

Heard Natural Science Museum
and Wildlife Sanctuary, Inc.

*Independent Accountants' Review Report
and Financial Statements*

Years Ended September 30, 2015 and 2014



BLAND GARVEY
ACCOUNTANTS & CONSULTANTS

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors of
Heard Natural Science Museum and Wildlife Sanctuary, Inc.
McKinney, Texas

We have reviewed the accompanying financial statements of Heard Natural Science Museum and Wildlife Sanctuary, Inc. (a not-for-profit organization), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities 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 inquiries of company 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 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.

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. 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.

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.

Bland Garvey, P.C.

January 20, 2016

HEARD NATURAL SCIENCE MUSEUM
AND WILDLIFE SANCTUARY, INC.
STATEMENTS OF FINANCIAL POSITION
September 30, 2015 and 2014

ASSETS	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents (Note B)	\$ 195,724	\$ 289,742
Grants receivable	1,186	-
Prepaid expenses	20,228	18,395
Inventory (Note E)	20,655	17,545
TOTAL CURRENT ASSETS	<u>237,793</u>	<u>325,682</u>
PROPERTY AND EQUIPMENT		
Land	1,564,386	1,545,158
Buildings	3,475,110	3,453,534
Equipment and furniture	680,178	672,108
Automotive equipment	135,575	135,575
Exhibits	246,748	246,748
Library	11,814	11,814
	<u>6,113,811</u>	<u>6,064,937</u>
Less accumulated depreciation	4,201,200	3,995,359
	<u>1,912,611</u>	<u>2,069,578</u>
OTHER ASSETS		
Restricted cash and cash equivalents (Note B)	119,023	127,146
Beneficial interest in Bessie Heard Support Trust (Notes C, D and F)	1,260,955	1,378,788
McKinney Education Foundation - JP Morgan Investment (Notes C, D and G)	584,560	559,511
	<u>1,964,538</u>	<u>2,065,445</u>
	<u>\$ 4,114,942</u>	<u>\$ 4,460,705</u>

See independent accountants' review report and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM
AND WILDLIFE SANCTUARY, INC.
STATEMENTS OF FINANCIAL POSITION
September 30, 2015 and 2014

LIABILITIES AND NET ASSETS

	2015	2014
CURRENT LIABILITIES		
Accounts payable	\$ 17,935	\$ 14,571
Accrued liabilities (Note N)	57,755	52,875
Unearned revenue	10,000	1,040
TOTAL CURRENT LIABILITIES	85,690	68,486
 NET ASSETS		
Unrestricted	2,347,174	2,584,185
Temporarily restricted	1,682,078	1,808,034
Permanently restricted	-	-
	4,029,252	4,392,219
	\$ 4,114,942	\$ 4,460,705

See independent accountants' review report and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
STATEMENT OF FINANCIAL ACTIVITY
For the Year Ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT				
Gifts and grants	\$ 38,216	\$ 39,135	\$ -	\$ 77,351
Gifts in-kind (Note K)	826,999	-	-	826,999
Change in value of Bessie Heard Support Trust	-	(77,222)	-	(77,222)
Change in value of McKinney Education Foundation	(24,952)	-	-	(24,952)
Memberships	132,176	-	-	132,176
Sale of books and educational items	103,416	-	-	103,416
Trips and education	248,247	-	-	248,247
Fundraising events	87,179	-	-	87,179
Investment income	9,268	-	-	9,268
Admission fees	256,440	-	-	256,440
Rental	78,444	-	-	78,444
Other income	475	-	-	475
	<u>1,755,908</u>	<u>(38,087)</u>	<u>-</u>	<u>1,717,821</u>
Net assets released from restrictions through satisfaction of program requirements (Note P)	87,869	(87,869)	-	-
	<u>1,843,777</u>	<u>(125,956)</u>	<u>-</u>	<u>1,717,821</u>

