

FERNBANK, INC.

FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, 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, 2019 and 2018, and the results of activities and cash flows for the years then ended in conformity with GAAP.

Smith & Howard

August 11, 2020

FERNBANK, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 6,738,636	\$ 7,913,346
Endowment cash and cash equivalents	252,159	243,130
Short-term investments	261,375	162,614
Pledges receivable, current portion	380,861	377,653
Accounts receivable	74,928	103,411
Inventories	271,722	243,918
Prepaid expenses	304,922	474,090
Total Current Assets	8,284,603	9,518,162
 Property and Equipment, Net	 25,955,097	 26,317,641
 Collections	 1,091,649	 1,091,649
 Other Assets		
Pledges receivable, net of current portion	127,277	121,140
Trademarks, net	16,229	19,019
Endowment investments	6,182,412	5,516,831
	<u>\$ 41,657,267</u>	<u>\$ 42,584,442</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 398,385	\$ 610,562
Accrued expenses	1,142,881	1,176,450
Exhibit contracts payable	89,166	212,500
Total Current Liabilities	1,630,432	1,999,512
 Exhibit Contracts Payable, Net of Current Portion	 156,668	 -
 Net Assets		
Without donor restrictions	29,516,121	29,870,297
With donor restrictions	10,354,046	10,714,633
	<u>39,870,167</u>	<u>40,584,930</u>
	<u>\$ 41,657,267</u>	<u>\$ 42,584,442</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, 2019

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Support and Revenues			
Museum admissions	\$ 3,033,405	\$ -	\$ 3,033,405
Theatre admissions	799,976	-	799,976
Gifts and grants	2,231,034	987,200	3,218,234
Memberships	1,446,634	-	1,446,634
Investment income, net	19,202	47,871	67,073
Museum store	776,456	-	776,456
Cost of goods sold - museum store	(373,169)	-	(373,169)
Events and food service	2,165,208	-	2,165,208
Cost of goods sold - food store	(434,514)	-	(434,514)
Other	124,928	-	124,928
Net assets released from restrictions	<u>2,173,031</u>	<u>(2,173,031)</u>	<u>-</u>
 Total Support and Revenues	 11,962,191	 (1,137,960)	 10,824,231
Expenses			
Program Services			
Museum	7,113,832	-	7,113,832
Theatre	407,171	-	407,171
Marketing	388,389	-	388,389
Museum store	257,565	-	257,565
Food service	<u>762,987</u>	<u>-</u>	<u>762,987</u>
	8,929,944	-	8,929,944
Supporting Services			
Management and general	2,787,092	-	2,787,092
Fundraising	<u>858,861</u>	<u>-</u>	<u>858,861</u>
	<u>3,645,953</u>	<u>-</u>	<u>3,645,953</u>
 Total Expenses	 <u>12,575,897</u>	 <u>-</u>	 <u>12,575,897</u>
Other Changes			
Endowment investment gain, net	<u>-</u>	<u>1,036,903</u>	<u>1,036,903</u>
Decrease in Net Assets	(613,706)	(101,057)	(714,763)
Reclassification based on clarification of donor intent	259,530	(259,530)	-
Net Assets, Beginning of Year	<u>29,870,297</u>	<u>10,714,633</u>	<u>40,584,930</u>
Net Assets, End of Year	<u>\$ 29,516,121</u>	<u>\$ 10,354,046</u>	<u>\$ 39,870,167</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

