

Heard Natural Science Museum
and Wildlife Sanctuary, Inc.

*Independent Auditors' Report
and Financial Statements*

Years Ended September 30, 2013 and 2012



BLAND GARVEY
ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Heard Natural Science Museum and Wildlife Sanctuary, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2013, and the related statements of financial activity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heard Natural Science Museum and Wildlife Sanctuary, Inc. as of September 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The September 30, 2012, financial statements were reviewed by us and our report thereon, dated January 11, 2013, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Bland Marvey, P.C.

February 5, 2014

HEARD NATURAL SCIENCE MUSEUM
AND WILDLIFE SANCTUARY, INC.
STATEMENTS OF FINANCIAL POSITION
September 30, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents (Note B)	\$ 260,676	\$ 278,111
Grants receivable	24,769	4,727
Prepaid expenses	11,138	18,500
Inventory (Note E)	17,295	18,583
TOTAL CURRENT ASSETS	313,878	319,921
 PROPERTY AND EQUIPMENT		
Land	1,643,883	1,643,883
Buildings	3,418,032	3,408,164
Equipment and furniture	650,502	650,502
Automotive equipment	135,575	121,625
Exhibits	245,663	216,703
Library	11,814	11,814
	6,105,469	6,052,691
Less accumulated depreciation	3,782,389	3,587,430
	2,323,080	2,465,261
 OTHER ASSETS		
Restricted cash and cash equivalents (Note B)	134,620	27,440
Beneficial interest in Bessie Heard Support Trust (Notes C, D and F)	1,335,366	1,243,065
McKinney Education Foundation - JP Morgan Investment (Notes C, D and G)	411,247	-
	1,881,233	1,270,505
	\$ 4,518,191	\$ 4,055,687

See independent auditors' report and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM
AND WILDLIFE SANCTUARY, INC.
STATEMENTS OF FINANCIAL POSITION
September 30, 2013 and 2012

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts payable	\$ 13,872	\$ 16,072
Accrued liabilities (Note O)	44,192	33,565
TOTAL CURRENT LIABILITIES	<u>58,064</u>	<u>49,637</u>
 NET ASSETS (Note H)		
Unrestricted	2,688,041	2,735,545
Temporarily restricted	1,772,086	1,270,505
Permanently restricted	-	-
	<u>4,460,127</u>	<u>4,006,050</u>
	<u>\$ 4,518,191</u>	<u>\$ 4,055,687</u>

See independent auditors' 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, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT				
Gifts and grants	\$ 135,098	\$ 461,240	\$ -	\$ 596,338
Gifts in-kind (Note L)	141,675	-	-	141,675
Change in value of Bessie Heard Support Trust	-	128,214	-	128,214
Change in value of McKinney Education Foundation				
Investment	11,247	-	-	11,247
Memberships	145,103	-	-	145,103
Sale of books and educational items	91,161	-	-	91,161
Trips and education	263,792	-	-	263,792
Fundraising events	60,419	-	-	60,419
Investment income	18,982	-	-	18,982
Admission fees	218,557	-	-	218,557
Rental	71,625	-	-	71,625
Gain on asset disposal	12,125	-	-	12,125
Other income	3,303	-	-	3,303
	<u>1,173,087</u>	<u>589,454</u>	<u>-</u>	<u>1,762,541</u>
Net assets released from restrictions through satisfaction of program requirements (Note Q)	87,873	(87,873)	-	-
	<u>1,260,960</u>	<u>501,581</u>	<u>-</u>	<u>1,762,541</u>

See independent auditors' 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, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
EXPENSES (Note I)				
Program services	\$ 920,798	\$ -	\$ -	\$ 920,798
Management and general	167,001	-	-	167,001
Fund raising (Note K)	220,665	-	-	220,665
	<u>1,308,464</u>	<u>-</u>	<u>-</u>	<u>1,308,464</u>
INCREASE IN NET ASSETS	(47,504)	501,581	-	454,077
NET ASSETS AT BEGINNING OF YEAR	<u>2,735,545</u>	<u>1,270,505</u>	<u>-</u>	<u>4,006,050</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,688,041</u>	<u>\$ 1,772,086</u>	<u>\$ -</u>	<u>\$ 4,460,127</u>

See independent auditors' 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, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT				
Gifts and grants	\$ 149,086	\$ 65,348	\$ -	\$ 214,434
Gifts in-kind (Note L)	125,050	-	-	125,050
Change in value of Bessie Heard Support Trust	-	219,087	-	219,087
Memberships	111,285	-	-	111,285
Sale of books and educational items	84,348	-	-	84,348
Trips and education	236,177	-	-	236,177
Fundraising events	31,433	-	-	31,433
Investment income	25,006	-	-	25,006
Admission fees	199,442	-	-	199,442
Rental	64,001	-	-	64,001
Other income	244	-	-	244
	<u>1,026,072</u>	<u>284,435</u>	<u>-</u>	<u>1,310,507</u>
Net assets released from restrictions through satisfaction of program requirements (Note Q)	258,751	(258,751)	-	-
	<u>1,284,823</u>	<u>25,684</u>	<u>-</u>	<u>1,310,507</u>

