

NATURE DISCOVERY CENTER, INC.

**FINANCIAL STATEMENTS
AND INDEPENDENT ACCOUNTANT'S
REVIEW REPORT**

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

Durio & Company, P.C.
Certified Public Accountants

NATURE DISCOVERY CENTER, INC.

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Board of Directors
Nature Discovery Center, Inc.
Bellaire, Texas

We have reviewed the accompanying statements of financial position of Nature Discovery Center, Inc. (a nonprofit organization) as of September 30, 2016 and 2015, and the related statements of activities, cash flows, and expenses for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with *Statements on Standards for Accounting and Review Services* issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Durio & Company, P.C.

May 30, 2017



NATURE DISCOVERY CENTER, INC.

STATEMENT OF FINANCIAL POSITION

September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
ASSETS		
Cash and cash equivalents	\$ 317,608	\$ 167,990
Prepaid expenses	16,034	18,393
Pledges receivable	376,378	35,000
Investments	928,045	1,007,470
Fixed assets (Net of depreciation & amortization of \$47,607 in 2016 and \$25,232 in 2015)	197,894	191,728
Improvements in Progress - Gateway Project	<u>426,790</u>	<u>106,740</u>
Total Assets	<u>\$ 2,262,749</u>	<u>\$ 1,527,321</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 93,896	\$ 9,813
Payroll taxes payable	3,358	(2,316)
Deferred revenue	<u>86,614</u>	<u>45,970</u>
Total Liabilities	<u>183,868</u>	<u>53,467</u>
NET ASSETS		
Unrestricted:		
- Undesignated	638,735	258,925
- Designated as a reserve fund	<u>928,045</u>	<u>1,007,470</u>
	1,566,780	1,266,395
Temporarily Restricted	<u>512,101</u>	<u>207,459</u>
Total Net Assets	<u>2,078,881</u>	<u>1,473,854</u>
Total Liabilities and Net Assets	<u>\$ 2,262,749</u>	<u>\$ 1,527,321</u>

See the accompanying Notes to Financial Statements
and Independent Accountant's Review Report

NATURE DISCOVERY CENTER, INC**STATEMENT OF ACTIVITIES**

Year ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Contributions and grants	\$ 261,124	\$ 631,585	\$ 892,709
Special events (Net of costs of \$119,613)	77,174		77,174
Program service income	109,839		109,839
Membership dues & assessments	23,265		23,265
Investment income (Net of management fees of \$9,273)	47,731	-	47,731
Total Revenues & Support	<u>519,133</u>	<u>631,585</u>	<u>1,150,718</u>
EXPENSES			
Program Services	<u>315,759</u>	<u>-</u>	<u>315,759</u>
Supporting Services:			
Management and general	139,582		139,582
Fundraising	90,350	-	90,350
	<u>229,932</u>	<u>-</u>	<u>229,932</u>
Total Expenses	<u>545,691</u>	<u>-</u>	<u>545,691</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of restrictions	<u>326,943</u>	<u>(326,943)</u>	<u>-</u>
CHANGE IN NET ASSETS	300,385	304,642	605,027
NET ASSETS - SEPTEMBER 30, 2015	<u>1,266,395</u>	<u>207,459</u>	<u>1,473,854</u>
NET ASSETS - SEPTEMBER 30, 2016	<u>\$ 1,566,780</u>	<u>\$ 512,101</u>	<u>\$ 2,078,881</u>

See the accompanying Notes to Financial Statements
and Independent Accountant's Review Report

NATURE DISCOVERY CENTER, INC**STATEMENT OF ACTIVITIES**

Year ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Contributions and grants	\$ 431,832	\$ 53,400	\$ 485,232
Special events (Net of costs of \$82,486)	109,260		109,260
Program service income	93,677		93,677
Membership dues & assessments	22,750		22,750
Investment losses (Net of management fees of \$8,089)	<u>(3,814)</u>	-	<u>(3,814)</u>
Total Revenues & Support	<u>653,705</u>	<u>53,400</u>	<u>707,105</u>
EXPENSES			
Program Services	<u>259,431</u>	-	<u>259,431</u>
Supporting Services:			
Management and general	106,508		106,508
Fundraising	<u>53,466</u>	-	<u>53,466</u>
	<u>159,974</u>	-	<u>159,974</u>
Total Expenses	<u>419,405</u>	-	<u>419,405</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of restrictions	<u>111,071</u>	<u>(111,071)</u>	-
CHANGE IN NET ASSETS	345,371	(57,671)	287,700
NET ASSETS - SEPTEMBER 30, 2014	<u>921,024</u>	<u>265,130</u>	<u>1,186,154</u>
NET ASSETS - SEPTEMBER 30, 2015	<u>\$ 1,266,395</u>	<u>\$ 207,459</u>	<u>\$ 1,473,854</u>

