

FERNBANK, INC.

FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

with
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees Fernbank, Inc.

We have audited the accompanying financial statements of Fernbank, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018 and 2017, and the results of activities and cash flows for the years then ended in conformity with GAAP.

Smith & Howard

August 13, 2019

FERNBANK, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 7,913,346	\$ 7,121,242
Endowment cash and cash equivalents	243,130	415,142
Short-term investments	162,614	154,559
Pledges receivable, current portion	377,653	390,795
Accounts receivable	103,411	93,622
Inventories	243,918	245,401
Prepaid expenses	<u>474,090</u>	<u>354,134</u>
Total Current Assets	9,518,162	8,774,895
Property and Equipment, Net	26,317,641	28,285,768
Collections	1,091,649	1,061,949
Other Assets		
Pledges receivable, net of current portion	121,140	102,576
Trademarks, net	19,019	21,810
Endowment investments	<u>5,516,831</u>	<u>5,915,220</u>
	<u><u>\$ 42,584,442</u></u>	<u><u>\$ 44,162,218</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 610,562	\$ 359,636
Accrued expenses	1,176,450	1,047,105
Contracts payable	<u>212,500</u>	<u>125,000</u>
Total Current Liabilities	1,999,512	1,531,741
Other Long-Term Liabilities	-	1,500
Net Assets		
Without donor restrictions	29,870,297	31,517,318
With donor restrictions	<u>10,714,633</u>	<u>11,111,659</u>
	<u>40,584,930</u>	<u>42,628,977</u>
	<u><u>\$ 42,584,442</u></u>	<u><u>\$ 44,162,218</u></u>

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

FERNBANK, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2018

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Support and Revenues			
Museum admissions	\$ 2,908,386	\$ -	\$ 2,908,386
Theatre admissions	696,185	-	696,185
Gifts and grants	2,281,853	1,350,563	3,632,416
Memberships	1,377,440	-	1,377,440
Investment income, net	5,692	12,769	18,461
Museum store	732,413	-	732,413
Cost of goods sold - museum store	(348,511)	-	(348,511)
Food service	1,951,466	-	1,951,466
Cost of goods sold - food store	(397,675)	-	(397,675)
Other	109,156	-	109,156
Net assets released from restrictions	<u>1,378,048</u>	<u>(1,378,048)</u>	<u>-</u>
 Total Support and Revenues	 10,694,453	 (14,716)	 10,679,737
Expenses			
Program Services			
Museum	7,207,163	-	7,207,163
Theatre	348,001	-	348,001
Marketing	1,201,121	-	1,201,121
Museum store	266,289	-	266,289
Food service	742,193	-	742,193
	<u>9,764,767</u>	<u>-</u>	<u>9,764,767</u>
Supporting Services			
Management and general	1,678,096	-	1,678,096
Fundraising	898,611	-	898,611
	<u>2,576,707</u>	<u>-</u>	<u>2,576,707</u>
 Total Expenses	 <u>12,341,474</u>	 <u>-</u>	 <u>12,341,474</u>
Other Changes			
Endowment investment loss, net	<u>-</u>	<u>(382,310)</u>	<u>(382,310)</u>
 Decrease in Net Assets	 (1,647,021)	 (397,026)	 (2,044,047)
 Net Assets, Beginning of Year	 <u>31,517,318</u>	 <u>11,111,659</u>	 <u>42,628,977</u>
 Net Assets, End of Year	 <u>\$ 29,870,297</u>	 <u>\$ 10,714,633</u>	 <u>\$ 40,584,930</u>

