Accounting for Contingencies*. The adoption had no impact on the consolidated financial statements.

**Concentration of Risk**

Financial instruments that potentially expose The Community Foundation to concentrations of credit and market risk consist primarily of cash and cash equivalents and investments. The Foundation's cash and cash equivalents are maintained at large multi-state financial institutions in account products which offer 100% federally backed insurance coverage. One supporting organization maintains its cash in accounts that, at times, exceed federally insured limits. The Community Foundation has not experienced any losses on its cash and cash equivalents. The Community Foundation's investments do not represent significant concentrations of market risk inasmuch as The Community Foundation's investments portfolio is diversified among issuers.

The Community Foundation has invested in investments without readily determinable values which comprised 29% and 28% of total assets at December 31, 2010 and 2009, respectively. These investments contain underlying funds, which may include limited partnerships, limited liability companies, or non-US corporations. These investments entail liquidity risks to the extent that they are difficult to sell or convert to cash quickly at favorable prices. The investment risk of these investments without readily determinable values with respect to each underlying investment will be limited to the capital committed to it by The Community Foundation.

The Foundation received significant contributions from a single donor of $80 million and $50 million in 2010 and 2009 respectively. These contributions are to benefit a local charitable organization, and $34 million and $45 million in grants were made to the designated organization in 2010 and 2009, respectively.

## 1. Significant Accounting Policies (continued)

### Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. There was no impact on previously reported changes in net assets.

## 2. Receivables

The receivables outstanding are due as follows at December 31:

| | Less Than One Year | One Year to Five Years | Greater Than Five Years | Total |
|---|---|---|---|---|
| **2010** | | | | |
| Bequests and contributions receivable | **$ 100,157** | **$ 189,539** | **$ 1,458,501** | **$ 1,748,197** |
| Notes receivable | **3,147,117** | **2,062,396** | **–** | **5,209,513** |
| | **$ 3,247,274** | **$ 2,251,935** | **$ 1,458,501** | **$ 6,957,710** |

| | Less Than One Year | One Year to Five Years | Greater Than Five Years | Total |
|---|---|---|---|---|
| **2009** | | | | |
| Bequests and contributions receivable | $ 311,157 | $ 207,784 | $ 1,313,842 | $ 1,832,783 |
| Notes receivable | 2,303,254 | 2,136,379 | – | 4,439,633 |
| | $ 2,614,411 | $ 2,344,163 | $ 1,313,842 | $ 6,272,416 |

The Foundation has discounted these receivables at rates ranging from 4% to 10%. The Foundation uses the specific identification method to determine its allowance for uncollectible pledges.

## 3. Investments

### Investment Policy

The Foundation's board has the ultimate responsibility for the funds and related investment returns. The Foundation's funds are invested under an asset allocation policy that is expected to provide returns adequate to enable The Foundation to make grants and pay operating expenses. Under its current policy, The Foundation's funds are invested in a manner intended to produce results that exceed certain relevant market indices over a specified time horizon. To satisfy its long-term rate of return objectives, the Foundation exercises due care to diversify invested fund assets through its strategies to achieve the stated objectives for the Foundation in accordance with the asset allocation policy. Actual investment returns in any given year will fluctuate.

### Spending Policy

The Foundation's Board sets an annual spending rate for certain funds included in the field of interest, designated, and discretionary fund classifications. The board voted in 2011 to set the spending rate on a 20-quarter rolling average of applicable fund balances calculated as of December 31st of the preceding year instead of the 12-quarter rolling average used in previous years including 2010 and 2009. This change was made to reduce the effects that the volatile stock market would have on the payouts annually. The balance of these funds as of December 31, 2009 and 2008, was approximately $133,400,000 and $114,300,000, respectively. The board approved spending rates for 2010 and 2009 are 5.2% and 5%, respectively.

### Fair Value Measurements

The Foundation reports in accordance with ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosure about fair value measurements.

In accordance with this accounting standard, fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. This standard establishes a three-level fair value hierarchy

**3. Investments (continued)**

that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

**Level 1**: Financial assets and liabilities whose values are based on unadjusted quoted market prices in active markets for identical assets or liabilities to which an entity has access at the measurement date.

