

FERNBANK, INC.

FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

with
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

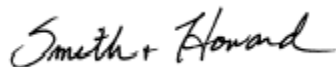
The Board of Trustees Fernbank, Inc.

We have audited the accompanying statement of financial position of Fernbank, Inc. (the "Organization"), as of December 31, 2008 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Fernbank, Inc. as of and for the year ended December 31, 2007 were audited by other auditors whose report dated July 31, 2008 expressed an unqualified opinion on those statements. As discussed in Note 6 to the financial statements, the Organization has recorded an adjustment to reclassify certain net assets. The other auditors reported on the financial statements before the adjustment.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008 and the results of activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 6 that were applied to restate the December 31, 2007 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Organization's December 31, 2007 financial statements other than with respect to the adjustments described in Note 6 and, accordingly, we do not express an opinion or any other form of assurance on the December 31, 2007 financial statements taken as a whole.



June 30, 2009

FERNBANK, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008 AND 2007

ASSETS

	<u>2008</u>	<u>2007</u> <u>As Restated</u>
Current Assets		
Cash and cash equivalents	\$ 2,293,272	\$ 2,754,539
Pledges receivable, current portion (Note 2)	2,029,443	1,118,440
Accounts receivable	37,561	64,267
Inventories	259,147	246,478
Prepaid expenses	45,832	34,150
Total Current Assets	4,665,255	4,217,874
Property and Equipment, Net (Note 1)	19,864,211	18,950,469
Collection (Note 4)	705,300	705,300
Other Assets		
Pledges receivable, net of current portion (Note 2)	2,088,335	1,113,160
Other assets	13,517	14,319
Other investments (Note 1)	441,179	674,600
	\$ 27,777,797	\$ 25,675,722

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 326,570	\$ 419,636
Accrued expenses	636,685	730,651
Current portion of contracts payable	316,250	335,000
Total Current Liabilities	1,279,505	1,485,287
Contracts Payable, Net of Current Portion	222,000	412,000
Net Assets (Notes 5 and 6)		
Unrestricted	20,334,227	19,906,646
Temporarily restricted	5,627,614	3,561,271
Permanently restricted (Note 1)	314,451	310,518
	26,276,292	23,778,435
	\$ 27,777,797	\$ 25,675,722

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

2008

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Support and Revenues				
Museum admissions	\$ 1,862,674	\$ -	\$ -	\$ 1,862,674
IMAX admissions	1,558,608	-	-	1,558,608
Gifts and grants	1,843,378	4,595,463	-	6,438,841
Memberships	904,818	-	-	904,818
Investment income	21,863	16,607	3,933	42,403
Museum store	750,538	-	-	750,538
Cost of goods sold - museum store	(361,561)	-	-	(361,561)
Food service	1,777,110	-	-	1,777,110
Cost of goods sold - food store	(374,871)	-	-	(374,871)
Other	71,109	-	-	71,109
Net assets released from restrictions	<u>2,545,727</u>	<u>(2,545,727)</u>	-	-
Total Support and Revenues	10,599,393	2,066,343	3,933	12,669,669
Expenses				
Program Services				
Museum	4,802,050	-	-	4,802,050
IMAX	555,113	-	-	555,113
Marketing	1,276,083	-	-	1,276,083
Museum store	278,977	-	-	278,977
Food service	<u>822,323</u>	-	-	<u>822,323</u>
	7,734,546	-	-	7,734,546
Supporting Services				
Management and general	1,418,174	-	-	1,418,174
Fundraising	<u>1,019,092</u>	-	-	<u>1,019,092</u>
	<u>2,437,266</u>	-	-	<u>2,437,266</u>
Total Expenses	<u>10,171,812</u>	-	-	<u>10,171,812</u>
Increase (Decrease) in Net Assets	427,581	2,066,343	3,933	2,497,857
Net Assets, Beginning of Year (Note 8)	<u>19,906,646</u>	<u>3,561,271</u>	<u>310,518</u>	<u>23,778,435</u>
Net Assets, End of Year (Note 8)	<u>\$ 20,334,227</u>	<u>\$ 5,627,614</u>	<u>\$ 314,451</u>	<u>\$ 26,276,292</u>

2007 (As Restated)