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

FERNBANK, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Support and Revenues			
Museum admissions	\$ 2,713,773	\$ -	\$ 2,713,773
Theatre admissions	802,110	-	802,110
Gifts and grants	2,438,814	1,151,778	3,590,592
Memberships	1,100,783	-	1,100,783
Investment income, net	4,097	12,321	16,418
Museum store	726,781	-	726,781
Cost of goods sold - museum store	(342,714)	-	(342,714)
Food service	1,907,091	-	1,907,091
Cost of goods sold - food store	(394,880)	-	(394,880)
Other	95,217	-	95,217
Net assets released from restrictions	<u>3,063,234</u>	<u>(3,063,234)</u>	<u>-</u>
 Total Support and Revenues	 12,114,306	 (1,899,135)	 10,215,171
Expenses			
Program Services			
Museum	7,387,844	-	7,387,844
Theatre	332,431	-	332,431
Marketing	1,207,343	-	1,207,343
Museum store	273,660	-	273,660
Food service	741,876	-	741,876
	<u>9,943,154</u>	<u>-</u>	<u>9,943,154</u>
Supporting Services			
Management and general	1,629,746	-	1,629,746
Fundraising	817,621	-	817,621
	<u>2,447,367</u>	<u>-</u>	<u>2,447,367</u>
 Total Expenses	 <u>12,390,521</u>	 <u>-</u>	 <u>12,390,521</u>
Other Changes			
Loss on disposal of assets	(108,396)	-	(108,396)
Endowment investment income , net	<u>-</u>	<u>788,800</u>	<u>788,800</u>
Decrease in Net Assets	(384,611)	(1,110,335)	(1,494,946)
Reclassifications	(1,630,904)	1,630,904	-
Net Assets, Beginning of Year	<u>33,532,833</u>	<u>10,591,090</u>	<u>44,123,923</u>
Net Assets, End of Year	<u>\$ 31,517,318</u>	<u>\$ 11,111,659</u>	<u>\$ 42,628,977</u>

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

FERNBANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services					Supporting Services		Total	
	Museum	Theatre	Marketing	Museum Store	Food Services	Total Program Services	Management and General		Fundraising
Salaries	\$ 1,102,200	\$ 68,369	\$ 317,134	\$ 199,089	\$ 427,534	\$ 2,114,326	\$ 942,076	\$ 474,763	\$ 3,531,165
Temporary assistance	-	-	-	-	22,766	22,766	84,387	-	107,153
Payroll taxes	100,897	5,419	25,094	15,564	34,807	181,781	71,187	37,938	290,906
Employee benefits	151,327	6,904	41,362	40,843	48,413	288,849	111,845	42,036	442,730
Total Personnel Expenses	1,354,424	80,692	383,590	255,496	533,520	2,607,722	1,209,495	554,737	4,371,954
Advertising and promotion	-	-	812,326	-	-	812,326	-	-	812,326
General and administrative	17,085	2,865	2,189	3,060	2,226	27,425	333,755	8,418	369,598
Exhibit	1,791,969	-	-	-	-	1,791,969	-	-	1,791,969
Facilities	1,110,256	-	-	-	-	1,110,256	-	-	1,110,256
Theatre	-	260,047	-	-	-	260,047	-	-	260,047
Information technology	-	-	-	-	-	-	132,371	-	132,371
Membership	-	-	-	-	-	-	-	118,314	118,314
Programs and activities	343,049	-	-	7,733	60,636	411,418	1,390	217,142	629,950
Special events	-	-	-	-	131,535	131,535	-	-	131,535
Total Expenses Before Depreciation and Amortization	4,616,783	343,604	1,198,105	266,289	727,917	7,152,698	1,677,011	898,611	9,728,320
Depreciation and amortization	2,590,380	4,397	3,016	-	14,276	2,612,069	1,085	-	2,613,154
Total Expenses 2018	\$ 7,207,163	\$ 348,001	\$ 1,201,121	\$ 266,289	\$ 742,193	\$ 9,764,767	\$ 1,678,096	\$ 898,611	\$ 12,341,474