See independent accountants' review report and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
 STATEMENT OF FINANCIAL ACTIVITY
 For the Year Ended September 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES (Note I)				
Program services	\$ 1,279,937	\$ -	\$ -	\$ 1,279,937
Management and general	191,807	-	-	191,807
Fund raising (Note J)	609,044	-	-	609,044
	2,080,788	-	-	2,080,788
DECREASE IN NET ASSETS	(237,011)	(125,956)	-	(362,967)
NET ASSETS AT BEGINNING OF YEAR	2,584,185	1,808,034	-	4,392,219
NET ASSETS AT END OF YEAR	\$ 2,347,174	\$ 1,682,078	\$ -	\$ 4,029,252

See independent accountants' review report and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
STATEMENT OF FINANCIAL ACTIVITY
For the Year Ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT				
Gifts and grants	\$ 106,044	\$ 22,950	\$ -	\$ 128,994
Gifts in-kind (Note K)	295,424	-	-	295,424
Change in value of Bessie Heard Support Trust	-	101,558	-	101,558
Change in value of McKinney Education Foundation	23,264	-	-	23,264
Memberships	141,300	-	-	141,300
Sale of books and educational items	92,920	-	-	92,920
Trips and education	234,186	-	-	234,186
Fundraising events	63,695	-	-	63,695
Investment income	16,312	-	-	16,312
Admission fees	235,833	-	-	235,833
Rental	76,962	-	-	76,962
Gain on asset disposal	25,305	-	-	25,305
Other income	2,798	-	-	2,798
	<u>1,314,043</u>	<u>124,508</u>	<u>-</u>	<u>1,438,551</u>
Net assets released from restrictions through satisfaction of program requirements (Note P)	88,560	(88,560)	-	-
	<u>1,402,603</u>	<u>35,948</u>	<u>-</u>	<u>1,438,551</u>

See independent accountants' review report and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
STATEMENT OF FINANCIAL ACTIVITY
For the Year Ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
EXPENSES (Note I)				
Program services	\$ 990,026	\$ -	\$ -	\$ 990,026
Management and general	190,633	-	-	190,633
Fund raising (Note J)	325,800	-	-	325,800
	<u>1,506,459</u>	<u>-</u>	<u>-</u>	<u>1,506,459</u>
DECREASE IN NET ASSETS	(103,856)	35,948	-	(67,908)
NET ASSETS AT BEGINNING OF YEAR	<u>2,688,041</u>	<u>1,772,086</u>	<u>-</u>	<u>4,460,127</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 2,584,185</u></u>	<u><u>\$ 1,808,034</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,392,219</u></u>

See independent accountants' review report and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM
AND WILDLIFE SANCTUARY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (362,967)	\$ (67,908)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation	205,841	212,970
Gain on disposal of property and equipment	-	(25,304)
Change in restricted cash	8,123	7,474
Change in value of Bessie Heard Support Trust	77,222	(118,178)
Distributions from Bessie Heard Support Trust	40,610	74,756
Change in value of McKinney Education Foundation Investment	24,952	(23,264)
Contributions restricted for long-term purposes	(125,956)	(35,948)
(Increase) decrease in grants receivable	(1,186)	24,769
(Increase) decrease in inventory	(3,110)	(250)
(Increase) decrease in prepaids	(1,833)	(7,257)
Increase (decrease) in accounts payable	3,363	699
Increase (decrease) in accrued expenses	4,880	8,683
Increase (decrease) in unearned revenue	8,960	1,040
Net cash provided (used) by operating activities	(121,101)	52,282
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(48,873)	(59,468)
Purchases of investments	(50,000)	(125,000)
Proceeds from sale of land	-	125,304
Net cash used by investing activities	(98,873)	(59,164)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of temporarily restricted contributions	125,956	35,948
Net cash provided by financing activities	125,956	35,948

See independent accountants' review report and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM
AND WILDLIFE SANCTUARY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2015 and 2014

