

NATURE DISCOVERY CENTER, INC.

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

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

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 financial statements of Nature Discovery Center, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquires of the 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's Responsibility for the Financial Statements

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; 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.

Accountant's Responsibility

Our responsibility is to conduct the review in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

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 accordance with accounting principles generally accepted in the United States of America.

Durio & Company, P.C.

July 16, 2018



NATURE DISCOVERY CENTER, INC.

STATEMENT OF FINANCIAL POSITION

September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
ASSETS		
Cash and cash equivalents	\$ 153,791	\$ 317,608
Prepaid expenses	10,796	16,034
Pledges receivable	645	376,378
Investments	898,178	928,045
Fixed assets (Net of depreciation & amortization of \$94,900 in 2017 and \$47,607 in 2016)	1,278,772	197,894
Improvements in Progress - Gateway Project	<u>-</u>	<u>426,790</u>
Total Assets	<u>\$ 2,342,182</u>	<u>\$ 2,262,749</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable	\$ 4,653	\$ 93,896
Payroll taxes payable	1,258	3,358
Deferred revenue	<u>27,500</u>	<u>86,614</u>
Total Liabilities	<u>33,411</u>	<u>183,868</u>
NET ASSETS		
Unrestricted:		
- Undesignated	1,395,843	638,735
- Designated as a reserve fund	<u>898,178</u>	<u>928,045</u>
	2,294,021	1,566,780
Temporarily Restricted	<u>14,750</u>	<u>512,101</u>
Total Net Assets	<u>2,308,771</u>	<u>2,078,881</u>
Total Liabilities and Net Assets	<u>\$ 2,342,182</u>	<u>\$ 2,262,749</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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Contributions and grants	\$ 361,254	\$ 133,948	\$ 495,202
Special events (Net of costs of \$107,559)	88,082		88,082
Program service income	126,936		126,936
Membership dues & assessments	20,563		20,563
Investment income (Net of management fees of \$10,585)	60,456	-	60,456
Total Revenues & Support	<u>657,291</u>	<u>133,948</u>	<u>791,239</u>
EXPENSES			
Program Services	<u>334,038</u>	<u>-</u>	<u>334,038</u>
Supporting Services:			
Management and general	140,798		140,798
Fundraising	86,513	-	86,513
	<u>227,311</u>	<u>-</u>	<u>227,311</u>
Total Expenses	<u>561,349</u>	<u>-</u>	<u>561,349</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of restrictions	<u>631,299</u>	<u>(631,299)</u>	<u>-</u>
CHANGE IN NET ASSETS	727,241	(497,351)	229,890
NET ASSETS - SEPTEMBER 30, 2016	<u>1,566,780</u>	<u>512,101</u>	<u>2,078,881</u>
NET ASSETS - SEPTEMBER 30, 2017	<u>\$ 2,294,021</u>	<u>\$ 14,750</u>	<u>\$ 2,308,771</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>315,759</u>
Supporting Services:			
Management and general	139,582		139,582
Fundraising	90,350	-	90,350
	<u>229,932</u>	-	<u>229,932</u>
Total Expenses	<u>545,691</u>	-	<u>545,691</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of restrictions	<u>326,943</u>	<u>(326,943)</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 FUNCTIONAL EXPENSES
Years ended September 30, 2017 and 2016

	2017			2016				
	Supporting Services			Supporting Services				
	Program Services	Management & General	Fundraising	Total	Program Services	Management & General	Fundraising	Total
Salaries & wages	\$ 187,210	\$ 67,565	\$ 67,830	\$ 322,605	\$ 176,709	\$ 66,000	\$ 73,500	\$ 316,209
Staff benefits	17,971	16,555	8,662	43,188	24,202	7,424	8,234	39,860
Payroll taxes	14,321	5,169	5,189	24,679	13,546	5,080	5,564	24,190
Nature program expenses	13,519			13,519	21,484			21,484
Maintenance	26,658	3,129		29,787	22,254	2,426		24,680
Other expenses	9,159	1,094	736	10,989	11,764	1,009	112	12,885
Depreciation & Amortization	41,205	5,391	697	47,293	16,984	5,391		22,375
Gateway Project	5,325			5,325	6,893			6,893
Accounting professional fees		7,890		7,890		11,125		11,125
Credit card processing & bank fees		7,430		7,430		8,230		8,230
Contract labor		15,960		15,960		14,520		14,520
Dues & subscriptions	686			686	1,046			1,046
Technology expenses	5,170	2,716	879	8,765	7,162	3,581	1,194	11,937
Insurance	1,974	3,666		5,640	2,677	5,597		8,274
Office Expense	4,670	1,699	1,336	7,705	5,889	1,857	1,746	9,492
Staff development	475	636	1,184	2,295	2,686	1,279		3,965
Telephone & Internet	2,247	749		2,996		3,601		3,601
Utilities	3,448	1,149	-	4,597	2,463	2,462	-	4,925
TOTAL EXPENSES	\$ 334,038	\$ 140,798	\$ 86,513	\$ 561,349	\$ 315,759	\$ 139,582	\$ 90,350	\$ 545,691