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

FERNBANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services						Supporting Services		Total
	Museum	Theatre	Marketing	Museum Store	Food Services	Total Program Services	Management and General	Fundraising	
Salaries	\$ 1,182,455	\$ 57,071	\$ 307,519	\$ 202,300	\$ 413,316	\$ 2,162,661	\$ 937,161	\$ 366,792	\$ 3,466,614
Temporary assistance	300	-	2,020	-	45,729	48,049	24,178	-	72,227
Payroll taxes	116,193	5,507	24,514	15,872	34,350	196,436	75,949	30,802	303,187
Employee benefits	166,900	6,807	30,278	39,498	46,590	290,073	124,452	68,126	482,651
Total Personnel Expenses	1,465,848	69,385	364,331	257,670	539,985	2,697,219	1,161,740	465,720	4,324,679
Advertising and promotion	-	-	837,718	-	-	837,718	-	-	837,718
General and administrative	21,337	1,371	2,717	1,487	6,172	33,084	332,549	7,379	373,012
Exhibit	1,920,237	-	-	-	-	1,920,237	-	-	1,920,237
Facilities	1,074,709	-	-	-	-	1,074,709	-	-	1,074,709
Theatre	-	227,588	-	-	-	227,588	-	-	227,588
Information technology	-	-	-	-	-	-	132,067	-	132,067
Membership	-	-	-	-	-	-	-	115,867	115,867
Programs and activities	337,509	-	-	14,503	59,154	411,166	2,847	228,655	642,668
Special events	-	-	-	-	123,797	123,797	-	-	123,797
Total Expenses Before Depreciation and Amortization	4,819,640	298,344	1,204,766	273,660	729,108	7,325,518	1,629,203	817,621	9,772,342
Depreciation and amortization	2,568,204	34,087	2,577	-	12,768	2,617,636	543	-	2,618,179
Total Expenses 2017	\$ 7,387,844	\$ 332,431	\$ 1,207,343	\$ 273,660	\$ 741,876	\$ 9,943,154	\$ 1,629,746	\$ 817,621	\$ 12,390,521

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

FERNBANK, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Decrease in Net Assets	\$ (2,044,047)	\$ (1,494,946)
Adjustments to Reconcile Decrease in Net Assets to		
Net Cash Required by Operating Activities		
Depreciation and amortization	2,613,154	2,618,179
Loss on disposal of assets	-	108,396
Contributed stock	(1,715)	(152,265)
Gifts in kind	(109,148)	(15,125)
Unrealized (gain) loss on investments	610,488	(660,251)
Bad debt expense	-	14,833
Change in discount on pledges receivable	8,861	(28,312)
Restricted contributions	(1,348,850)	(1,149,850)
(Increase) decrease in assets:		
Accounts receivable	(9,789)	50,980
Pledges receivable	(23,050)	(19,518)
Inventories	1,483	(30,296)
Prepaid expenses	(119,957)	(80,625)
Increase (decrease) in liabilities:		
Accounts payable	124,626	(302,749)
Accrued expenses	129,345	57,472
Other long-term liabilities	(1,500)	(89,556)
Net cash required by operating activities	<u>(170,099)</u>	<u>(1,173,633)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of property and equipment	-	1,630,904
Purchase of collection	(29,700)	(4,000)
Proceeds from sale of investments	154,720	87,817
Purchases of endowment investments	(373,159)	(42,268)
Purchase of patents and trademarks	-	(11,475)
Acquisitions of property and equipment	<u>(319,287)</u>	<u>(1,836,441)</u>
Net cash required by investing activities	<u>(567,426)</u>	<u>(175,463)</u>
Cash Flows from Financing Activities:		
Restricted contributions collected	<u>1,357,617</u>	<u>1,913,249</u>
Net cash provided by financing activities	<u>1,357,617</u>	<u>1,913,249</u>
Net Increase in Cash and Cash Equivalents	620,092	564,153
Cash and Cash Equivalents, Beginning of Year	<u>7,536,384</u>	<u>6,972,231</u>
Cash and Cash Equivalents, End of Year	<u>\$ 8,156,476</u>	<u>\$ 7,536,384</u>

Summary of Significant Non-Cash Investing Activities:

At December 31, 2018, accounts payable included \$213,800 of payables related to property and equipment acquisitions.

Reconciliation of Cash and Cash Equivalents to the Statement of Financial Position:

Cash and cash equivalents	\$ 7,913,346	\$ 7,121,242
Endowment cash and cash equivalents	<u>243,130</u>	<u>415,142</u>
	<u>\$ 8,156,476</u>	<u>\$ 7,536,384</u>

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

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Fernbank, Inc. (the "Organization") is a not-for-profit organization devoted to advancing knowledge and promoting an appreciation of the natural history of Georgia and the southeastern United States. The primary activity of the Organization is the operation of The Fernbank Museum of Natural History that opened to the general public on October 5, 1992.