	2015	2014
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	\$ (94,018)	\$ 29,066
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	289,742	260,676
CASH AND EQUIVALENTS AT END OF YEAR	\$ 195,724	\$ 289,742
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ -	\$ -

See independent accountants' review report and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of Heard Natural Science Museum and Wildlife Sanctuary, Inc. (HNSM) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of HNSM's management, who is responsible for their integrity and objectivity. These accounting policies conform with accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization

HNSM was founded in 1967, by Miss Bessie Heard and was incorporated in 1969, as a non-stock corporation operating as an exempt non-profit organization. The purpose of the Heard Natural Science Museum and Wildlife Sanctuary, Inc. (HNSM) is to provide educational programs emphasizing appreciation of nature and its conservation and preserving a portion of North Texas land and preserving through museum collections, examples of natural history, nature-related art works and memorabilia of the founder.

The financial statements were approved for issuance by management on January 20, 2016, which is the date the financial statements were available to be issued.

Basis of accounting

HNSM prepares its financial statements using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), which reflects all significant receivables, payables and other liabilities. These accounting policies have been consistently applied in the preparation of the financial statements. HNSM's objective is not to achieve a profit, but to provide educational programs emphasizing appreciation of nature and its conservation and preserving a portion of North Texas land.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management also estimates and discloses the amount of contingent assets and liabilities that it considers to be materially significant. Actual results could differ from those estimates.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Inventory

Inventory of products held for sale are valued at the lower of cost or market, with cost determined on a first-in, first-out basis.

Basis of presentation

HNSM has adopted authoritative guidance, *Financial Statements of Not-For-Profit Organizations*. Under this standard, HNSM is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations. Any earnings on specific funds are considered unrestricted unless specifically restricted by the donor. The unrestricted net assets, which include Board of Director designated funds, are considered available for current operations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of HNSM and/or the passage of time. Temporarily restricted net assets are comprised of contributions restricted for program expenditures.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will never lapse thus requiring the funds to be maintained permanently by the Organization. Generally, the donors of these assets permit HNSM to use all or part of the income earned on related investments for general or specific purposes.

Cash and cash equivalents

For purposes of the statement of cash flows, HNSM considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. There were no noncash investing or financing activities for the years ended September 30, 2015 and 2014.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments

Equity and fixed income securities and other short-term investments (including cash and cash equivalents) are carried at market value.

The net realized and unrealized gains (losses) in market value of investments are reflected in the accompanying statement of activities.

Property and equipment

All acquisitions of equipment and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment is carried at cost or, if donated, at the approximate fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, HNSM reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. HNSM reclassifies temporarily restricted net assets to unrestricted net assets at that time. HNSM capitalizes property and equipment that is equal to or greater than \$1,000.

Equipment is depreciated using the straight-line method over the estimated useful lives of the individual assets. Estimated useful lives are as follows:

	<u>Estimated Useful Life</u>
Land	N/A
Land improvements	10 to 20 years
Buildings	10 to 33 years
Furniture and equipment	7 to 10 years
Vehicles	6 years
Exhibits and display cases	10 years

Depreciation expense amounted to \$205,841 and \$212,970 for the years ended September 30, 2015 and 2014, respectively.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurements

HNSM has adopted the provisions of recent authoritative guidance which defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. The authoritative guidance also establishes a framework for the measurement of fair value and enhances disclosures about fair value measurements. (See Note D).

Financial instruments

The amounts reflected in the statement of financial position for cash, prepaid expenses, accounts payable, accrued liabilities and unearned revenue approximate fair value due to the short maturity of those instruments.

Unearned revenue

Unearned revenue consists primarily of sponsorship revenue for future events received before the sponsored event has occurred. Revenue is recognized upon the occurrence of the special event.

Contributions

Accounting for Contributions Received and Contributions Made requires not-for-profit organizations to recognize contributions received as revenue in the period when the pledge is received or when conditional promises to give become unconditional.