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 1,930,371	\$ -	\$ -	\$ 1,930,371
1,312,241	-	-	1,312,241
2,158,277	3,361,591	-	5,519,868
995,747	-	-	995,747
69,517	48,366	6,500	124,383
880,374	-	-	880,374
(421,409)	-	-	(421,409)
1,873,364	-	-	1,873,364
(375,719)	-	-	(375,719)
143,540	-	-	143,540
<u>2,379,485</u>	<u>(2,379,485)</u>	<u>-</u>	<u>-</u>
10,945,788	1,030,472	6,500	11,982,760
6,219,383	-	-	6,219,383
636,191	-	-	636,191
1,289,240	-	-	1,289,240
262,688	-	-	262,688
<u>775,480</u>	<u>-</u>	<u>-</u>	<u>775,480</u>
9,182,982	-	-	9,182,982
1,456,813	-	-	1,456,813
<u>890,775</u>	<u>-</u>	<u>-</u>	<u>890,775</u>
<u>2,347,588</u>	<u>-</u>	<u>-</u>	<u>2,347,588</u>
<u>11,530,570</u>	<u>-</u>	<u>-</u>	<u>11,530,570</u>
(584,782)	1,030,472	6,500	452,190
<u>20,491,428</u>	<u>2,530,799</u>	<u>304,018</u>	<u>23,326,245</u>
<u>\$ 19,906,646</u>	<u>\$ 3,561,271</u>	<u>\$ 310,518</u>	<u>\$ 23,778,435</u>

FERNBANK, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2008 AND 2007

	Program Services					Total Program Services	Supporting Services		Totals	
	Museum	IMAX	Marketing	Museum Store	Food Services		Management and General	Fundraising	2008	2007 As Reclassified
Salaries	\$ 1,887,896	\$ 79,281	\$ 301,868	\$ 204,890	\$ 534,047	\$ 3,007,982	\$ 894,859	\$ 450,266	\$ 4,353,107	\$ 4,219,975
Temporary assistance	-	-	4,670	-	1,706	6,376	240	-	6,616	11,483
Payroll taxes	196,170	6,154	26,579	16,356	43,067	288,326	76,376	38,540	403,242	398,333
Employee benefits	315,783	9,596	38,274	33,761	66,876	464,290	141,845	51,443	657,578	677,482
Total Personnel Expenses	2,399,849	95,031	371,391	255,007	645,696	3,766,974	1,113,320	540,249	5,420,543	5,307,273
Advertising and promotion	-	-	894,510	-	-	894,510	-	-	894,510	963,062
General and administrative	32,914	5,044	9,182	4,023	2,966	54,129	245,207	160,270	459,606	336,541
Exhibit	549,295	-	-	-	-	549,295	-	-	549,295	897,764
Facilities	1,047,000	-	-	-	-	1,047,000	-	-	1,047,000	1,088,150
IMAX film	255	399,365	-	-	-	399,620	-	-	399,620	448,603
Information technology	-	-	-	-	-	-	57,078	-	57,078	64,195
Membership	-	-	-	-	-	-	-	176,987	176,987	215,946
Programs and activities	225,012	-	-	15,766	55,914	296,692	1,664	137,089	435,445	500,288
Special events	-	-	-	-	115,809	115,809	-	-	115,809	119,554
Total expenses before depreciation	4,254,325	499,440	1,275,083	274,796	820,385	7,124,029	1,417,269	1,014,595	9,555,893	9,941,376
Depreciation (Note 1)	547,725	55,673	1,000	4,181	1,938	610,517	905	4,497	615,919	1,589,194
Total Expenses	\$ 4,802,050	\$ 555,113	\$ 1,276,083	\$ 278,977	\$ 822,323	\$ 7,734,546	\$ 1,418,174	\$ 1,019,092	\$ 10,171,812	\$ 11,530,570
Total Expenses 2007 As Reclassified	\$ 6,219,383	\$ 636,191	\$ 1,289,240	\$ 262,688	\$ 775,480	\$ 9,182,982	\$ 1,456,813	\$ 890,775		