Financial Statement Presentation

The Organization prepares its financial statements using the accrual method of accounting; consequently, revenues and the related assets are recognized when earned and expenditures are recognized when the obligation is incurred.

Net assets, along with revenues, expenses, gains and losses, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization.
- Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity.

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").

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncement Adopted

In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a nonprofit’s liquidity and availability of resources, expenses and investments returns, and cash flows. Main provisions of this guidance include: (a) presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring that all nonprofits present an analysis of expenses by function and nature and disclose a summary of the allocation methods used to allocate costs, (d) presenting investment return net of external and direct internal investment expenses, and (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources.

The Organization has adopted ASU 2016-14 as of and for the year ended December 31, 2018 with retrospective application for the 2017 financial statements. The Organization opted to not disclose liquidity and availability information for 2017 as permitted under the ASU in the year of adoption.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in these financial statements. Actual results may differ from these estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Pledges Receivable

Unconditional promises to give (pledges) are recognized as assets and support when the pledges are received. Pledges expected to be collected in more than one year are recorded at their net realizable value and are separately identified as long term on the statement of financial position. Management periodically reviews the collectability of outstanding pledges and records an estimated allowance based on known facts and historical trends. Pledges are written off at the time they are deemed uncollectible.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable (Continued)

The Organization has three major donors that comprised approximately 67% of pledges receivable at December 31, 2018 and two major donors that comprised approximately 57% of pledges receivable at December 31, 2017.

Conditional promises to give are not recorded until the conditions are substantially met and bequests are recorded only when amounts are determinable and collection is reasonably assured. During 2018 and 2017, the Organization fulfilled conditions which allowed for the recognition of gift revenues in the amount of \$250,000 and \$1,000,000, respectively.

Financial Instruments and Concentrations of Credit Risk

The Organization has two sources of accounts receivable: pledges receivable and customer group receivables. Accounts receivable from pledges are primarily from donors and organizations in the Atlanta, Georgia area and are uncollateralized pledges. Substantially all of the customer group receivables are from groups in the local area and are unsecured. The Organization performs on-going credit evaluation of its customers and donors and has adjusted accounts receivable for all known uncollectible accounts. At December 31, 2018 and 2017, there was an allowance for doubtful accounts of \$14,333.

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash on deposit and other short term investments with three financial institutions. At times, these balances may exceed federally insured limits. If liquidity issues arise in the global credit and capital markets, it is at least reasonably possible that these changes in risks could materially affect the amounts reported in the accompanying financial statements.

Inventories

Inventories consisting of gift shop items, food and beverage products, and supplies are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment

Assets acquired by purchase are valued at cost. Donated assets are valued at the fair market value on the date of gift. Expenditures for maintenance, repairs, and renewals of minor items are charged to expense as incurred. All property and equipment purchases greater than \$500 are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in the statement of activities and changes in net assets.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Museum	\$ 29,995,460	\$ 29,919,873
Land and other buildings	4,445,883	4,232,083
Museum exhibits	20,883,749	20,868,749
Furniture, fixtures and equipment	1,307,006	1,068,569
Computer hardware	848,310	785,718
Computer software	1,251,202	1,214,382
Vehicles	80,070	80,070
	<u>58,811,680</u>	<u>58,169,444</u>
Less accumulated depreciation	<u>(32,494,039)</u>	<u>(29,883,676)</u>
	<u>\$ 26,317,641</u>	<u>\$ 28,285,768</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$2,610,363 and \$2,615,962 respectively.

Property and equipment are depreciated using the straight-line method over their estimated lives as follows:

Buildings	15-35 years
Equipment	3-15 years
Furniture and fixtures	5-10 years
Computer hardware and software	3-5 years

Collections

In accordance with GAAP, donated collections are recorded at commercial market value, determined by independent appraisal. Purchased collection items are recorded at cost. Collections are not depreciated.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Collections (Continued)

The value of collections donated by individuals prior to the current method of recording donated collections, including the gem stone collection and other works of art, are not recorded. However, the Organization's gem stone collection is extensive and has substantial value based upon appraisals of the items at the time of their donation.