In accordance with this authoritative guidance, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported in the statement of activities as net assets released from restrictions.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unconditional promises to give cash are recognized as receivables in the period that the promises are received and as contribution income or liabilities depending on the terms of the promise. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contributions of property and equipment are recorded as support at their estimated fair value at the date of donation. Such contributions are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

HNSM derives its revenue from contributions and special events. Continued funding at current levels is dependent upon various factors. Such factors include economic conditions, donor satisfaction and public perception of mission effectiveness and relative importance.

Accounting for taxes collected from customers

HNSM collects sales taxes from customers in the normal course of business on sales of taxable items from the gift shop. Gross revenues on these sales are shown net of the related taxes collected.

Federal income taxes

HNSM is a not-for-profit organization exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). Accordingly, no provision for federal income tax has been made.

The Federal Accounting Standards Board (FASB) authoritative guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization's financial statements to determine whether the tax positions are more likely than not of being sustained by the applicable tax authority. Even an income tax provision of zero constitutes a tax position as defined by the FASB. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2015 and 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

expense in the current year. Reconciliation is not provided herein, as the beginning and ending amounts of unrecognized benefits are zero, with no interim additions, reductions, or settlements. However, the conclusions regarding this authoritative guidance will be subject to review and may be adjusted at a later date based on factors including, but not limited to, ongoing analysis of tax laws, regulations, and interpretations thereof.

HNSM's open tax periods are from September 30, 2012, to September 30, 2015.

NOTE B – CASH

Cash consists of the following at September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Unrestricted cash	\$ 110,471	\$ 175,065
Board designated endowments	85,253	114,677
Restricted cash	<u>119,023</u>	<u>127,146</u>
	<u>\$ 314,747</u>	<u>\$ 416,888</u>

NOTE C – INVESTMENTS

Investments consist solely of publicly traded mutual funds with readily determinable fair market values and are reported at gross fair values. The gross unrealized gains (losses) for the years ended September 30, 2015 and 2014 and estimated fair values of marketable securities at September 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Gross unrealized gain (loss) for the year	<u>\$ (122,211)</u>	<u>\$ 70,001</u>
Fair value	<u>\$ 1,845,515</u>	<u>\$ 1,938,299</u>

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE D – FAIR VALUE MEASUREMENTS

Fair Value Measurements establishes a framework for measuring fair value. That framework provides 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Valuations based on observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities based on data obtained from sources independent of the Organization.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on unobservable inputs reflecting managements' own assumptions about the inputs used in pricing the asset or liability.

Accordingly, the degree of judgment exercised by the Organization in determining fair value is greatest for the investments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds: Valued at the closing price reported on the active market on which the mutual funds are traded.

Equities and fixed income securities: Valued at the closing price reported on the active market on which the securities are traded.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE D – FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization’s investments at fair value as of September 30, 2015.

	Assets at Fair Value as of September 30, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and equivalents	\$ 39,504	\$ -	\$ -	\$ 39,504
Equities	839,608	-	-	839,608
Fixed income funds	122,319	-	-	122,319
Mutual funds	149,366	-	-	149,366
Other funds	-	75,688	-	75,688
Tangible assets	-	34,470	-	34,470
Investments held at McKinney Education Foundation	-	584,560	-	584,560
Total investments at fair value	\$1,150,797	\$ 694,718	\$ -	\$1,845,515

The following table sets forth by level, within the fair value hierarchy, the Organization’s investments at fair value as of September 30, 2014.

	Assets at Fair Value as of September 30, 2014			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and equivalents	\$ 38,066	\$ -	\$ -	\$ 38,066
Equities	827,364	-	-	827,364
Fixed income funds	127,966	-	-	127,966
Mutual funds	195,813	-	-	195,813
Other funds	-	79,897	-	79,897
Tangible assets	-	109,682	-	109,682
Investments held at McKinney Education Foundation	-	559,511	-	559,511
Total investments at fair value	\$1,189,209	\$ 749,090	\$ -	\$1,938,299

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2015 and 2014

NOTE E – INVENTORY

Inventory consisted of merchandise at the Heard Museum Store in the amount of \$20,655 and \$17,545 at September 30, 2015 and 2014, respectively.