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

FERNBANK, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities:		
Increase in Net Assets	\$ 2,497,857	\$ 452,190
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and amortization	616,721	1,589,997
Discount on pledges receivable	(175,640)	(31,249)
Unrealized loss on investments	206,160	-
Increase in value of St. Catherine's collection	-	(352,650)
(Increase) decrease in assets:		
Accounts receivable	26,706	(9,529)
Pledges receivable	(1,710,538)	(170,551)
Inventories	(12,669)	(27,161)
Prepaid expenses	(11,682)	2,337
Increase (decrease) in liabilities:		
Accounts payable and contracts payable	(301,816)	331,666
Accrued expenses	13,781	92,251
Net cash provided by operating activities	<u>1,148,880</u>	<u>1,877,301</u>
Cash Flows from Investing Activities		
Investment in employment contract	(80,486)	(78,898)
Acquisitions of property and equipment	<u>(1,529,661)</u>	<u>(965,496)</u>
Net cash required by investing activities	(1,610,147)	(1,044,394)
Net Increase (Decrease) in Cash and Cash Equivalents	(461,267)	832,907
Cash and Cash Equivalents, Beginning of Year	<u>2,754,539</u>	<u>1,921,632</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,293,272</u>	<u>\$ 2,754,539</u>

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

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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.

Basis of Accounting

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Basis of Accounting

- 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 (see Note 5).
- 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 (see Note 5).

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Contributions

The Organization has adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, whereby contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of time or purpose. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Endowment

During the year ended December 31, 2008, the Financial Accounting Standards Board (FASB) issued *FASB Staff Position 117-1 Endowments of Not-for-Profit Organizations – Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* which includes the following financial statement disclosure requirements for the Organization for the year ended December 31, 2008.

- Classification of net assets

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

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

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 as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

- Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Organization, the endowment assets are invested in a manner 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, 2008 AND 2007

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 both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

- Spending Policy

The Organization has an endowment policy, approved by the Organization's Executive Board, and provided to donors. This policy prohibits spending from the endowment fund until a minimum threshold of \$1,000,000 (including the endowment and earnings) is reached. At December 31, 2008 and 2007, the endowment balance was \$314,451 and \$310,518, respectively. Upon reaching the threshold of \$1,000,000 a spending policy becomes effective which allows for the Organization to budget for, and make, annual disbursements from earnings of its endowment fund for operating expenses or capital expenditures, including any interest or fees, in an amount up to 5% of a three-year moving average. Spending is limited to the earnings of the endowment.

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.

Other Investments

The Organization has adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all 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. 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.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Investments (continued)

Other investments consist primarily of non-publicly traded private securities received from donors in prior years. 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. Additional investments include amounts held in a trust account ("Rabbi Trust") for the benefit of the Organization's executive director.

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.

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. Major additions and improvements 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>2008</u>	<u>2007</u>
Museum	\$ 28,132,526	\$ 28,132,526
Land and other buildings	2,916,470	2,973,934
Museum exhibits	2,924,719	1,619,319
IMAX film production	327,500	327,500
Furniture, fixtures and equipment	2,866,750	2,964,576
Computer hardware	316,527	344,518
Computer software	42,030	55,070
Vehicles	<u>25,590</u>	<u>32,340</u>
	37,552,112	36,449,783
Less accumulated depreciation	<u>(17,687,901)</u>	<u>(17,499,314)</u>
	<u>\$ 19,864,211</u>	<u>\$ 18,950,469</u>

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (continued)

Prior to January 1, 2008, the Organization used accelerated depreciation methods to calculate depreciation expense. During 2008, the Organization changed its method of calculating depreciation expense to more closely reflect the estimated economic useful life of its property and equipment. The cumulative, net effect of the change in estimate was a decrease to 2008 depreciation expense of approximately \$561,428. Depreciation expense for the years ended December 31, 2008 and 2007 was \$615,919 and \$1,589,194, 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

Collections

In accordance with SFAS 116, the Organization has chosen the option of recording collections acquired subsequent to the adoption of SFAS 116. 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 adoption of SFAS 116, 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.

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 over 20,034 and 19,652 hours of service to further the objectives of the Organization during the years ended December 31, 2008 and 2007, respectively.

Compensated Absences

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

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs totaled approximately \$1,275,000 in 2008 and 2007.

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, 2008, there was an allowance for doubtful accounts of \$25,890 and there was no allowance at December 31, 2007.

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

Fair Values Measured on Recurring Basis

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. As of January 1, 2008, the Organization has adopted SFAS 157, which when adopted did not have any impact on the Organization's financial statements.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Values Measured on Recurring Basis (continued)

SFAS 157 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 under SFAS 157 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.

