

**FERNBANK, INC.**

**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

**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, 2015 and 2014, 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; 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, 2015 and 2014, and the results of activities and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Smith + Howard*

August 11, 2016

**FERNBANK, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2015 AND 2014**

**ASSETS**

|  | <u>2015</u>              | <u>2014</u>              |
|--|--------------------------|--------------------------|
| <b>Current Assets</b>                      |                          |                          |
| Cash and cash equivalents                  | \$ 12,443,001            | \$ 6,869,391             |
| Endowment cash and cash equivalents        | 1,057,775                | 3,506,226                |
| Short-term endowment investments           | 61,377                   | 215,792                  |
| Pledges receivable, current portion        | 793,215                  | 1,421,335                |
| Accounts receivable                        | 105,662                  | 151,540                  |
| Inventories                                | 262,562                  | 280,123                  |
| Prepaid expenses                           | <u>110,382</u>           | <u>43,574</u>            |
| <b>Total Current Assets</b>                | <b>14,833,974</b>        | <b>12,487,981</b>        |
| <br>Property and Equipment, Net            | <br>23,888,967           | <br>20,261,427           |
| <br>St. Catherines Collection              | <br>1,057,949            | <br>1,057,949            |
| <br><b>Other Assets</b>                    |                          |                          |
| Pledges receivable, net of current portion | 531,539                  | 259,364                  |
| Trademarks, net                            | 14,195                   | 15,838                   |
| Endowment investments                      | <u>4,178,929</u>         | <u>1,715,562</u>         |
|  | <br><u>\$ 44,505,553</u> | <br><u>\$ 35,798,121</u> |

**LIABILITIES AND NET ASSETS**

|   |                          |                          |
|---|--------------------------|--------------------------|
| <b>Current Liabilities</b>                    |                          |                          |
| Accounts payable                              | \$ 650,035               | \$ 571,099               |
| Accrued expenses                              | 807,289                  | 324,572                  |
| Contracts payable, current portion            | <u>315,000</u>           | <u>137,500</u>           |
| <b>Total Current Liabilities</b>              | <b>1,772,324</b>         | <b>1,033,171</b>         |
| <br>Contracts Payable, Net of Current Portion | <br>72,500               | <br>37,500               |
| <br>Other Long-Term Liabilities               | <br>74,563               | <br>52,057               |
| <br><b>Net Assets</b>                         |                          |                          |
| Unrestricted                                  | 25,657,816               | 22,006,513               |
| Temporarily restricted                        | 16,522,949               | 12,263,479               |
| Permanently restricted                        | <u>405,401</u>           | <u>405,401</u>           |
|   | <br><u>42,586,166</u>    | <br><u>34,675,393</u>    |
|   | <br><u>\$ 44,505,553</u> | <br><u>\$ 35,798,121</u> |