NOTE F – BENEFICIAL INTEREST IN BESSIE HEARD SUPPORT TRUST

HNSM receives a substantial amount of its support from the Bessie Heard Support Trust. HNSM is the sole beneficiary of this trust which was established under the last will and testament of Bessie Heard. Cash distributions received from the trust in 2015 were \$58,712, which includes \$18,101 in trust fees and accounts for approximately 6% of total support and revenue. Cash distributions received from the trust in 2014 were \$88,060 which includes \$16,620 in trust fees and accounts for approximately 6% of total support and revenue.

The investments held by the trust as of September 30, 2015 and 2014, were as follows:

	2015	2014
Cash and cash equivalents	\$ 39,504	\$ 38,066
Equities	839,608	827,364
Fixed income funds	122,319	127,966
Mutual funds and other	259,524	385,392
	\$ 1,260,955	\$ 1,378,788

HNSM estimates the total market value of the Trust at September 30, 2015 and 2014, respectively, to be \$1,260,955 and 1,378,788.

NOTE G – MCKINNEY EDUCATION FOUNDATION – JP MORGAN INVESTMENT

The HNSM funds and the McKinney Education Foundation funds are traded as a single account. The HNSM balance at the end of the fiscal year was \$584,560 and is a mix of restricted and unrestricted funds. The restricted funds are \$302,100 from Texas Department of Transportation; the total restricted funds from Texas Department of Transportation are \$392,702 with the balance held at Independent Bank. There are unrestricted funds totaling \$282,460 at McKinney Education Foundation including two board designated Endowment accounts - \$47,900 from Primo donated in prior years, and \$225,000 held as an unrestricted Operation Endowment; the total unrestricted Operation Endowment savings are \$278,540 with the balance held at Independent Bank. The other \$9,560 of unrestricted savings at McKinney Education funds is the unrealized gains on the investment account as of September 30, 2015.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2015 and 2014

NOTE H – NET ASSET ACCOUNTING

HNSM maintains its records on a net asset accounting basis in order to ensure observance of the limitations and restrictions placed on the use of its resources. This is the procedure by which net assets for various purposes are classified for accounting and reporting purposes into self-balancing funds according to their nature and purpose.

Unrestricted net assets are those funds available for the support of HNSM’s programs. Temporarily restricted net assets are those funds restricted by the grantor(s) to be expended only for specific purposes. Temporarily restricted net assets consist of the Bessie Heard Trust, grants, and donations. As of September 30, 2015 and 2014, these funds consist of:

	2015	2014
Bessie Heard Trust	\$ 1,260,955	\$ 1,378,788
McKinney Education Foundation Investment	302,100	302,100
Cash and cash equivalents	119,023	127,146
Total temporarily restricted	\$ 1,682,078	\$ 1,808,034

NOTE I – FUNCTIONAL EXPENSE ALLOCATION

Directly identifiable expenses are charged to program and support services. Expenses related to more than one function are charged to program and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

HNSM operates various programs which include a wildlife sanctuary restoration and trail system, education and outreach programs, trips, public information, exhibits and collections, and a retail museum store.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE I – FUNCTIONAL EXPENSE ALLOCATION

The functional expense allocation at September 30, 2015, is as follows:

Description	Total Expenses	Program Services	Management and General	Fund Raising
Cost of goods sold	\$ 66,447	\$ 47,195	\$ -	\$ 19,252
Special programs, events and exhibits	150,160	129,492	3,408	17,260
Salaries, benefits and taxes	579,578	387,091	113,228	79,259
Professional fees	18,167	161	10,435	7,571
Supplies	11,095	8,105	1,759	1,231
Occupancy	129,137	85,230	25,827	18,080
Equipment maintenance and rental	6,960	4,594	1,392	974
Travel	184	123	37	24
Conferences and meetings	1,452	959	290	203
Depreciation	205,841	158,761	27,694	19,386
Advertising and promotions (Note T)	33,759	14,075	399	19,285
Insurance	21,118	13,797	4,952	2,369
Gifts in kind expense	826,999	413,500	-	413,499
Credit card processing fees	17,962	8,981	-	8,981
Miscellaneous	11,929	7,873	2,386	1,670
	<u>\$ 2,080,788</u>	<u>\$ 1,279,937</u>	<u>\$ 191,807</u>	<u>\$ 609,044</u>

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE I – FUNCTIONAL EXPENSE ALLOCATION

The functional expense allocation at September 30, 2014, is as follows:

Description	Total Expenses	Program Services	Management and General	Fund Raising
Cost of goods sold	\$ 61,155	\$ 44,880	\$ -	\$ 16,275
Special programs, events and exhibits	139,992	114,487	1,742	23,763
Salaries, benefits and taxes	545,986	375,440	95,932	74,614
Professional fees	33,789	-	33,351	438
Supplies	10,002	7,488	1,414	1,100
Occupancy	137,070	93,208	24,673	19,189
Equipment maintenance and rental	8,761	5,957	1,577	1,227
Travel	93	63	17	13
Conferences and meetings	1,324	901	238	185
Depreciation	212,970	167,251	25,717	20,002
Advertising and promotions (Note T)	38,116	13,961	519	23,636
Insurance	17,996	11,723	4,323	1,950
Gifts in kind expense	277,192	138,596	-	138,596
Credit card processing fees	15,731	11,798	-	3,933
Miscellaneous	6,282	4,273	1,130	879
	<u>\$ 1,506,459</u>	<u>\$ 990,026</u>	<u>\$ 190,633</u>	<u>\$ 325,800</u>

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE J – FUNDRAISING EXPENSE

The ratio of fundraising expense to amounts raised is as follows:

	<u>2015</u>	<u>2014</u>
Gifts and grants	\$ 77,351	\$ 128,994
Gifts in kind	826,999	295,424
Fundraising events	87,179	63,695
Memberships	132,176	141,300
Trips and education	<u>248,247</u>	<u>234,186</u>
Total funds raised	<u>\$ 1,371,952</u>	<u>\$ 863,599</u>
Fundraising expense	<u>\$ 609,044</u>	<u>\$ 325,800</u>
Ratio of fundraising expense to amounts raised	44%	38%

NOTE K – GIFTS IN KIND

No amounts have been reflected in the financial statements for donated services. HNSM pays for most services requiring specific expertise. However, many individuals volunteer their time to perform a variety of tasks that assist HNSM with its operations. Approximately \$826,999 and \$295,424 of contributions in kind have been recorded associated with various donated items related to various events and exhibits for the years ended September 30, 2015 and 2014, respectively.

Gifts in kind recognized in the accompanying statements of financial activity and changes in net assets for the years ended September 30, 2015 and 2014, respectively, are summarized as follows:

	<u>2015</u>	<u>2014</u>
Advertising	\$ 826,999	\$ 277,193
Computer software	<u>-</u>	<u>18,231</u>
Total gifts in kind	<u>\$ 826,999</u>	<u>\$ 295,424</u>

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE L – ARTIFACT COLLECTION

HNSM's collection consists of diverse examples of natural history, anthropological, fine art, and taxidermy items. The majority of these items were donated by Bessie Heard from her personal collections. In conformity with the practice followed by many museums, art objects purchased and donated are not included in the statement of financial position. The values of the objects acquired by gift, for which HNSM can make a reasonable estimate, are reported as gifts in the statement of financial activity. The cost of all objects purchased, together with the value of objects acquired by gift as indicated previously are reported as a separate program expense.