See the accompanying Notes to Financial Statements
and Independent Accountant's Review Report

NATURE DISCOVERY CENTER, INC.**STATEMENT OF CASH FLOWS**

Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 605,027	\$ 287,700
Adjustments:		
Depreciation & amortization	22,375	17,494
Net (increase)/decrease in prepaid expenses	2,359	(5,885)
Net (increase)/decrease in pledges receivable	(341,378)	35,000
Net increase/(decrease) in accounts payable	84,083	9,215
Net increase/(decrease) in payroll taxes payable	5,674	(2,322)
Net increase/(decrease) in deferred revenue	<u>40,644</u>	<u>(17,425)</u>
Net Cash Provided by Operating Activities	<u>418,784</u>	<u>323,777</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase)/decrease in investments	79,425	(292,395)
Net (increase)/decrease in fixed assets	(28,541)	(49,302)
Net (increase)/decrease in improvements in progress	<u>(320,050)</u>	<u>(106,740)</u>
Net Cash Provided by/(Used for) Investing Activities	<u>(269,166)</u>	<u>(448,437)</u>
NET INCREASE/(DECREASE) IN CASH	149,618	(124,660)
CASH - BEGINNING OF YEAR	<u>167,990</u>	<u>292,650</u>
CASH - END OF YEAR	<u>\$ 317,608</u>	<u>\$ 167,990</u>

See the accompanying Notes to Financial Statements
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NATURE DISCOVERY CENTER, INC.**SCHEDULE OF EXPENSES**

Years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
PROGRAM SERVICES		
Salaries & wages	\$ 176,709	\$ 171,895
Staff benefits	24,202	16,169
Payroll taxes	13,546	13,100
Nature program expenses	21,484	8,754
Maintenance of grounds, animals & house	25,191	16,197
Other program operations	30,750	16,681
Depreciation & Amortization	16,984	12,304
Gateway Project	6,893	4,331
	<u>315,759</u>	<u>259,431</u>
Total Program Services		
	<u>315,759</u>	<u>259,431</u>
SUPPORTING SERVICES		
Management and General:		
Salaries & wages	66,000	37,272
Staff benefits	7,424	2,992
Payroll taxes	5,080	2,840
Maintenance	2,426	
Accounting professional fees	11,125	2,188
Credit card processing & bank fees	8,230	10,621
Contract labor	14,520	22,796
Dues & subscriptions		838
Technology expenses	3,581	5,132
Depreciation	5,391	5,190
Insurance	5,597	4,054
Office Expense	1,857	2,214
Staff development	1,279	549
Miscellaneous expense	1,008	2,892
Telephone	3,601	4,228
Utilities	2,463	2,702
	<u>139,582</u>	<u>106,508</u>
Fundraising:		
Salaries & wages	73,500	43,453
Staff benefits	8,234	3,489
Payroll taxes	5,564	3,311
Other fund raising expenses	3,052	3,213
	<u>90,350</u>	<u>53,466</u>
Total Supporting Services	<u>229,932</u>	<u>159,974</u>
TOTAL EXPENSES	<u>\$ 545,691</u>	<u>\$ 419,405</u>

See the accompanying Notes to Financial Statements
and Independent Accountant's Review Report

NATURE DISCOVERY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2016 and 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Nature Discovery Center, Inc. are described below to enhance the usefulness of the financial statements to the reader. The objective of the organization is to ignite life-long curiosity, understanding, and respect for nature through education. Unlike the financial statements of profit-motivated entities, this report places primary emphasis on the stewardship and use of assets rather than income determination.

Reporting Entity

Nature Discovery Center, Inc. is a Texas Non-Profit Corporation incorporated in 1979. The organization operates exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code.

Basis of Presentation

The financial statements have been prepared in accordance with standards for not-for-profit organizations adopted by the Financial Accounting Standards Board. They are stated on the accrual basis of accounting whereby expenses are recorded when incurred, donations are recorded when notice is received, and grant revenues are recorded when earned.