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <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)
Events and 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	388,795	-	388,795
Museum store	266,289	-	266,289
Food service	<u>742,193</u>	<u>-</u>	<u>742,193</u>
	8,952,441	-	8,952,441
Supporting Services			
Management and general	2,490,422	-	2,490,422
Fundraising	<u>898,611</u>	<u>-</u>	<u>898,611</u>
	<u>3,389,033</u>	<u>-</u>	<u>3,389,033</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 FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	Program Services					Supporting Services		Total	
	Museum	Theatre	Marketing	Museum Store	Food Services	Total Program Services	Management and General		Fundraising
Salaries	\$ 1,146,361	\$ 71,288	\$ 318,664	\$ 202,709	\$ 453,380	\$ 2,192,402	\$ 1,052,751	\$ 488,753	\$ 3,733,906
Temporary assistance	-	-	-	-	15,863	15,863	27,238	440	43,541
Payroll taxes	103,024	5,593	24,810	16,111	36,524	186,062	78,065	38,488	302,615
Employee benefits	106,710	6,038	38,229	24,083	35,506	210,566	85,083	31,088	326,737
Total Personnel Expenses	1,356,095	82,919	381,703	242,903	541,273	2,604,893	1,243,137	558,769	4,406,799
Advertising and promotion	-	-	-	-	-	-	1,010,465	18,663	1,029,128
General and administrative	23,277	1,343	3,670	3,563	3,141	34,994	378,818	7,407	421,219
Exhibit	1,423,082	-	-	-	-	1,423,082	-	-	1,423,082
Facilities	1,245,610	-	-	-	-	1,245,610	-	-	1,245,610
Theatre	-	313,427	-	-	-	313,427	-	-	313,427
Information technology	-	-	-	-	-	-	152,586	-	152,586
Membership	-	-	-	-	-	-	-	81,544	81,544
Programs and activities	380,533	-	-	11,099	60,793	452,425	1,001	192,478	645,904
Special events	-	-	-	-	143,705	143,705	-	-	143,705
Total Expenses Before Depreciation and Amortization	4,428,597	397,689	385,373	257,565	748,912	6,218,136	2,786,007	858,861	9,863,004
Depreciation and amortization	2,685,235	9,482	3,016	-	14,075	2,711,808	1,085	-	2,712,893
Total Expenses 2019	\$ 7,113,832	\$ 407,171	\$ 388,389	\$ 257,565	\$ 762,987	\$ 8,929,944	\$ 2,787,092	\$ 858,861	\$ 12,575,897

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
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	385,779	266,289	727,917	6,340,372	2,489,337	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	\$ 388,795	\$ 266,289	\$ 742,193	\$ 8,952,441	\$ 2,490,422	\$ 898,611	\$ 12,341,474

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

FERNBANK, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Decrease in Net Assets	\$ (714,763)	\$ (2,044,047)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided (Required) by Operating Activities		
Depreciation and amortization	2,712,893	2,613,154
Loss on disposal of assets	4,987	-
Contributed stock	-	(1,715)
Gifts in kind	(14,775)	(109,148)
Unrealized (gain) loss on investments	(852,722)	610,488
Bad debt expense	4,300	-
Change in discount on pledges receivable	8,063	8,861
Restricted contributions	(987,200)	(1,348,850)
(Increase) decrease in assets:		
Accounts receivable	28,483	(9,789)
Pledges receivable	(16,087)	(23,050)
Inventories	(27,804)	1,483
Prepaid expenses	169,168	(119,957)
Increase (decrease) in liabilities:		
Accounts payable	(55,469)	124,626
Accrued expenses	(33,569)	129,345
Other long-term liabilities	-	(1,500)
Net cash provided (required) by operating activities	225,505	(170,099)
Cash Flows from Investing Activities:		
Purchase of collection	-	(29,700)
Proceeds from sale of investments	1,553	154,720
Proceeds from sale of endowment investments	360,940	-
Purchases of endowment investments	(274,113)	(373,159)
Acquisitions of property and equipment	(2,461,144)	(319,287)
Net cash required by investing activities	(2,372,764)	(567,426)
Cash Flows from Financing Activities:		
Restricted contributions collected	981,578	1,357,617
Net cash provided by financing activities	981,578	1,357,617
Net Increase (Decrease) in Cash and Cash Equivalents	(1,165,681)	620,092
Cash and Cash Equivalents, Beginning of Year	8,156,476	7,536,384
Cash and Cash Equivalents, End of Year	\$ 6,990,795	\$ 8,156,476

Summary of Significant Non-Cash Investing Activities:

At December 31, 2019 and 2018 accounts payable included \$90,426 and \$213,800 of payables related to property and equipment acquisitions, respectively.

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

Cash and cash equivalents	\$ 6,738,636	\$ 7,913,346
Endowment cash and cash equivalents	252,159	243,130
	\$ 6,990,795	\$ 8,156,476

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

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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”).

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to confirm with the 2019 presentation.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and other activities are tracked on a functional basis. Expenses are charged directly to program, management and general or fundraising based on a combination of specific identification and allocation by management. Accordingly, certain costs have been allocated between program and supporting services benefited.

