

Museum of South Texas History

**Financial Statements
and
Auditor's Report**

December 31, 2004

Independent Auditor's Report

Board of Directors
Museum of South Texas History
Edinburg, Texas

I have audited the accompanying statements of financial position of the Museum of South Texas History (a not-for-profit organization) as of December 31, 2004 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum of South Texas History as of December 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

November 14, 2005

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Financial Statements

**MUSEUM OF SOUTH TEXAS HISTORY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004**

ASSETS

	<u>Operating</u>	<u>Plant</u>	<u>Capital Campaign #2</u>	<u>Endowment</u>	<u>Eliminations</u>	<u>Total</u>
Current Assets						
Cash (Note 1)	\$ 246,399	\$ 311,988	\$ 484,166	\$ 6,045	\$ -	\$ 1,048,598
Short-term investments (Note 1) -		188,705	-	334,532	-	523,237
Grants receivable (Note 8)	127,916	192,083	-	-	-	319,999
Pledges receivable (Note 2)	9,164	39,700	63,933	-	-	112,797
Inventory (Notes 1 & 3)	73,579	-	-	-	-	73,579
Other current assets	5,060	-	-	-	-	5,060
Due from other funds	<u>5,518</u>	<u>8,855</u>	<u>-</u>	<u>-</u>	<u>(14,373)</u>	<u>-</u>
Total Current Assets	<u>467,636</u>	<u>741,331</u>	<u>548,099</u>	<u>340,577</u>	<u>(14,373)</u>	<u>2,083,270</u>
Long-term investments	353,211	-	-	419,469	-	772,680
Long-term receivables (Note 2)	-	-	134,139	-	-	134,139
Fixed assets (net of accumulated depreciation) (Notes 1, 4, & 5)	<u>-</u>	<u>6,552,415</u>	<u>568,181</u>	<u>-</u>	<u>-</u>	<u>7,120,596</u>
TOTAL ASSETS	<u>\$ 820,847</u>	<u>\$7,293,746</u>	<u>\$1,250,419</u>	<u>\$ 760,046</u>	<u>\$ (14,373)</u>	<u>\$ 10,110,685</u>

The accompanying notes are an integral part of this report.

**MUSEUM OF SOUTH TEXAS HISTORY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2004**

LIABILITIES AND NET ASSETS

	<u>Operating</u>	<u>Plant</u>	<u>Capital Campaign #2</u>	<u>Endowment</u>	<u>Eliminations</u>	<u>Total</u>
Current liabilities						
Accounts payable	\$ 10,568	\$ -	\$ -	\$ -	\$ -	\$10,568
Payroll liabilities	6,912	-	-	-	-	6,912
Accrued expenses	35,462	-	11,723	-	-	47,185
Due to other funds	8,855	-	5,518	-	(14,373)	-
Deferred revenue	125,500	-	-	-	-	125,500
Current portion of long-term note (Note 5)	<u>7,301</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,301</u>
Total Current Liabilities	<u>194,598</u>	<u>-</u>	<u>17,241</u>	<u>-</u>	<u>(14,373)</u>	<u>197,466</u>
Long-term liabilities						
Long-term note (Note 5)	<u>21,902</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>521,902</u>
TOTAL LIABILITIES	<u>216,500</u>	<u>-</u>	<u>517,241</u>	<u>-</u>	<u>(14,373)</u>	<u>719,368</u>
Net assets						
Unrestricted (Note 1)	522,396	7,047,334	-	-	-	7,569,730
Temporarily restricted (Notes 1 & 7)	81,951	246,412	733,178	-	-	1,061,541
Permanently restricted (Note 1)	<u>-</u>	<u>-</u>	<u>-</u>	<u>760,046</u>	<u>-</u>	<u>760,046</u>
TOTAL NET ASSETS	<u>604,347</u>	<u>7,293,746</u>	<u>733,178</u>	<u>760,046</u>	<u>-</u>	<u>9,391,317</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 820,847</u>	<u>\$7,293,746</u>	<u>\$1,250,419</u>	<u>\$ 760,046</u>	<u>\$ (14,373)</u>	<u>\$ 10,110,685</u>

MUSEUM OF SOUTH TEXAS HISTORY
STATEMENT OF ACTIVITIES
Year Ended December 31, 2004