**Level 2**: Financial assets and liabilities whose values are based on pricing inputs that are either directly observable or that can be derived or supported from observable data as at the measurement date. Level 2 inputs may include:

a. Quoted prices for similar assets or liabilities in active markets;

b. Quoted prices for identical or similar assets in markets that are not active;

c. Observable inputs other than quoted prices for the asset or liability;

d. Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.

**Level 3**: Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or financial liability and are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Corporate stocks and mutual funds are principally valued at the regular trading session closing price on the exchange or market in which such securities are principally traded on the last business day of each period presented using the market approach.

U.S. government obligations and corporate bonds are valued on the basis of evaluated prices by independent pricing services.

**3. Investments (continued)**

Investments in securities that have no quoted market prices (alternative investments) use approaches that are appropriate to the nature of investments as determined by the respective fund managers.

The Foundation has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below.

In April 2009, the Financial Accounting Standards Board (FASB) issued an accounting standard update related to fair value disclosures. This guidance expanded fair value disclosures and required that major categories for debt and equity securities in the fair value hierarchy be determined on the basis of the nature and risks of the investments. This guidance was effective for periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on the Foundation's consolidated statements of financial position or disclosures.

In September 2009, the FASB issued an accounting standard update which provides a practical expedient for measuring the fair values of investments in investment companies that calculate a net asset value per share (such as hedge funds, private equity funds, funds of funds, and certain collective trusts, common trusts and pooled separate accounts). The practical expedient permits an entity holding investments in certain entities that calculate net asset value per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that net asset value per share or its equivalent without adjustment. This guidance also provides enhanced disclosure requirements about the nature and risks of investments within its scope.

Such disclosures include the nature of any restrictions on an investor's ability to redeem its investments at the measurement date, and unfunded commitments, and the investment strategies of the investee. This guidance is effective for periods ending after December 15, 2009. The adoption of this guidance did not have a material impact on the Foundation's consolidated statements of financial position or disclosures.

**3. Investments (continued)**

In January 2010, the FASB issued *Accounting Standards Update* (*ASU 2010-06, Improving Disclosures about Fair Value Measurements (ASU 2010-06)*) which the Foundation adopted January 1, 2010. ASU 2010-06 amends ASC 820 to add new requirements for disclosures regarding transfers into and out of Levels 1 and 2 in the fair value hierarchy and separate disclosures about purchases, sales, issuances and settlements related to Level 3 measurements. It also clarifies existing fair value disclosures regarding the level of disaggregation and the inputs and valuation techniques used to measure fair value. This accounting standard was effective for periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The Foundation adopted the required provisions of ASU 2010-06 on January 1, 2010. The adoption of ASU 2010-06 did not have a material impact on the Foundation's consolidated financial statements.

The following table summarizes the levels in the ASC fair value hierarchy of the Foundation's investment funds at December 31, 2010:

| | Level 1 Market Value | Level 2 Market Value | Level 3 Market Value | Total |
|---|---|---|---|---|
| Money market funds | **$ 151,037,011** | **$ –** | **$ –** | **$ 151,037,011** |
| U.S. treasury obligations | **6,572,368** | **–** | **–** | **6,572,368** |
| Corporate bonds and debentures | **23,227,875** | **–** | **–** | **23,227,875** |
| Corporate stocks | **126,874,113** | **–** | **–** | **126,874,113** |
| Mutual funds | **146,647,111** | **–** | **–** | **146,647,111** |
| Alternative investments | **–** | **82,080,782** | **130,240,112** | **212,320,894** |
| | **$ 454,358,478** | **$ 82,080,782** | **$ 130,240,112** | **$ 666,679,372** |

**3. Investments (continued)**

The changes in investments classified as Level 3 are as follows for the year ended December 31, 2010:

**Level 3 Reconciliation**

| | |
|---|---|
| Beginning balance on January 1, 2010 | **$ 111,790,895** |
| Purchases | **18,794,656** |
| Sales | **(14,471,947)** |
| Realized gains and losses | **2,240,610** |
| Unrealized gains and losses relating to instruments still held at the reporting date | **11,885,898** |
| Net transfer out of Level 3 investments | **–** |
| Net transfer into Level 3 investments | **–** |
| Ending balance on December 31, 2010 | **$ 130,240,112** |

The following information is provided for investments in alternative assets valued at net asset value to enable users of financial statements to understand the nature and risk of the Foundations investments by major category and whether the investments are probable of being sold at amounts different from net asset value per share or ownership interest in partners' capital.