See independent auditors' reports and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
STATEMENT OF FINANCIAL ACTIVITY
For the Year Ended September 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
EXPENSES (Note I)				
Program services	\$ 870,265	\$ -	\$ -	\$ 870,265
Management and general	208,402	-	-	208,402
Fund raising (Note K)	204,579	-	-	204,579
	<u>1,283,246</u>	<u>-</u>	<u>-</u>	<u>1,283,246</u>
 INCREASE IN NET ASSETS	 1,577	 25,684	 -	 27,261
 NET ASSETS AT BEGINNING OF YEAR	 <u>2,733,968</u>	 <u>1,244,821</u>	 <u>-</u>	 <u>3,978,789</u>
 NET ASSETS AT END OF YEAR	 <u><u>\$ 2,735,545</u></u>	 <u><u>\$ 1,270,505</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 4,006,050</u></u>

See independent auditors' reports and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM
AND WILDLIFE SANCTUARY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 454,077	\$ 27,261
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation	205,416	209,094
Gain on disposal of property and equipment	(12,125)	-
Change in restricted cash	(107,180)	2,403
Change in value of Bessie Heard Support Trust	(128,214)	(219,087)
Distributions from Bessie Heard Support Trust	35,913	191,000
Change in value of McKinney Education Foundation Investment	(11,247)	-
Contributions restricted for long-term purposes	(501,581)	(25,684)
(Increase) decrease in grants receivable	(20,042)	(4,727)
(Increase) decrease in inventory	1,288	81
(Increase) decrease in prepaids	7,362	1,042
Increase (decrease) in accounts payable	(2,200)	(39,110)
Increase (decrease) in accrued expenses	10,627	(19,473)
Increase (decrease) in unearned revenue	-	(3,550)
Net cash provided by operating activities	(67,906)	119,250
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(66,010)	(45,599)
Proceeds from sale of property and equipment	14,900	-
Purchases of investments	(400,000)	-
Net cash used by investing activities	(451,110)	(45,599)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections of temporarily restricted contributions	501,581	25,684
Net cash provided by investing activities	501,581	25,684

See independent auditors' reports and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM
AND WILDLIFE SANCTUARY, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2013 and 2012

	2013	2012
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(17,435)	99,335
CASH AND EQUIVALENTS AT BEGINNING OF YEAR	278,111	178,776
CASH AND EQUIVALENTS AT END OF YEAR	\$ 260,676	\$ 278,111
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ -	\$ -

See independent auditors' reports and accompanying notes to financial statements.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

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 February 5, 2014, 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, 2013 and 2012

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 and operations.

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, 2013 and 2012.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

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 \$205,416 and \$209,094 for the years ended September 30, 2013 and 2012, respectively.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

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 and accrued liabilities approximate fair value due to the short maturity of those instruments.

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 are 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, 2013 and 2012

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, 2013 and 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

expense in the current year. A 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, 2010, to September 30, 2013.

Reclassification

Certain accounts in the prior year financial statements have been reclassified to conform to current year presentation. Such reclassifications had no effect on prior year change in net assets.

NOTE B – CASH

Cash consists of the following at September 30, 2013 and 2012:

	2013	2012
Unrestricted cash	\$ 164,109	\$ 278,111
Board designated endowments	96,567	-
Restricted cash	134,620	27,440
	\$ 395,296	\$ 305,551

As of September 30, 2011, the Board of Directors had designated funds of approximately \$123,848 for the specific purpose of land restoration; however, no formal restriction exists on the cash. As of September 30, 2012, \$119,833 of those funds were not yet spent and were still designated by the Board of Directors for the initial purpose. As of September 30, 2013, \$109,124 of those funds were not yet spent and were still designated by the Board of Directors for the initial purpose.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
 NOTES TO FINANCIAL STATEMENTS
 September 30, 2013 and 2012

NOTE C – INVESTMENTS

Investments consist of equities, fixed income funds and publicly traded mutual funds with readily determinable fair market values and are reported at gross fair values. The gross unrealized gains and estimated fair values of marketable securities at September 30, 2013 and 2012, are as follows:

	2013	2012
Gross unrealized gain	\$ 118,042	\$ 180,866
Fair value	\$ 1,746,613	\$ 1,243,065

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.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE D – FAIR VALUE MEASUREMENTS

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.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of September 30, 2013.