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

**FERNBANK, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

|                                       | <b>2015</b>          |                                   |                                   |                      |
|---------------------------------------|----------------------|-----------------------------------|-----------------------------------|----------------------|
|                                       | <u>Unrestricted</u>  | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
| <b>Support and Revenues</b>           |                      |                                   |                                   |                      |
| Museum admissions                     | \$ 2,429,257         | \$ -                              | \$ -                              | \$ 2,429,257         |
| IMAX admissions                       | 1,160,404            | -                                 | -                                 | 1,160,404            |
| Gifts and grants                      | 2,335,644            | 11,171,010                        | -                                 | 13,506,654           |
| Memberships                           | 892,427              | -                                 | -                                 | 892,427              |
| Investment income                     | 3,160                | 18,954                            | -                                 | 22,114               |
| Museum store                          | 726,835              | -                                 | -                                 | 726,835              |
| Cost of goods sold - museum store     | (329,981)            | -                                 | -                                 | (329,981)            |
| Food service                          | 1,503,593            | -                                 | -                                 | 1,503,593            |
| Cost of goods sold - food store       | (352,107)            | -                                 | -                                 | (352,107)            |
| Other                                 | 70,918               | -                                 | -                                 | 70,918               |
| Net assets released from restrictions | <u>6,791,023</u>     | <u>(6,791,023)</u>                | <u>-</u>                          | <u>-</u>             |
| Total Support and Revenues            | 15,231,173           | 4,398,941                         | -                                 | 19,630,114           |
| <b>Expenses</b>                       |                      |                                   |                                   |                      |
| <b>Program Services</b>               |                      |                                   |                                   |                      |
| Museum                                | 6,603,371            | -                                 | -                                 | 6,603,371            |
| IMAX                                  | 614,047              | -                                 | -                                 | 614,047              |
| Marketing                             | 1,129,754            | -                                 | -                                 | 1,129,754            |
| Museum store                          | 258,824              | -                                 | -                                 | 258,824              |
| Food service                          | 671,968              | -                                 | -                                 | 671,968              |
|                                       | <u>9,277,964</u>     | <u>-</u>                          | <u>-</u>                          | <u>9,277,964</u>     |
| <b>Supporting Services</b>            |                      |                                   |                                   |                      |
| Management and general                | 1,591,223            | -                                 | -                                 | 1,591,223            |
| Fundraising                           | 710,683              | -                                 | -                                 | 710,683              |
|                                       | <u>2,301,906</u>     | <u>-</u>                          | <u>-</u>                          | <u>2,301,906</u>     |
| Total Expenses                        | <u>11,579,870</u>    | <u>-</u>                          | <u>-</u>                          | <u>11,579,870</u>    |
| <b>Other Changes</b>                  |                      |                                   |                                   |                      |
| Endowment investments loss            | <u>-</u>             | <u>(139,471)</u>                  | <u>-</u>                          | <u>(139,471)</u>     |
| Increase (Decrease) in Net Assets     | 3,651,303            | 4,259,470                         | -                                 | 7,910,773            |
| Net Assets, Beginning of Year         | <u>22,006,513</u>    | <u>12,263,479</u>                 | <u>405,401</u>                    | <u>34,675,393</u>    |
| Net Assets, End of Year               | <u>\$ 25,657,816</u> | <u>\$ 16,522,949</u>              | <u>\$ 405,401</u>                 | <u>\$ 42,586,166</u> |

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

**2014**

| <u>Unrestricted</u>  | Temporarily<br><u>Restricted</u> | Permanently<br><u>Restricted</u> | <u>Total</u>         |
|----------------------|----------------------------------|----------------------------------|----------------------|
| \$ 2,097,689         | \$ -                             | \$ -                             | \$ 2,097,689         |
| 1,348,150            | -                                | -                                | 1,348,150            |
| 2,315,579            | 5,376,916                        | -                                | 7,692,495            |
| 1,090,903            | -                                | -                                | 1,090,903            |
| 1,561                | 5,089                            | -                                | 6,650                |
| 671,105              | -                                | -                                | 671,105              |
| (297,851)            | -                                | -                                | (297,851)            |
| 1,465,077            | -                                | -                                | 1,465,077            |
| (315,835)            | -                                | -                                | (315,835)            |
| 74,252               | -                                | -                                | 74,252               |
| <u>1,741,375</u>     | <u>(1,741,375)</u>               | <u>-</u>                         | <u>-</u>             |
| 10,192,005           | 3,640,630                        | -                                | 13,832,635           |
| 6,250,823            | -                                | -                                | 6,250,823            |
| 698,702              | -                                | -                                | 698,702              |
| 1,040,018            | -                                | -                                | 1,040,018            |
| 254,581              | -                                | -                                | 254,581              |
| 665,185              | -                                | -                                | 665,185              |
| <u>8,909,309</u>     | <u>-</u>                         | <u>-</u>                         | <u>8,909,309</u>     |
| 1,448,828            | -                                | -                                | 1,448,828            |
| 658,207              | -                                | -                                | 658,207              |
| <u>2,107,035</u>     | <u>-</u>                         | <u>-</u>                         | <u>2,107,035</u>     |
| <u>11,016,344</u>    | <u>-</u>                         | <u>-</u>                         | <u>11,016,344</u>    |
| -                    | (7,191)                          | -                                | (7,191)              |
| (824,339)            | 3,633,439                        | -                                | 2,809,100            |
| <u>22,830,852</u>    | <u>8,630,040</u>                 | <u>405,401</u>                   | <u>31,866,293</u>    |
| <u>\$ 22,006,513</u> | <u>\$ 12,263,479</u>             | <u>\$ 405,401</u>                | <u>\$ 34,675,393</u> |