Endowment

GAAP requires the following financial statement disclosures for the Organization:

- Classification of net assets

Endowment funds are used to account for investments in which the principal is restricted for a specific purpose.

- Interpretation of Relevant Law

The Organization has interpreted the State of Georgia's 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 endowments as net assets with donor restrictions (a) the original value of gifts donated to the endowments, (b) the original value of subsequent gifts to the endowments, and (c) accumulations to the endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Organization considers the following factors in making a determination to 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

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment (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 endowments 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 that is intended to produce results that exceed the price and yield results of the MSCI All Country World Index for Equities and Barclays Aggregate Index for fixed income investments. 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 current yields on certificate of deposits and investments in marketable securities.

- Spending Policy

The Organization's revised endowment policy, which was approved by the Organization's Executive Board, and is provided to donors, was implemented to achieve returns in excess of the rate of inflation to preserve the purchasing power of the temporarily restricted assets as well as emphasize growth of principal while avoiding excessive risk. This policy allows for spending up to 4.5% of a trailing three year average of the market value of the donor restricted endowment fund for specified Organizational purposes.

Endowment Investments

The Organization's endowment investments in marketable securities with readily determinable fair values and all endowment investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities and changes in net assets. Endowment investment income and gains on assets restricted by a donor are reported as increases in net assets without donor restriction if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values Measured on Recurring Basis

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:

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.

The following tables represent the fair value measurement hierarchy of the assets (endowment investments) at fair value as of December 31:

	<u>2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment cash held for investment	\$ 199,880	\$ -	\$ -	\$ 199,880
Endowment cash and cash equivalents	405,744	-	-	405,744
Money market fund	130,911	-	-	130,911
Mutual funds	5,058,482	-	-	5,058,482
Other funds	<u>127,558</u>	<u>-</u>	<u>-</u>	<u>127,558</u>
	<u>\$ 5,922,575</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,922,575</u>

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values Measured on Recurring Basis (Continued)

	<u>2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment cash held for investment	\$ 62,732	\$ -	\$ -	\$ 62,732
Endowment cash and cash equivalents	569,701	-	-	569,701
Money market fund	181,344	-	-	181,344
Mutual funds	5,531,845	-	-	5,531,845
Other funds	<u>139,299</u>	<u>-</u>	<u>-</u>	<u>139,299</u>
	<u>\$ 6,484,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,484,921</u>

Contracts Payable

In the normal course of business, the Organization has contracts with third parties for special exhibits to showcase at various dates throughout the year. These contracts require that all costs associated with the exhibit contract are paid in full prior to the exhibit opening over an agreed upon period of time. All contract costs relating to the special exhibits are accrued once the executed contract becomes non-cancellable. The Organization had special exhibits under contract with contracts payable of \$212,500 and \$125,000 at December 31, 2018 and 2017, respectively. At December 31, 2018, the Organization had executed cancellable contracts for future exhibits with estimated contract costs of \$516,000.

Contributions

The Organization records contributions in accordance with GAAP. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services

Donated services have not been reflected in the financial statements because no objective basis is available to measure the value of such services. A number of volunteers have donated approximately 19,600 and 18,600 hours of service to further the objectives of the Organization during the years ended December 31, 2018 and 2017, respectively.

Compensated Absences

The costs of employee vacations are not accrued as they are earned, but are recorded when actually used.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs totaled approximately \$1,657,000 and \$1,239,000 in 2018 and 2017, respectively.

Income Taxes

Fernbank, Inc. is a not-for-profit organization which is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying 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. The Organization does not believe it has any uncertain tax positions as of December 31, 2018.

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 tax years ending before December 31, 2015.

Subsequent Events

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

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 2 - PLEDGES RECEIVABLE

At December 31, 2018, pledges receivable are due to be collected in the future years as follows:

2019		\$ 391,986
2020		<u>145,000</u>
		536,986
Unamortized discount		(23,860)
Allowance for uncollectible pledges		<u>(14,333)</u>
		<u>\$ 498,793</u>

Receivables to be collected after one year from the statement of financial position date are discounted at 5.0%.