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Domestic equity funds (a) | **$ 79,884,896** | **$ –** | Daily, annually | 1 – 100 days |
| Equity international funds (b) | **33,475,434** | **–** | Weekly, Monthly | 5 – 60 days |
| Commodities funds (c) | **12,760,022** | **–** | Monthly | 10 days |
| Global bond funds (d) | **8,633,056** | **–** | Monthly | 10 days |
| High yield funds (e) | **11,494,673** | **–** | Monthly | 30 days |
| Multi-Strategy (f) | **50,417,595** | **–** | Daily, Not eligible | 3 – 100 days |
| Long/short (g) | **7,645,012** | **–** | Quarterly, Not eligible | 60 – 90 days |
| Private equity (h) | **6,939,163** | **3,735,000** | Not eligible | N/A |
| Private real estate (i) | **1,071,043** | **3,903,450** | Not eligible | N/A |
| Total | **$ 212,320,894** | **$ 7,638,450** | | |

**3. Investments (continued)**

(a) This class includes investments in a broadly diversified portfolio of U.S. companies. The fund maintains a broad exposure to the U.S. markets.

(b) This class focuses on investments in a broadly diversified portfolio of international companies. The fund maintains a broad exposure to the international markets.

(c) This class invests 100 percent long in managed futures, which invest in liquid assets, including commodities, core energy, metal equities, agriculture equities, global real estate equities, global climate change and Treasury Inflation Protected Securities.

(d) This class invests in high quality global fixed income investments that contain no leverage

(e) This class includes investments in 100 percent debt securities that are generally rated below investment grade.

(f) This class includes investments in hedge fund of funds that invest in underlying managers who have the ability to invest both long and short in common stocks around the globe in strategies focused on corporate credit and mortgage backed securities and those that seek to capitalize on distressed assets/entities and/or other corporate events. Management of hedge funds has the ability to shift investments across these categories based on where they believe the best potential returns exist. In general, net market exposure will range between 30% and 70% under normal conditions.

(g) This class includes investments in hedge fund of funds that invest in underlying managers who have the ability to invest both long and short in common stocks around the globe. Management of hedge funds has the ability to shift investments geographically and by capitalization based on where they believe the best potential returns exist. In general, net market exposure will range between 30% and 70% under normal conditions.

(h) This class includes several hedge funds of funds that invest in private equity funds in U.S. companies. Distributions from this class will be received as the underlying investments of the funds are liquidated.

**3. Investments (continued)**

(i) This class includes real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this class have been estimated using the Foundation's ownership interest in partner's capital. Distributions from this class will be received as the underlying investments of the funds are liquidated.

The following table summarizes the levels in the ASC fair value hierarchy of the Foundation's investment funds at December 31, 2009:

| | Level 1 Market Value | Level 2 Market Value | Level 3 Market Value | Total |
|---|---|---|---|---|
| Money market funds | $ 104,777,025 | $ – | $ – | $ 104,777,025 |
| U.S. treasury obligations | 5,568,647 | – | – | 5,568,647 |
| Corporate bonds and debentures | 21,430,279 | – | – | 21,430,279 |
| Corporate stocks | 152,998,720 | – | – | 152,998,720 |
| Mutual funds | 94,590,085 | – | – | 94,590,085 |
| Alternative investments | – | 67,961,641 | 111,790,895 | 179,752,536 |
| | $ 379,364,756 | $ 67,961,641 | $ 111,790,895 | $ 559,117,292 |

The changes in investments classified as Level 3 are as follows for the year ended December 31, 2009:

**Level 3 Reconciliation**

| | |
|---|---|
| Beginning balance on January 1, 2009 | $ 136,495,168 |
| Purchases | 43,068,160 |
| Sales | (57,486,623) |
| Realized gains and losses | 1,163,826 |
| Total unrealized gains and losses relating to instruments still held at the reporting date | 20,106,110 |
| Net transfer out of Level 3 investments | (31,555,746) |
| Net transfer into Level 3 investments | – |
| Ending balance on December 31, 2009 | $ 111,790,895 |

**3. Investments (continued)**

The following information is provided for investments in alternative assets valued at net asset value, to enable users of financial statements to understand the nature and risk of the Foundation's investments by major category and whether the investments are probable of being sold at amounts different from net asset value per share or ownership interest in partners' capital.