Total assets at fair value classified within Level 3 were \$137,500, as of December 31, 2008, which consists of non-publicly traded private securities. Such amounts were 31% of total investments as of December 31, 2008. The table below represents fair value measurement hierarchy of the assets at fair value as of December 31, 2008:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Other investments	\$ 441,179	\$ 303,679	\$ -	\$ 137,500

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

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Fair Value Measurement (continued)

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended December 31, 2008:

Beginning balance, January 1, 2008	\$ 343,660
Changes in market value	<u>(206,160)</u>
Ending balance, December 31, 2008	<u>\$ 137,500</u>

Reclassifications

Certain accounts in the 2007 financial statements have been reclassified for comparative purposes to conform to the 2008 presentation.

NOTE 2 –PLEDGES RECEIVABLE

Pledges receivable are due to be collected in the future years as follows:

2009	\$ 2,051,333
2010	1,228,028
2011	480,750
2012	<u>417,000</u>
	4,177,111
Unamortized discount	(33,443)
Allowance for uncollectible pledges	<u>(25,890)</u>
	<u>\$ 4,117,778</u>

Receivables to be collected after one year from the statement of financial position date are discounted at 1%.

NOTE 3 – EMPLOYEE RETIREMENT PLANS

Fernbank, Inc. made contributions totaling \$293,365 and \$270,571 in 2008 and 2007, respectively, on behalf of its eligible employees to simplified employee pension and 403(b) plan accounts.

FERNBANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 4 – COLLECTION

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. In accordance with the donation agreement, the Organization will take title and full ownership of the collection as it achieves benchmarks related to storing and displaying the artifacts. In January, 2004, one-third of the collection's value was recognized, according to the donor's guidelines. An additional one-third of the total value was recognized on January 2, 2007 with the final one-third to be recognized on January 2, 2010, if the donor's storing and exhibition conditions are satisfied. Until then, that portion of the collection is considered to be "on loan" to the Organization.

NOTE 5 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

At December 31, 2008 and 2007, the components of temporarily restricted net assets were as follows:

	<u>2008</u>	<u>2007</u> <u>(As Restated)</u>
Child's play	\$ 3,096,295	\$ 626,373
Across the millennia	1,256,344	1,882,393
Open the doors of discovery	1,227,000	971,012
Other	47,975	81,493
	<u>\$ 5,627,614</u>	<u>\$ 3,561,271</u>

Net assets were released from donor restrictions during 2008 and 2007 by incurring expenses satisfying the purpose specified by donors as follows:

	<u>2008</u>	<u>2007</u> <u>(As Restated)</u>
Child's play	\$ 947,078	\$ 348,041
Across the millennia	579,574	497,184
Open the doors of discovery	659,762	347,988
Other	359,313	1,186,272
	<u>\$ 2,545,727</u>	<u>\$ 2,379,485</u>

Permanently restricted net assets are donor-restricted for use by the endowment fund as more fully described in Note 1.

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NOTE 6 - PRIOR PERIOD ADJUSTMENT

During 2008, the Organization determined certain contributions were misstated among the various net asset categories in previous years. Accounting principles generally accepted in the United States of America indicate that donor restrictions and subsequent earnings should be recorded according to the donor's instructions as unrestricted, temporarily restricted, or permanently restricted. This resulted in the reclassification of net assets as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets at December 31, 2006, as previously reported	\$ 23,326,245	\$ -	\$ -	\$ 23,326,245
Contributions and related earnings misclassified prior to December 31, 2006	<u>(2,834,817)</u>	<u>2,530,799</u>	<u>304,018</u>	<u>-</u>
Net assets at December 31, 2006, as restated	<u>20,491,428</u>	<u>2,530,799</u>	<u>304,018</u>	<u>23,326,245</u>
Increase (decrease) in net assets for the year ended December 31, 2007, as previously reported	452,190	-	-	452,190
Contributions and related earnings misclassified during 2007	<u>(1,036,972)</u>	<u>1,030,472</u>	<u>6,500</u>	<u>-</u>
Increase (decrease) in net assets for the year ended December 31, 2007, as previously reported	<u>(584,782)</u>	<u>1,030,472</u>	<u>6,500</u>	<u>452,190</u>
Net assets at December 31, 2007, as restated	<u>\$ 19,906,646</u>	<u>\$ 3,561,271</u>	<u>\$ 310,518</u>	<u>\$ 23,778,435</u>