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 229,890	\$ 605,027
Adjustments:		
Depreciation & amortization	47,293	22,375
Net (increase)/decrease in prepaid expenses	5,238	2,359
Net (increase)/decrease in pledges receivable	375,733	(341,378)
Net increase/(decrease) in accounts payable	(89,243)	84,083
Net increase/(decrease) in payroll taxes payable	(2,100)	5,674
Net increase/(decrease) in deferred revenue	<u>(59,114)</u>	<u>40,644</u>
Net Cash Provided by Operating Activities	<u>507,697</u>	<u>418,784</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase)/decrease in investments	29,867	79,425
Net (increase)/decrease in fixed assets	(1,128,171)	(28,541)
Net (increase)/decrease in improvements in progress	<u>426,790</u>	<u>(320,050)</u>
Net Cash Provided by/(Used for) Investing Activities	<u>(671,514)</u>	<u>(269,166)</u>
NET INCREASE/(DECREASE) IN CASH	(163,817)	149,618
CASH - BEGINNING OF YEAR	<u>317,608</u>	<u>167,990</u>
CASH - END OF YEAR	<u>\$ 153,791</u>	<u>\$ 317,608</u>

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

NATURE DISCOVERY CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2017 and 2016

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, 2017 and 2016

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 25 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, 2017 and 2016, the investment assets and investment earnings consisted of the following:

	<u>2017</u>	<u>2016</u>
<u>Investment Assets</u>		
Cash & Cash Equivalents	\$ 89,644	\$ 40,578
Exchange Traded Funds	49,648	36,180
Fixed Income	404,109	487,602
Stocks	<u>354,777</u>	<u>363,685</u>
	<u>\$898,178</u>	<u>\$928,045</u>
<u>Investment Earnings</u>		
Dividend and interest income	\$ 33,821	\$ 36,225
Gain/(loss) on securities	37,220	20,779
Management fees	<u>(10,585)</u>	<u>(9,273)</u>
	<u>\$ 60,456</u>	<u>\$ 47,731</u>

Nature Discovery Center, Inc.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016

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, 2017 and 2016, the anticipated dates for collection of the pledges are as follows:

	<u>2017</u>	<u>2016</u>
Anticipated collections by September 30, 2017	\$	\$376,378
Anticipated collections by September 30, 2018	<u>645</u>	
	<u>\$ 645</u>	<u>\$376,378</u>

NOTE 4: FIXED ASSETS

At September 30, 2017 and 2016, the major classes of fixed assets are as follows:

	<u>2017</u>	<u>2016</u>
Furniture & Equipment	\$ 89,292	\$ 68,372
Leasehold Improvements	<u>1,284,380</u>	<u>177,129</u>
	1,373,672	245,501
Accumulated depreciation and amortization	<u>(94,900)</u>	<u>(47,607)</u>
	<u>\$1,278,772</u>	<u>\$197,894</u>

NOTE 5: IMPROVEMENTS IN PROGRESS

Nature Discovery Center began significant renovations to its facility and grounds in 2013 (the "Gateway Project"). The renovations were 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, which was in the construction stage as of September 30, 2016, and was completed during the fiscal year ended September 30, 2017, involved the addition of an outdoor restroom, storage facilities, and landscaping improvements. Costs incurred through September 30, 2016, were capitalized as Improvements in Progress - Gateway. When the project was substantially completed and placed in service in May 2017, the costs were transferred to Leasehold Improvements, at which point amortization began.

NOTE 6: DEFERRED REVENUE

Deferred revenue at September 30, 2017 and 2016, in the amounts of \$27,500 and \$86,614 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, 2017 and 2016

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 \$898,178 as of September 30, 2017, and \$928,045 as of September 30, 2016. 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, 2017 and 2016, the balance of temporarily restricted net assets consisted of the following:

	<u>2017</u>	<u>2016</u>
Scholarships	\$12,000	\$
Park Improvements	2,750	6,000
Gateway Project	-	507,101
	<u>\$14,750</u>	<u>\$512,101</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 \$115,976 and \$60,183, respectively for fiscal years ended September 30, 2017 and 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 \$26,029 in fiscal year ended September 30, 2017, and \$17,657 in 2016. The Leasehold Improvements provided by the City amounted to \$4,740 in fiscal year ended September 30, 2017, and \$20,884 in 2016.

Nature Discovery Center, Inc.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016

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. The balance was fully paid during the fiscal year ended September 30, 2017.

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.

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.

Nature Discovery Center, Inc.
Notes to Financial Statements (Continued)
September 30, 2017 and 2016

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, 2017 and 2016, 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 also help plan and execute two major fundraising 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.

NOTE 12: SUBSEQUENT EVENTS REVIEW

Events related to Nature Discovery Center were reviewed subsequent to the financial statements date of September 30, 2017, through July 16, 2018, (the date of the Independent Accountant's Review Report). No subsequent events occurred that would require disclosure in the financial statements or cause the financial statements to be misleading.