**FERNBANK, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

|  | Program Services    |                   |                     |                   |                   | Supporting Services    |                        | Totals            |                      |                      |
|--|---------------------|-------------------|---------------------|-------------------|-------------------|------------------------|------------------------|-------------------|----------------------|----------------------|
|  | Museum              | IMAX              | Marketing           | Museum Store      | Food Services     | Total Program Services | Management and General | Fundraising       | 2015                 | 2014                 |
| Salaries   | \$ 1,343,382        | \$ 75,990         | \$ 264,343          | \$ 192,603        | \$ 431,335        | \$ 2,307,653           | \$ 938,351             | \$ 333,956        | \$ 3,579,960         | \$ 3,458,825         |
| Temporary assistance                                       | 2,569               | -                 | 4,422               | -                 | 623               | 7,614                  | 640                    | -                 | 8,254                | 25,336               |
| Payroll taxes  | 123,102             | 5,899             | 20,904              | 15,305            | 34,390            | 199,600                | 75,486                 | 33,993            | 309,079              | 304,410              |
| Employee benefits  | 167,680             | 10,522            | 28,436              | 40,072            | 58,628            | 305,338                | 112,991                | 44,218            | 462,547              | 384,997              |
| <b>Total Personnel Expenses</b>                            | <b>1,636,733</b>    | <b>92,411</b>     | <b>318,105</b>      | <b>247,980</b>    | <b>524,976</b>    | <b>2,820,205</b>       | <b>1,127,468</b>       | <b>412,167</b>    | <b>4,359,840</b>     | <b>4,173,568</b>     |
| Advertising and promotion                                  | -                   | -                 | 808,309             | -                 | -                 | 808,309                | -                      | -                 | 808,309              | 731,093              |
| General and administrative                                 | 21,487              | 1,449             | 1,833               | 3,640             | 4,825             | 33,234                 | 287,916                | 6,670             | 327,820              | 308,626              |
| Exhibit  | 1,675,848           | -                 | -                   | -                 | -                 | 1,675,848              | -                      | -                 | 1,675,848            | 1,231,019            |
| Facilities   | 1,144,315           | -                 | -                   | -                 | -                 | 1,144,315              | -                      | -                 | 1,144,315            | 1,177,447            |
| IMAX film  | -                   | 455,193           | -                   | -                 | -                 | 455,193                | -                      | -                 | 455,193              | 540,828              |
| Information technology                                     | -                   | -                 | -                   | -                 | -                 | -                      | 169,434                | -                 | 169,434              | 98,893               |
| Membership   | -                   | -                 | -                   | -                 | -                 | -                      | -                      | 105,104           | 105,104              | 96,987               |
| Programs and activities                                    | 350,610             | -                 | -                   | 7,107             | 52,427            | 410,144                | 2,366                  | 186,742           | 599,252              | 645,673              |
| Special events   | -                   | -                 | -                   | -                 | 82,799            | 82,799                 | -                      | -                 | 82,799               | 88,427               |
| <b>Total Expenses Before Depreciation and Amortization</b> | <b>4,828,993</b>    | <b>549,053</b>    | <b>1,128,247</b>    | <b>258,727</b>    | <b>665,027</b>    | <b>7,430,047</b>       | <b>1,587,184</b>       | <b>710,683</b>    | <b>9,727,914</b>     | <b>9,092,561</b>     |
| Depreciation and amortization                              | 1,774,378           | 64,994            | 1,507               | 97                | 6,941             | 1,847,917              | 4,039                  | -                 | 1,851,956            | 1,923,783            |
| <b>Total Expenses 2015</b>                                 | <b>\$ 6,603,371</b> | <b>\$ 614,047</b> | <b>\$ 1,129,754</b> | <b>\$ 258,824</b> | <b>\$ 671,968</b> | <b>\$ 9,277,964</b>    | <b>\$ 1,591,223</b>    | <b>\$ 710,683</b> | <b>\$ 11,579,870</b> | <b>\$ 11,016,344</b> |
| <b>Total Expenses 2014</b>                                 | <b>\$ 6,250,823</b> | <b>\$ 698,702</b> | <b>\$ 1,040,018</b> | <b>\$ 254,581</b> | <b>\$ 665,185</b> | <b>\$ 8,909,309</b>    | <b>\$ 1,448,828</b>    | <b>\$ 658,207</b> |                      |                      |