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|
| Domestic equity funds (a) | $ 38,491,678 | $ 2,647,500 | Quarterly, annually | 45 – 100 days |
| Equity international funds (b) | 33,744,958 | – | Monthly, quarterly | 15 – 30 days |
| Hedge funds (c) | 72,127,312 | – | Quarterly, annually | 60 – 100 days |
| Commodities funds (d) | 10,877,163 | – | Monthly | 24 days |
| Global bond funds (e) | 8,115,956 | – | Monthly | 10 days |
| High yield funds (f) | 11,918,584 | – | | |
| Real estate & private equity (g) | 4,476,885 | – | | |
| Private real estate (h) | – | 4,000,000 | | |
| Total | $ 179,752,536 | $ 6,647,500 | | |

(a) This category focuses on investments in a broadly diversified portfolio of U.S. companies. The fund maintains a broad exposure to the U.S. markets.

(b) This category focuses on investments in a broadly diversified portfolio of international companies. The fund maintains a broad exposure to the international markets.

(c) This category includes investments in a broad range of hedge fund strategies that invest in both long and short term positions, utilizing domestic and global concentrations. Funds are diversified across types of; security sectors, market capitalization segments, industries and regions.

(d) This category is a multi-asset category, which invest in liquid assets, including commodities, core energy, metal equities, agriculture equities, global real estate equities, global climate change and Treasury Inflation Protected Securities.

**3. Investments (continued)**

(e) This category includes high quality global fixed income investments that contain no leverage.

(f) This category includes debt securities that are generally rated below investment grade.

(g) This category includes the Foundation's direct investment in real estate and private equity. Distributions from these funds will be received as the underlying investments of the funds are liquidated.

(h) These investments cannot be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

**4. Property and Equipment**

Property and equipment consisted of the following at December 31:

| | **2010** | **2009** |
|---|---|---|
| Land | **$ 42,901,470** | $ 42,492,088 |
| Land improvements | **332,067** | 332,067 |
| Buildings | **31,611,344** | 31,561,877 |
| Furniture and equipment | **3,831,923** | 3,643,199 |
| Total property and equipment | **78,676,804** | 78,029,231 |
| Accumulated depreciation | **(23,328,275)** | (21,626,781) |
| Net property and equipment | **$ 55,348,529** | $ 56,402,450 |

## 5. Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31:

| | 2010 | 2009 |
|---|---|---|
| Time restrictions | **$ 7,070,116** | $ 9,338,286 |
| Charitable gift annuities, remainder trusts and pooled income funds with The Community Foundation as trustee | **5,841,225** | 5,441,587 |
| Life insurance policies | **739,292** | 718,284 |
| | **$ 13,650,633** | $ 15,498,157 |

## 6. Net Assets Released From Restrictions

Net assets released from restrictions consisted of the following during the years ended December 31:

| | 2010 | 2009 |
|---|---|---|
| Charitable gift annuities, remainder trusts and pooled income funds with The Community Foundation as trustee | **$ 280,000** | $ – |
| Time restrictions | **5,274,604** | 27,613,465 |
| | **$ 5,554,604** | $ 27,613,465 |

**7. Employee Benefit Plan**

Eligible employees participate in The Foundation's Simplified Employee Pension (SEP). Annual contributions are based on a stipulated percentage up to 10% of eligible employee's salaries. The Foundation incurred $54,167 and $59,536 of expense under this plan for the years ended December 31, 2010 and 2009, respectively.

Since January 1, 2006, a supporting organization had a contributory, defined contribution 401(k) plan covering all employees. The supporting organization made matching contributions equal to 100% of an employee's pretax contributions, of the first 3% of an employee's compensation deferred and 50% of the next 2% of compensation deferred by the participant. The supporting organization also makes discretionary profit sharing contributions. The supporting organization's contribution is 100% vested immediately.

The supporting organization recognized approximately $229,000 and $151,000 for employer contributions to the safe harbor 401(k) plan, which is reflected in the consolidated Statements of Activities for the years ended December 31, 2010 and 2009, respectively.