NOTE M – RELATED PARTY TRANSACTION

A board member of HNSM is an officer of the bank that acts as Trustee for the Bessie Heard Support Trust. HNSM paid trustee fees to the bank in the amount of \$18,101 and \$16,620 for the years ended September 30, 2015 and 2014, respectively.

NOTE N – COMPENSATED ABSENCES

Employees of HNSM are entitled to paid vacation, paid sick days and personal days off depending on job classification, length of service and other factors. At September 30, 2015 and 2014, respectively, accrued compensated absences totaled \$19,649 and \$19,161.

NOTE O – DEFINED CONTRIBUTION PLAN

HNSM has a defined contribution plan pursuant to Section 403(b) of the Internal Revenue Code. Employees who work 1,000 hours or more annually have been eligible to participate in the plan. However, since June of 2011, contributions by HNSM have been suspended as a cost reduction to the Museum, and currently there is no plan to reinstate contributions. The balance in the forfeiture account is \$0, and there were no contributions to the plan for the years ended September 30, 2015 or 2014.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE P– NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2015	2014
Purpose restrictions accomplished or donor restrictions released		
Operating funds from Bessie Heard Support Trust	\$ 40,610	\$ 58,136
Other programs and exhibits	47,259	30,424
Total restrictions released	\$ 87,869	\$ 88,560

NOTE Q – OPERATING LEASES

HNSM has two equipment lease agreements with terms of twelve to fifty-one months with a total monthly rent of approximately \$558. Lease expense for the years ended September 30, 2015 and 2014, respectively, was approximately \$6,961 and \$6,911.

Future minimum rental payments are as follows:

Year Ended September 30,	Amount
2016	\$ 1,990
Thereafter	-
	\$ 1,990

NOTE R – LAND LEASE

Historically HNSM leased the Camp Smitty facilities from the Camp Fire USA Lone Star Council for \$1 a year under an arrangement that allowed five year lease options to be exercised through 2021. The current five year lease ran through June 3, 2016, and the next and final lease option ran through June 3, 2021. On July 31, 2013 Camp Fire USA Lone Star sold the land with the lease to Mr. and Mrs. Seal and Mr. and Mrs. Judy, who became the new property owners and from whom HNSM then continued to lease the land with the same lease terms. In 2015, HNSM

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2015 and 2014

NOTE R – LAND LEASE

finalized a transaction with the new property owners, whereby HNSM swapped land with an equivalent value for the land that had been leased by HNSM. In this swap HNSM relinquished the lease option and lease renewal option that would have allowed the organization to lease the land through 2021. HNSM also relinquished adjacent HNSM land to the leaseholders and in return received permanent ownership and deed to the land that the Camp Smitty building is built on. There was no money that exchanged hands as part of this transaction and the only expense was \$1,286 in title/closing fees.

NOTE S – CONCENTRATIONS OF CREDIT RISK

HNSM derives its revenue from contributions, programs and admission sources. Continued funding from these sources at current levels is dependent upon various factors. Such factors include economic conditions, donor satisfaction and public perception of mission effectiveness and relative importance. HNSM operates entirely within the McKinney, Texas area.

HNSM maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At September 30, 2015, HNSM exceeded these limits by \$60,759. HNSM has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE T – ADVERTISING COSTS

HNSM incurs non-direct advertising costs and has adopted a policy of expensing such costs as incurred. HNSM recorded \$33,759 in advertising and promotional expense for the year ended September 30, 2015, all of which was expensed as incurred, and approximately 57% of which was included in fundraising expense. HNSM recorded \$38,116 in advertising and promotional expense for the year ended September 30, 2014, all of which was expensed as incurred, and approximately 62% of which was included in fundraising expense.

NOTE U – SUBSEQUENT EVENTS

HNSM has evaluated subsequent events, of which there were none, up to and including January 20, 2016. This is the date the financial statements were available for issuance.