Income Taxes

Nature Discovery Center, Inc. is exempt from Federal income taxes under Section 501(a) of the Internal Revenue Code. The Internal Revenue Service has determined that the organization qualifies as a public charity and is not a private foundation within the meaning of Section 509(a) of the Code.

Cash and Cash Equivalents

"Cash equivalents" are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Donated assets and services

Donated fixed assets are recorded as revenue in the financial statements. Donated services are recorded as revenue only if the services require specialized skills, are provided by entities or persons possessing those skills, and would be purchased if they were not donated.

Nature Discovery Center, Inc.
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation and amortization of fixed assets

Fixed assets are recorded at cost as of the date of acquisition for purchased assets and fair value for donated assets. Depreciation is recorded using the straight-line method over the estimated useful lives of assets (5 to 10 years). Amortization of Leasehold Improvements is recorded using the straight-line method over estimated useful life of improvements (10 to 15 years).

The cost and accumulated depreciation of fixed assets sold or retired is removed from the related asset and accumulated depreciation accounts, and any resulting gain or loss is recorded in the period of disposal. Renewals and improvements that extend the useful lives of assets are capitalized at cost. Maintenance and repairs are included as expenses in the statement of activities.

Estimates

Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2: INVESTMENT ASSETS AND INVESTMENT EARNINGS

As of September 30, 2016 and 2015, the investment assets and investment earnings consisted of the following:

	<u>2016</u>	<u>2015</u>
<u>Investment Assets</u>		
Cash & Cash Equivalents	\$ 40,578	\$ 14,045
Exchange Traded Funds	36,180	73,536
Fixed Income	487,602	565,841
Stocks	<u>363,685</u>	<u>354,048</u>
	<u>\$928,045</u>	<u>\$1,007,470</u>
<u>Investment Earnings</u>		
Dividend and interest income	\$ 36,225	\$ 37,588
Gain/(loss) on securities	20,779	(33,313)
Management fees	<u>(9,273)</u>	<u>(8,089)</u>
	<u>\$ 47,731</u>	<u>\$ (3,814)</u>

Nature Discovery Center, Inc.
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

NOTE 3: PLEDGES RECEIVABLE

Pledges receivable represent unconditional promises to give by donors and the City of Bellaire (see Note 9). As of September 30, 2016 and 2015, the anticipated dates for collection of the pledges are as follows:

	<u>2016</u>	<u>2015</u>
Anticipated collections by September 30, 2016	\$	\$35,000
Anticipated collections by September 30, 2017	<u>376,378</u>	<u> </u>
	<u>\$376,378</u>	<u>\$35,000</u>

NOTE 4: FIXED ASSETS

At September 30, 2016 and 2015, the major classes of fixed assets are as follows:

	<u>2016</u>	<u>2015</u>
Furniture & Equipment	\$ 68,372	\$ 66,687
Leasehold Improvements	<u>177,129</u>	<u>150,273</u>
	245,501	216,960
Accumulated depreciation and amortization	<u>(47,607)</u>	<u>(25,232)</u>
	<u>\$197,894</u>	<u>\$191,728</u>

NOTE 5: IMPROVEMENTS IN PROGRESS

Nature Discovery Center began significant renovations to its facility in 2013 (the "Gateway Project"). The renovations are being completed in two phases. Phase I, which involved renovations to the Henshaw House, was completed in the fiscal year ended September 30, 2014. Phase II is in the planning stages as of September 30, 2015, and in the construction stages as of September 30, 2016. Costs incurred to date have been capitalized as Improvements in Progress - Gateway Project, and amortization will begin once Phase II is completed in the fiscal year ending September 30, 2017.

NOTE 6: DEFERRED REVENUE

Deferred revenue at September 30, 2016 and 2015, in the amounts of \$86,614 and \$45,970 respectively, primarily represents advance payments received for special events that occur in the subsequent fiscal year.

Nature Discovery Center, Inc.
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

NOTE 7: NET ASSETS

Unrestricted Net Assets

Unrestricted net assets represent resources available for use by the organization that are not restricted by donors or other outside parties.