**8. Operating Lease Commitments**

The Foundation leases its office space under an operating lease that terminates September 20, 2015. The lease provides for monthly payments of $17,065 and its share of the building's operating costs. One of the supporting organizations has entered into various operating leases for machinery and equipment expiring between April 2012 and November 2021, respectively.

Consolidated rent expense to unrelated parties for the years ended December 31, 2010 and 2009, was $406,445 and $404,729, respectively.

Future minimum lease payments are as follows:

| Fiscal year ended December 31, | |
|---|---|
| 2011 | $ 366,864 |
| 2012 | 339,467 |
| 2013 | 341,261 |
| 2014 | 347,831 |
| Thereafter | 1,087,949 |
| | $ 2,483,372 |

**8. Operating Lease Commitments (continued)**

One of the supporting organizations rents property to unrelated parties. These leases expire between January 2011 and April 2014. Future minimum lease payments to be received are as follows:

| Fiscal year ended December 31, | |
|---|---|
| 2011 | $ 150,741 |
| 2012 | 39,371 |
| 2013 | 30,976 |
| 2014 | 8,265 |
| | $ 229,353 |

**9. The King Collection**

On June 23, 2006 ATLCF Collections LLC (ATLCF), a Georgia limited liability company wholly owned by The Foundation, acquired all rights, title, and interest to a collection of original papers of Dr. Martin Luther King, Jr., known as The King Collection, for $32,000,000 from the Estate of Martin Luther King, Jr. Inc. The Foundation financed the acquisition with contributions and a loan of up to $35,000,000 from a bank at an interest rate of LIBOR plus 1.55%, payable monthly. The loan was fully secured by guarantees and pledges from a diverse group of public-spirited individuals and local and national institutions. The original term of the loan was for two years, maturing June 23, 2008: however, it was renewed for an additional year, maturing June 23, 2009. The interest paid during the years ended December 31, 2009 and 2008 was $133,881 and $610,382, respectively.

On July 29, 2009 the loan balance of $11.5 million was fully paid with proceeds from City of Atlanta Subordinate Lien Tax Allocation Bonds associated with the National Center for Civil and Human Rights, Inc.

On July 30, 2009, ATLCF transferred its rights in the King Collection to Morehouse College.

All of the contributions received to pay off the loan, less outstanding receivables of approximately $0.5 million as of July 29, 2009, were recorded as temporarily restricted contribution revenue in the Statement of Activities as of December 31, 2009. Similarly the transfer of the Collection to Morehouse College is included as grant expense in 2009.

## 10. Form 990 reporting

The audited financial statements of the Foundation are reported in accordance with U.S. generally accepted accounting principles. The differences that exist between these accounting principles and the Internal Revenue Service Form 990 (990) reporting requirements create certain reconciling items between the components of net assets and net income reported in financial statements and the Foundation's 990. These reconciling items are summarized for 2010 as follows:

| | Audited Financial Statement Balance December 31, 2010 | Unrealized Gains and Inv Manager Fees (a) | Supporting and Related Organizations (b) | Other (c) | 990 Balance December 31, 2010 |
|---|---|---|---|---|---|
| Assets | $ 741,108,064 | $ – | $ (193,923,396) | $ – | $ 547,184,668 |
| Liabilities | (26,393,559) | – | 8,547,894 | 7,569,094 | (10,276,571) |
| Net assets | 714,714,505 | – | (185,375,502) | 7,569,094 | 536,908,097 |
| Revenue | 201,935,097 | (29,679,557) | (21,650,896) | 736,379 | 151,341,023 |
| Expenses | (112,228,118) | (1,889,339) | 12,164,699 | (398,918) | (102,351,676) |
| Net assets change | $ 89,706,979 | $ (31,568,896) | $ (9,486,197) | $ 337,461 | $ 48,989,347 |

(a) Unrealized gains and losses included in the Foundation's revenues are excluded from revenues for 990 reporting purposes; investment manager fees are netted against revenues in the Foundation's audited financial statements and are reported separately as expenses in the 990.

(b) The audited financial statements of the Foundation are reported on a consolidated basis which includes its subsidiaries and its supporting organizations, however separate 990's are prepared for each of these entities.

(c) Other reconciling items primarily reflect agency or other similar relationships.

**11. Subsequent Events**

The Foundation has evaluated subsequent events through the date of this report. All subsequent events, if any, requiring recognition as of December 31, 2010, have been incorporated into these consolidated financial statements