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



**FERNBANK, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

|  | <u>2015</u>   | <u>2014</u>   |
|--|---------------|---------------|
| Cash Flows from Operating Activities:              |               |               |
| Increase in Net Assets                             | \$ 7,910,773  | \$ 2,809,100  |
| Adjustments to Reconcile Increase in Net Assets to |               |               |
| Net Cash Required by Operating Activities          |               |               |
| Depreciation and amortization                      | 1,851,956     | 1,923,783     |
| Bad debt expense                                   | 1,452         | 2,800         |
| Change in discount on pledges receivable           | 18,254        | 31,452        |
| Restricted contributions                           | (11,383,216)  | (5,411,168)   |
| (Increase) decrease in assets:                     |               |               |
| Accounts receivable                                | 45,877        | (58,667)      |
| Pledges receivable                                 | (220,089)     | 64,598        |
| Inventories  | 17,561        | (33,128)      |
| Prepaid expenses                                   | (66,808)      | 5,301         |
| Increase in liabilities:                           |               |               |
| Accounts payable                                   | 6,114         | 175,550       |
| Accrued expenses                                   | 308,217       | 24,809        |
| Other long-term liabilities                        | 22,506        | 17,489        |
| Net cash required by operating activities          | (1,487,403)   | (448,081)     |
| Cash Flows from Investing Activities:              |               |               |
| Purchases of endowment investments                 | (2,308,952)   | (1,484,988)   |
| Acquisitions of property and equipment             | (5,018,030)   | (823,957)     |
| Net cash required by investing activities          | (7,326,982)   | (2,308,945)   |
| Cash Flows from Financing Activities:              |               |               |
| Restricted contributions collected                 | 11,939,544    | 9,062,678     |
| Net cash provided by financing activities          | 11,939,544    | 9,062,678     |
| Net Increase in Cash and Cash Equivalents          | 3,125,159     | 6,305,652     |
| Cash and Cash Equivalents, Beginning of Year       | 10,375,617    | 4,069,965     |
| Cash and Cash Equivalents, End of Year             | \$ 13,500,776 | \$ 10,375,617 |

Summary of Significant Non-Cash Investing Activities:

At December 31, 2015, accounts payable included \$285,322 of construction payables and accrued expenses included \$174,500 of retainage payables related to ongoing construction in progress.

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

|                                     |               |               |
|-------------------------------------|---------------|---------------|
| Cash and cash equivalents           | \$ 12,443,001 | \$ 6,869,391  |
| Endowment cash and cash equivalents | 1,057,775     | 3,506,226     |
|                                     | \$ 13,500,776 | \$ 10,375,617 |

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

**FERNBANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**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 are recorded in the accompany statement of financial position as follows:

- Unrestricted net assets are resources that are neither permanently nor temporarily restricted by donor-imposed stipulations. The only limits on unrestricted net assets are those resulting from the nature of the Organization and its purposes.
- Temporarily restricted net assets are resources that are used by the Organization and limited by donor-imposed restrictions that either expire by the passage of time, use for intended purpose or removal by actions of the Organization.
- Permanently restricted net assets are resources that are limited by donor-imposed stipulations that neither expire by the passage of time nor can be removed by actions of the Organization.