The Board of Directors has designated a portion of the unrestricted net assets to be maintained in a designated reserve for future needs of the organization. The balance of the designated reserve amounted to \$928,045 as of September 30, 2016, and \$1,007,470 as of September 30, 2015. Since designated net assets are not restricted by outside parties, the amounts can be utilized at the discretion of the Board.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of funds that are restricted by donors for specific uses within the organization. At September 30, 2016 and 2015, the balance of temporarily restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Gateway Project	\$507,101	\$205,459
Park Improvements	<u>5,000</u>	<u>2,000</u>
	<u>\$512,101</u>	<u>\$207,459</u>

NOTE 8: DONATED GOODS AND SERVICES

Donated goods and services are non-cash items for statement of cash flow purposes and are recognized in the financial statements as income and expense corresponding to the nature of the donation. Such amounts (other than those donated by the City of Bellaire discussed in Note 9) were \$60,183 for fiscal year ended September 30, 2016.

NOTE 9: RELATED PARTY TRANSACTIONS - CITY OF BELLAIRE, TX

Certain expenses of operations of Nature Discover Center are paid by the City of Bellaire, Texas in accordance with the agreement discussed in Note 10. Such expenditures are recorded as expenses or Leasehold Improvements in the financial statements, with a corresponding entry for contributions to Nature Discovery Center by the City of Bellaire.

The expenses and Leasehold Improvements include electricity, natural gas, repairs and maintenance, trash removal, and various improvements to the facilities. The expenses paid by the City amounted to \$17,657 in fiscal year ended September 30, 2016, and \$9,068 in 2015. The Leasehold Improvements provided by the City amounted to \$20,884 in fiscal year ended September 30, 2016, and \$45,526 in 2015.

Nature Discovery Center, Inc.
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

NOTE 9: RELATED PARTY TRANSACTIONS - CITY OF BELLAIRE, TX (CONTINUED)

On May 14, 2014, the City Council of Bellaire passed Ordinance 14-022 authorizing a Memorandum of Understanding between the City of Bellaire and the Nature Discovery Center in regards to funding certain improvements in Russ Pitman Park in the amount of \$500,000. In June 2016, upon execution of a construction contract for certain elements of Phase II of the Gateway Project, the Center recognized these funds as a contribution from the City of Bellaire with a corresponding pledges receivable established. As of September 30, 2016, the remaining balance due from the City of Bellaire under the Memorandum of Understanding is \$376,308.

NOTE 10: AGREEMENT WITH CITY OF BELLAIRE, TEXAS

Current Lease Agreement

Effective March 1, 2015, Nature Discovery Center is a party to a lease agreement with the City of Bellaire, Texas, for the organization's operating facilities located in Russ Pitman Park in Bellaire, Texas. The lease covers the Henshaw House, an improvement within Russ Pitman Park, as well as the park itself, for the operation of a nature discovery center.

Rent, in the nominal sum of \$10, covers the full term of the lease for a ten-year period. After the term, the organization has the option to extend the lease for two additional ten-year terms. Nature Discovery Center agrees in the lease to use the premises for horticultural, ecological, botanical and zoological studies and exhibitions, as well as programs and events fostering an understanding of the natural environment and a caring attitude toward it.

The City of Bellaire provides landscaping maintenance services and major tree pruning and/or hazard tree removal; trash receptacles and trash/recycling removal; major repairs to the building; painting of the building; all electricity, gas and water; security lighting and fire systems; and outdoor restroom facilities (when completed).

Nature Discovery Center provides minor plumbing repairs; maintenance of equipment; maintenance and cleaning of interior of the Henshaw House; and overall care of the property.

Prior Lease Agreements

Prior to March 1, 2015, Nature Discovery Center was a party to various lease agreements with the City of Bellaire, Texas, for the use of the Henshaw House and Russ Pitman Park. The previous agreements also included only a nominal rent amount, and included various items of cost-sharing and responsibilities between the City and the organization.

Nature Discovery Center, Inc.
Notes to Financial Statements (Continued)
September 30, 2016 and 2015

NOTE 11: OTHER DONATED SERVICES & MATERIALS

Certain donated services and materials do not meet the criteria for inclusion in the financial statements, but are disclosed below for informational purposes.

Program Services:

About 300 volunteers assisted in the operation of Nature Discovery Center, Inc. during each of the years ended September 30, 2016 and 2015, contributing approximately 6,000 hours of time each year to the organization. Volunteers included individual teens and adults, groups from schools, service organizations, school clubs, religious institutions, and schools.

Volunteers help care for the park and lead groups of school children on investigations in the park and on explorations of the Discovery Rooms. Volunteers plan the two major fund raising events: Twilight Gala and Pumpkin Patch. They also run games and children's activities at community gatherings, such as Spring Fling. Teen volunteers play an especially important role in the summer, serving as guides and camp counselors during summer break.