New Accounting Standards

Effective January 1, 2019, the Organization adopted ASU 2014-09, "*Revenue from Contracts with Customers*" (Topic 606) and the related ASUs, which provided new guidance for revenue recognized from contracts with customers and replaced the previously existing revenue recognition guidance. ASU 2014-09 requires that revenue be recognized at an amount the Organization is entitled to upon transferring control of goods or services to customers, as opposed to when risks and rewards transfer to a customer. The Organization adopted the new ASU using the full retrospective approach. The adoption of this ASU did not have a significant impact on the Organization's financial statements.

No changes were required to previously reported revenues or the beginning net asset balance as a result of the adoption, nor were any contract assets or contract liabilities created upon adoption of the standard. Based on the Organization's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard.

Effective January 1, 2019, the Organization also adopted ASU 2018-08, "*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*". The amendments in this update provide a framework for evaluating whether the transfer of assets constitutes a contribution or an exchange transaction. This amendment also provides additional clarification as to whether or not a contribution is conditional. The adoption of the ASU did not have a material impact on the Organization's financial position, results of operations and cash flows as of and for the year ended December 31, 2019.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Museum and Theatre Admissions, Museum Store, Events and Food Service

The Organization's museum and theatre admissions, museum store, events and food service sales include a single performance obligation with no variable considerations for which revenue is recognized at a point in time.

Gifts and Grants

Gifts and grants are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Gifts and grants that are restricted by the donor are reported as increases in net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in donor restricted net assets depending on the nature of the restrictions

Membership Dues

The Organization's membership dues consist of a single performance obligation for which revenue is recognized over time, as the performance obligation is satisfied during the year in which the dues are paid. The membership agreements do not have multiple performance obligations or variable consideration. Included within accrued expenses are contract liabilities which were deferred revenues associated with Membership dues of \$682,615 and \$730,971 at December 31, 2019 and 2018.

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, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable (Continued)

The Organization has five major donors that comprised approximately 90% of pledges receivable at December 31, 2019 and three major donors that comprised approximately 67% of pledges receivable at December 31, 2018.

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, the Organization fulfilled conditions which allowed for the recognition of gift revenues in the amount of \$250,000. There were no conditional pledges to give at December 31, 2019.

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, 2019 and 2018, there was an allowance for doubtful accounts of \$7,383 and \$14,333, respectively.

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.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Property and equipment consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Museum	\$ 29,986,217	\$ 29,995,460
Land and other buildings	4,985,535	4,445,883
Museum exhibits	22,346,064	20,883,749
Furniture, fixtures and equipment	1,613,810	1,307,006
Computer hardware	758,080	848,310
Computer software	1,251,202	1,251,202
Vehicles	62,855	80,070
	<u>61,003,763</u>	<u>58,811,680</u>
Less accumulated depreciation	<u>(35,048,666)</u>	<u>(32,494,039)</u>
	<u>\$ 25,955,097</u>	<u>\$ 26,317,641</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was \$2,710,102 and \$2,610,363 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

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2019 AND 2018

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.

- Underwater Endowment Funds

The Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has complied with UPMIFA to permit spending from an underwater endowment.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values Measured on Recurring Basis (Continued)

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

	<u>2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment cash and cash equivalents	\$ 513,534	\$ -	\$ -	\$ 513,534
Money market fund	230,410	-	-	230,410
Mutual funds	<u>5,952,002</u>	<u>-</u>	<u>-</u>	<u>5,952,002</u>
	<u>\$ 6,695,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,695,946</u>

	<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>

Exhibit Contracts Payable

In the normal course of business, the Organization has exhibit contracts with third parties for special exhibits to showcase at various dates throughout the year. These exhibit 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 exhibit contract costs relating to the special exhibits are accrued once the executed exhibit contract becomes non-cancellable. The Organization had special exhibits under contract with exhibit contracts payable of \$245,834 and \$212,500 at December 31, 2019 and 2018, respectively. At December 31, 2019, the Organization had executed cancellable contracts for future exhibits with estimated exhibit contract costs of \$816,000.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 22,200 and 19,600 hours of service to further the objectives of the Organization during the years ended December 31, 2019 and 2018, 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 \$1,029,000 and \$812,000 in 2019 and 2018, 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, 2019.