	Assets at Fair Value as of September 30, 2013			
	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and equivalents	\$ 64,488	\$ -	\$ -	\$ 64,488
Equities	900,224	-	-	900,224
Fixed income funds	284,157	-	-	284,157
Mutual funds and other	86,497	-	-	86,497
Investments held at McKinney Education Foundation	-	411,247	-	411,247
Total investments at fair value	\$1,335,366	\$ 411,247	\$ -	\$1,746,613

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

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, 2012.

	Assets at Fair Value as of September 30, 2012			Total
	Level 1	Level 2	Level 3	
Financial assets				
Cash and equivalents	\$ 78,981	\$ -	\$ -	\$ 78,981
Equities	764,613	-	-	764,613
Fixed income funds	294,944	-	-	294,944
Mutual funds and other	104,527	-	-	104,527
Total investments at fair value	<u>\$1,243,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,243,065</u>

NOTE E – INVENTORY

Inventory consisted of merchandise at the Heard Museum Store in the amount of \$17,295 and \$18,583 at September 30, 2013 and 2012, 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 2013 were \$51,039, which includes \$15,125 in trustee fees and accounts for approximately 3% of total support and revenue. Cash distributions received from the trust in 2012 were \$205,612, which includes \$14,612 in trustee fees and accounts for approximately 16% of total support and revenue. Beginning October 2012, the Trustee has elected to distribute interest only to HNSM.

The investments held by the trust as of September 30, 2013 and 2012, were as follows:

	2013	2012
Cash and cash equivalents	\$ 64,488	\$ 78,981
Equities	900,224	764,613
Fixed income funds	284,157	294,944
Mutual funds and other	86,497	104,527
Totals	<u>\$ 1,335,366</u>	<u>\$ 1,243,065</u>

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE F – BENEFICIAL INTEREST IN BESSIE HEARD SUPPORT TRUST

HNSM estimates the total market value of the Trust at September 30, 2013 and 2012, respectively, to be \$1,335,366 and \$1,243,065.

NOTE G – MCKINNEY EDUCATION FOUNDATION – JP MORGAN INVESTMENT

In August 2013, HNSM transferred \$400,000 of savings to an agency fund managed by JP Morgan on behalf of the McKinney Education Foundation. 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 \$411,247 and is a mix of restricted and unrestricted funds. The restricted funds are \$302,100 from Texas Department of Transportation (TXDOT). The total restricted funds from TXDOT are \$413,279 with the balance held at Independent Bank. The unrestricted funds are \$50,000 received from North Texas Municipal Water District (NTMWD) as part of a settlement (See Note J). The NTMWD unspent balance is \$109,124 with the balance held in Independent Bank. The other unrestricted funds are \$47,900 which were donated in a prior year. In addition, there are \$11,247 of unrealized gains in the investment account.

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, 2013 and 2012, these funds consist of:

	2013	2012
Bessie Heard Trust	\$ 1,335,366	\$ 1,243,065
McKinney Education Foundation Investment	302,100	-
Other program and exhibits	134,620	27,440
Total temporarily restricted	\$ 1,772,086	\$ 1,270,505

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

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.

The functional expense allocation at September 30, 2013, is as follows:

Description	Total Expenses	Program Services	Management and General	Fund Raising
Cost of goods sold	\$ 60,301	\$ 45,346	\$ -	\$ 14,955
Special programs, events and exhibits	131,504	117,402	-	14,102
Salaries, benefits and taxes	517,611	360,678	91,122	65,811
Professional fees	16,177	112	15,531	534
Supplies	8,743	6,701	1,186	856
Occupancy	140,915	97,232	25,365	18,318
Equipment maintenance and rental	12,213	8,427	2,198	1,588
Travel	543	374	98	71
Conferences and meetings	928	640	167	121
Depreciation	205,416	163,155	24,539	17,722
Advertising and promotions (Note U)	33,198	23,144	714	9,340
Insurance	17,015	10,053	5,069	1,893
Gifts in kind expense	141,675	70,838	-	70,837
Credit card processing fees	15,141	11,356	-	3,785
Miscellaneous	7,084	5,340	1,012	732
	<u>\$ 1,308,464</u>	<u>\$ 920,798</u>	<u>\$ 167,001</u>	<u>\$ 220,665</u>

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE I – FUNCTIONAL EXPENSE ALLOCATION

The functional expense allocation at September 30, 2012, is as follows:

Description	Total Expenses	Program Services	Management and General	Fund Raising
Cost of goods sold	\$ 40,986	\$ 40,917	\$ -	\$ 69
Special programs, events and exhibits	122,549	104,854	-	17,695
Salaries, benefits and taxes	531,832	343,454	120,353	68,025
Professional fees	14,592	-	13,092	1,500
Supplies	20,919	17,308	2,307	1,304
Occupancy	130,075	83,248	29,917	16,910
Equipment maintenance and rental	12,168	7,787	2,799	1,582
Travel	166	106	38	22
Conferences and meetings	2,423	1,551	557	315
Depreciation	209,094	159,505	31,682	17,907
Advertising and promotions (Note U)	41,381	25,547	936	14,898
Insurance	19,120	11,825	5,175	2,120
Gifts in kind expense	115,550	57,775	-	57,775
Credit card processing fees	14,331	10,748	-	3,583
Miscellaneous	8,060	5,640	1,546	874
	<u>\$ 1,283,246</u>	<u>\$ 870,265</u>	<u>\$ 208,402</u>	<u>\$ 204,579</u>

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE J – LEGAL SETTLEMENT INCOME

HNSM received \$127,950 in legal settlement income during the year ended September 30, 2011. Of these funds, \$123,848 was designated by the Board of Directors and set aside for land restoration (see Note B). As of September 30, 2012, the remaining balance was \$119,833. As of September 30, 2013, there was a remaining balance of \$109,124.

NOTE K – FUNDRAISING EXPENSE

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

	<u>2013</u>	<u>2012</u>
Gifts and grants	\$ 596,338	\$ 214,434
Gifts in kind	141,675	125,050
Fundraising events	60,419	31,433
Memberships	145,103	111,285
Trips and education	<u>263,792</u>	<u>236,177</u>
Total funds raised	<u>\$ 1,207,327</u>	<u>\$ 718,379</u>
Fundraising expense	<u>\$ 220,665</u>	<u>\$ 204,579</u>
Ratio of fundraising expense to amounts raised	18%	28%

NOTE L – DONATED SERVICES

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 headquarter operations. Approximately \$141,675 and \$125,050 of contributions in kind have been recorded associated with various donated items related to various events and exhibits for the years ended September 30, 2013 and 2012, respectively.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE M – 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 N – 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 \$15,125 and \$14,612 for the years ended September 30, 2013 and 2012, respectively.

During the year ended September 30, 2013, HNSM purchased one tractor from the Executive Director. The total amount paid for the purchase was \$18,900.

NOTE O – 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, 2013 and 2012, respectively, accrued compensated absences totaled \$16,747 and \$11,011.

NOTE P – 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, 2013 and 2012.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE Q – 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.

	2013	2012
Purpose restrictions accomplished or donor restrictions released		
Operating funds from Bessie Heard Support Trust	\$ 35,913	\$ 191,000
Other programs and exhibits	51,960	67,751
Total restrictions released	\$ 87,873	\$ 258,751

NOTE R – 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, 2013 and 2012, respectively, was approximately \$7,263 and \$7,236.

Future minimum rental payments are as follows:

Year Ended September 30,	Amount
2014	\$ 3,980
2015	3,980
2016	1,990
Thereafter	-
	\$ 9,950

NOTE S – LEASE

HNSM has leased the Camp Smitty facilities from the Camp Fire USA Lone Star Council for \$1 a year under an arrangement that allows five year lease options to be exercised. The current five year lease runs through June 3, 2016, and the next and final lease option runs through June 3, 2021. Camp Fire USA Lone Star sold the land with the lease on July 31, 2013, to Mr. and Mrs. Seal and Mr. And Mrs. Judy, who are now the property owners and from whom HNSM now leases the land with the same lease terms.

HEARD NATURAL SCIENCE MUSEUM AND WILDLIFE SANCTUARY, INC.
NOTES TO FINANCIAL STATEMENTS
September 30, 2013 and 2012

NOTE T – 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, 2013, HNSM exceeded these limits by \$140,592. 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 U – ADVERTISING COSTS

HNSM incurs non-direct advertising costs and has adopted a policy of expensing such costs as incurred. HNSM recorded \$33,198 in advertising and promotional expense for the year ended September 30, 2013, all of which was expensed as incurred, and approximately 28% of which was included in fundraising expense. HNSM recorded \$41,381 in advertising and promotional expense for the year ended September 30, 2012, all of which was expensed as incurred, and approximately 36% of which was included in fundraising expense.

NOTE V – SUBSEQUENT EVENTS

Subsequent to the year ended September 30, 2013, HNSM received a donation in the amount of \$25,000 from BB Owen Trust.

In November 2013, HNSM sold property located in Fairview, TX that was donated to the museum in 1997. The lot was sold for \$125,305, with a net gain from the sale (minus closing fees) of \$25,305.

HNSM has evaluated and disclosed subsequent events up to and including February 5, 2014, which is the date the financial statements were available for issuance.