Basis of Accounting

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

Reclassifications

Certain reclassifications of temporarily and permanently restricted net assets have been made to the 2014 financial statements to conform with the 2015 presentation.

Financial Information for 2014

The financial statements include certain prior-year summarized comparative information in total, but not by functional expense class. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

**FERNBANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**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.

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.

The Organization has three major donors that comprised approximately 76% of pledges receivable at December 31, 2015 and one major donor that comprised approximately 56% of pledges receivable at December 31, 2014.

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. The Organization has conditional promises to give totaling \$50,000 and \$6,800,000 at December 31, 2015 and 2014, respectively. These promises to give bear certain pledge gift conditions be met associated with the Organization's Nature Generation campaign. During 2015, the Organization fulfilled conditions which allowed for the recognition of \$6,750,000 of gift revenues.

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, 2015 and 2014, there was an allowance for doubtful accounts of \$7,500 and \$9,250, respectively.

**FERNBANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

Financial Instruments and Concentrations of Credit Risk (Continued)

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.

Property and equipment consist of the following at December 31:

|                                   | <u>2015</u>          | <u>2014</u>          |
|-----------------------------------|----------------------|----------------------|
| Museum                            | \$ 28,319,849        | \$ 28,319,849        |
| Land and other buildings          | 5,270,424            | 2,550,406            |
| Museum exhibits                   | 12,864,012           | 10,200,077           |
| IMAX film production              | 327,500              | 327,500              |
| Furniture, fixtures and equipment | 2,242,337            | 2,170,063            |
| Computer hardware                 | 730,865              | 727,527              |
| Computer software                 | 921,409              | 921,409              |
| Vehicles                          | 50,280               | 31,990               |
|                                   | <u>50,726,676</u>    | <u>45,248,821</u>    |
| Less accumulated depreciation     | <u>(26,837,709)</u>  | <u>(24,987,394)</u>  |
|                                   | <u>\$ 23,888,967</u> | <u>\$ 20,261,427</u> |

**FERNBANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

Property and Equipment (Continued)

Depreciation expense for the years ended December 31, 2015 and 2014 was \$1,850,313 and \$1,922,140 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.

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.

**FERNBANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

Endowment (Continued)

- Interpretation of Relevant Law

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies endowments as temporarily and permanently restricted net assets (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

- 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 S&P 500 index while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

**FERNBANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

Endowment (Continued)

- 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 temporarily 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 unrestricted net assets 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.

Contributions of assets other than cash are recorded at their estimated fair value. Assets other than cash are adjusted to their current fair market value when current valuations are made available.

**FERNBANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

**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>2015</u>        |                |                |                    |
|-------------------------------------|--------------------|----------------|----------------|--------------------|
|                                     | <u>Level 1</u>     | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>       |
| Endowment cash held for investment  | \$ 147,898         | \$ -           | \$ -           | \$ 147,898         |
| Endowment cash and cash equivalents | 1,057,775          | -              | -              | 1,057,775          |
| Money market fund                   | 342,397            | -              | -              | 342,397            |
| Mutual funds                        | 3,429,451          | -              | -              | 3,429,451          |
| Other funds                         | <u>320,560</u>     | <u>-</u>       | <u>-</u>       | <u>320,560</u>     |
|                                     | <u>\$5,298,081</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$5,298,081</u> |



**FERNBANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

Fair Values Measured on Recurring Basis (Continued)

|                                     | <u>Level 1</u>     | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>       |
|-------------------------------------|--------------------|----------------|----------------|--------------------|
|                                     |                    | <b>2014</b>    |                |                    |
| Endowment cash held for investment  | \$ 362,969         | \$ -           | \$ -           | \$ 362,969         |
| Endowment cash and cash equivalents | 3,506,226          | -              | -              | 3,506,226          |
| Money market fund                   | 60,390             | -              | -              | 60,390             |
| Mutual funds                        | 1,359,283          | -              | -              | 1,359,283          |
| Other funds                         | <u>148,712</u>     | <u>-</u>       | <u>-</u>       | <u>148,712</u>     |
|                                     | <u>\$5,437,580</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$5,437,580</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 \$387,500 and \$175,000 at December 31, 2015 and 2014, respectively. At December 31, 2015, the Organization had executed cancellable contracts for future exhibits with estimated contract costs of \$185,000.

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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities 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 17,700 and 22,000 hours of service to further the objectives of the Organization during the years ended December 31, 2015 and 2014, respectively.

**FERNBANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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

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 \$1,173,000 and \$1,039,000 in 2015 and 2014, 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, 2015.

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, 2012.

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, 2015 AND 2014**

**NOTE 2 - PLEDGES RECEIVABLE**

At December 31, 2015, pledges receivable are due to be collected in the future years as follows:

|                                     |  |                     |
|-------------------------------------|--|---------------------|
| 2016                                |  | \$ 800,715          |
| 2017                                |  | <u>593,129</u>      |
|                                     |  | 1,393,844           |
| Unamortized discount                |  | (61,590)            |
| Allowance for uncollectible pledges |  | <u>(7,500)</u>      |
|                                     |  | <u>\$ 1,324,754</u> |

Receivables to be collected after one year from the statement of financial position date are discounted at 3.0%.

During 2013, the Organization initiated its Nature Generation multi-year capital campaign and has generated revenues totaling \$18,633,749 as of December 31, 2015. Of this amount, \$17,505,820 has been received in cash through December 31, 2015. The campaign's goal is to raise \$20,000,000. However, the ultimate amount of pledges and collections is not known at this time.

**NOTE 3 - EMPLOYEE RETIREMENT PLAN**

The Organization sponsors a 403(b) plan for its eligible employees. During 2015 and 2014, the Organization contributed \$72,664 and \$66,046, respectively, to the 403(b) plan on behalf of eligible employees.

**NOTE 4 - ST. CATHERINES COLLECTION**

In an agreement signed in November, 2003, the Organization received a significant donation of archaeological artifacts found on St. Catherines, 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, 2015 AND 2014**

**NOTE 5 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

At December 31, 2015 and 2014, the components of temporarily restricted net assets were as follows:

|                             | <u>2015</u>          | <u>2014</u>          |
|-----------------------------|----------------------|----------------------|
| NatureQuest                 | \$ 53,637            | \$ 75,763            |
| Across the millennia        | 908,774              | 841,690              |
| Open the doors of discovery | 265,675              | 286,886              |
| Nature Generation           | 10,052,092           | 5,950,404            |
| Endowment                   | 4,892,681            | 5,032,179            |
| Other                       | 350,090              | 76,557               |
|                             | <u>\$ 16,522,949</u> | <u>\$ 12,263,479</u> |

Net assets were released from donor restrictions during 2014 and 2013 by incurring expenses satisfying the purpose specified by donors as follows:

|                             | <u>2015</u>         | <u>2014</u>         |
|-----------------------------|---------------------|---------------------|
| NatureQuest                 | \$ 22,126           | \$ 16,386           |
| Across the millennia        | 37,871              | 7,624               |
| Open the doors of discovery | 21,211              | 24,301              |
| Nature Generation           | 6,538,486           | 1,508,453           |
| Endowment                   | 26                  | 1,595               |
| Other                       | 171,303             | 183,016             |
|                             | <u>\$ 6,791,023</u> | <u>\$ 1,741,375</u> |

At December 31, 2015 and 2014, permanently restricted net assets totaled \$405,401. All permanently restricted net assets were in the general fund at December 31, 2015 and 2014.