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, 2016.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 2 - PLEDGES RECEIVABLE

At December 31, 2019, pledges receivable are due to be collected in the future years as follows:

2020		\$ 388,224
2021		<u>159,200</u>
		547,424
Unamortized discount		(31,923)
Allowance for uncollectible pledges		<u>(7,363)</u>
		<u>\$ 508,138</u>

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

NOTE 3 - EMPLOYEE RETIREMENT PLAN

The Organization sponsors a 403(b) plan for its eligible employees. During 2019 and 2018, the Organization contributed \$57,185 and \$57,405, respectively, to the 403(b) plan on behalf of eligible employees.

NOTE 4 - COLLECTIONS

Collections consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
St. Catherine's Collection	\$ 1,057,949	\$ 1,057,949
Other	<u>33,700</u>	<u>33,700</u>
	<u>\$ 1,091,649</u>	<u>\$ 1,091,649</u>

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 - COLLECTIONS (Continued)

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.

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS

At December 31, 2019 and 2018, the components of net assets with donor restrictions were as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purposes:		
Across the millennia (A) (B)	\$ 962,539	\$ 1,190,018
Open the doors of discovery (A)	-	3,201
Nature Generation	1,515,565	2,310,085
STEAM Initiatives	1,030,380	1,204,000
Other (B)	158,292	114,507
	<u>3,666,776</u>	<u>4,821,811</u>
 Subject to spending policy and appropriation:		
Investment in perpetuity (including accumulated investment gains of \$121,760 and \$50,803 at December 31, 2019 and 2018 respectively), which, once appropriated, is expendable support for general purposes:	527,159	456,204
 Endowment not to be held in perpetuity for purposes of supporting the maintenance of the Nature Generation exhibit:	 6,160,111	 5,436,618
	<u>\$ 10,354,046</u>	<u>\$ 10,714,633</u>

(A) 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.

(B) During 2019, net assets with donor restriction of approximately \$259,000 were redesignated from the purpose of Across the millennia to Other due to a clarification of donor restriction. The full amount was released in 2019.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 - NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets were released from donor restrictions during 2019 and 2018 by incurring expenses satisfying the purpose specified by donors as follows:

	<u>2019</u>	<u>2018</u>
NatureQuest	\$ -	\$ 12,015
Across the millennia	21,821	8,808
Open the doors of discovery	3,201	2,591
Nature Generation	794,520	1,171,240
Endowment	242,451	55,231
STEAM Initiatives	951,020	-
Other	160,018	128,163
	<u>\$ 2,173,031</u>	<u>\$ 1,378,048</u>

NOTE 6 - LIQUIDITY AND AVAILABILITY

The Organization's financial assets available within one year for general expenditures are as follows for December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 6,990,795	\$ 8,156,476
Investments	6,443,787	5,679,445
Pledges receivable	508,138	498,793
Accounts receivable	74,928	103,411
Donor imposed restrictions	<u>(10,354,046)</u>	<u>(10,714,633)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,663,602</u>	<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.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6 - LIQUIDITY AND AVAILABILITY (Continued)

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.

NOTE 7 - SUBSEQUENT EVENT

The Organization has experienced a disruption of normal business operations caused from COVID-19 since December 31, 2019. The overall financial impact cannot be determined through the date of this report; however, it is reasonably possible that changes in risks in the near term could occur which could result in a material change to the financial statements.

In April 2020, the Organization obtained a Small Business Administration (“SBA”) loan under the Paycheck Protection Program (“PPP”) in the amount of \$843,900. The PPP loan bears interest at 1% and will follow the repayment terms outlined by the Coronavirus Aid, Relief, and Economic Securities Act (the “CARES Act”) and the Paycheck Protection Program Flexibility Act (“PPPFA”). The Organization may apply for PPP loan proceeds to be forgiven with the lending institution, provided the proceeds are used within a specified timeframe to cover certain payroll and other expenses as outlined in the CARES Act and PPPFA. Initial repayments of the loan amount are deferred until the date the SBA remits the loan forgiveness funds to the lending institution, or until 10 months after the end of the forgiveness covered period if the Organization does not apply for forgiveness. The loan matures April 2022; the PPPFA allows the maturity date to be extended from a 2 year period from loan origination to a 5 year period from loan origination subject to approval by the lending institution. The Organization intends to apply for complete forgiveness of the PPP loan.