During 2013, the Organization initiated its Nature Generation multi-year capital campaign and has generated revenues totaling \$21,906,454 as of December 31, 2018. Of this amount, \$21,763,175 has been received in cash through December 31, 2018.

NOTE 3 - EMPLOYEE RETIREMENT PLAN

The Organization sponsors a 403(b) plan for its eligible employees. During 2018 and 2017, the Organization contributed \$57,405 and \$62,599, respectively, to the 403(b) plan on behalf of eligible employees.

NOTE 4 - COLLECTIONS

Collections consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
St. Catherine's Collection	\$ 1,057,949	\$ 1,057,949
Other	<u>33,700</u>	<u>4,000</u>
	<u>\$ 1,091,649</u>	<u>\$ 1,061,949</u>

In an agreement signed in November, 2003, the Organization received a significant donation of archaeological artifacts found on St. Catherine's, a Georgia coastal island. The items were accumulated by the donor during excavations over the past 30 years and have a commercial market value of \$1,057,949, based on appraisals. On January 2, 2010 in accordance with the donation agreement, the Organization took title and full ownership of the collection since it achieved benchmarks related to storing and displaying the artifacts.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2018 and 2017, the components of net assets with donor restrictions were as follows:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purposes:		
NatureQuest	\$ -	\$ 5,663
Across the millennia (B)	1,190,018	934,510
Open the doors of discovery (B)	3,201	249,708
Nature Generation (A)	2,310,085	3,481,324
Fantastic Forces	1,204,000	-
Other	<u>114,507</u>	<u>110,092</u>
	<u>4,821,811</u>	<u>4,781,297</u>
Subject to spending policy and appropriation:		
Investment in perpetuity (including accumulated investment gains of \$50,803 and \$92,562 at December 31, 2018 and 2017, respectively), which, once appropriated, is expendable to support for general purposes:	456,204	497,963
Endowment not to be held in perpetuity for purposes of supporting the maintenance of the Nature Generation exhibit:	<u>5,436,618</u>	<u>5,832,399</u>
	<u>\$ 10,714,633</u>	<u>\$ 11,111,659</u>

(A) - During 2017, the Organization sold property and equipment that was originally purchased in connection with Nature Generation campaign. Proceeds from the sale of this property and equipment totaled \$1,630,904 and were reclassified to net assets with donor restrictions for future use in connection with the Nature Generation campaign.

(B) - During 2018, net assets with donor restrictions of approximately \$257,000 were redesignated from the purpose of Open the doors of discovery to Across the millennia.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets were released from donor restrictions during 2018 and 2017 by incurring expenses satisfying the purpose specified by donors as follows:

	<u>2018</u>	<u>2017</u>
NatureQuest	\$ 12,015	\$ 14,418
Across the millennia	8,808	6,161
Open the doors of discovery	2,591	11,451
Nature Generation	1,171,240	1,602,436
Endowment	55,231	44,324
Theatre conversion	-	1,265,335
Other	128,163	119,109
	<u>\$ 1,378,048</u>	<u>\$ 3,063,234</u>

NOTE 6 – LIQUIDITY AND AVAILABILITY

The Organization’s financial assets available within one year of December 31, 2018 for general expenditures are as follows:

Cash and cash equivalents	\$ 8,156,476
Investments	5,679,445
Pledges receivable	498,793
Accounts receivable	103,411
Donor imposed restrictions	<u>(10,714,633)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,723,492</u>

The Organization has a financial structure comprised of three components: general operations, financial activities conducted for specified purposes to meet strategic initiative goals, and endowment activities. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. This policy includes maintaining financial assets, which consist of cash and short-term investments, on hand to meet at least 60 days of normal operating expenses, which are, on average, approximately \$1,500,000.

Over the past few years, the Organization has performed fund-raising activities for capital and programming goals within the strategic initiative plan. The anticipated expenditures within one year of the balance sheet date for these current activities, which approximates \$500,000, will be funded by cash and short-term investments presently on hand.