	<u>Operating</u>	<u>Plant</u>	<u>Capital Campaign #2</u>	<u>Endowment</u>	<u>Total</u>
CHANGES IN NET ASSETS					
Public Support and Revenue					
Donations (Note 1)	\$ 113,816	\$ 8,958	\$ 760,531	\$ -	\$ 883,305
Grants from government agencies (Note 8)	427,254	-	-	-	427,254
Fund raising events (Note 10)	<u>58,130</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,130</u>
	<u>599,200</u>	<u>8,958</u>	<u>760,531</u>	<u>-</u>	<u>1,368,689</u>
Revenue					
Membership dues (Note 10)	350,191	-	-	-	350,191
Investment income	11,233	5,297	936	18,307	35,773
Admission charges	76,136	-	-	-	76,136
Auxiliary activities (Note 11)	120,429	-	-	-	120,429
Rental property (Note 12)	24,793	-	-	-	24,793
Miscellaneous	<u>18,508</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,508</u>
Total revenue	<u>601,290</u>	<u>5,297</u>	<u>936</u>	<u>18,307</u>	<u>625,830</u>
Deferred revenue releases	<u>-</u>	<u>205,025</u>	<u>-</u>	<u>-</u>	<u>205,025</u>
Total increases in net assets	<u>1,200,490</u>	<u>219,280</u>	<u>761,467</u>	<u>18,307</u>	<u>2,199,544</u>
Expenses					
Program services					
Archives & exhibits	10,790	-	-	-	10,790
Education programs	9,208	-	-	-	9,208
General program services	583,263	-	-	-	583,263
Capital outlay	<u>-</u>	<u>203,332</u>	<u>-</u>	<u>-</u>	<u>203,332</u>
Total program services	<u>603,261</u>	<u>203,332</u>	<u>-</u>	<u>-</u>	<u>806,593</u>
Supporting services (Note 13)					
Management and general	242,042	193,300	15,389	-	450,731
Fund raising	68,147	-	11,300	-	79,447
Auxiliary service	<u>105,289</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,289</u>
Total supporting services	<u>415,478</u>	<u>193,300</u>	<u>26,689</u>	<u>-</u>	<u>635,467</u>
Total decreases in net assets	1,018,739	396,632	26,689	-	1,442,060
Transfers out	(210,476)	(456,345)	(1,600)	-	(668,421)
Transfers in	-	211,576	-	456,845	668,421
Loss on disposal of equipment	<u>-</u>	<u>(1,744)</u>	<u>-</u>	<u>-</u>	<u>(1,744)</u>
Change in net assets	<u>\$ (28,725)</u>	<u>\$ (423,865)</u>	<u>\$ 733,178</u>	<u>\$ 475,152</u>	<u>\$ 755,740</u>

MUSEUM OF SOUTH TEXAS HISTORY

The accompanying notes are an integral part of this report.

STATEMENT OF CHANGES IN NET ASSETS
For the Year Ended December 31, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING				
Beginning balance	\$ 495,184	\$ 188,326	\$ -	\$ 683,510
Prior period adjustments (Note 14)	<u>(24,188)</u>	<u>(26,250)</u>	<u>-</u>	<u>(50,438)</u>
Beginning net assets restated	470,996	162,076	-	633,072
 Change in net assets	 <u>51,400</u>	 <u>(80,125)</u>	 <u>-</u>	 <u>(28,725)</u>
Net assets, end of period	<u>\$ 522,396</u>	<u>\$ 81,951</u>	<u>\$ -</u>	<u>\$ 604,347</u>
 PLANT				
Beginning balance	\$ 6,610,696	\$ 1,301,531	\$ -	\$ 7,912,227
Prior period adjustments (Note 14)	<u>655,478</u>	<u>(850,094)</u>	<u>-</u>	<u>(194,616)</u>
Beginning net assets restated	7,266,174	451,437	-	7,717,611
 Change in net assets	 <u>(218,840)</u>	 <u>(205,025)</u>	 <u>-</u>	 <u>(423,865)</u>
Net assets, end of period	<u>\$ 7,047,334</u>	<u>\$ 246,412</u>	<u>\$ -</u>	<u>\$ 7,293,746</u>
 CAPITAL CAMPAIGN #2				
Beginning balance	\$ -	\$ -	\$ -	\$ -
Prior period adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	-	-	-	-
 Change in net assets	 <u>-</u>	 <u>733,178</u>	 <u>-</u>	 <u>733,178</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ 733,178</u>	<u>\$ -</u>	<u>\$ 733,178</u>
 ENDOWMENT				
Beginning balance	\$ -	\$ -	\$ 284,894	\$ 284,894
Prior period adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	<u>-</u>	<u>-</u>	<u>284,894</u>	<u>284,894</u>
 Change in net assets	 <u>-</u>	 <u>-</u>	 <u>475,152</u>	 <u>475,152</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 760,046</u>	<u>\$ 760,046</u>
 TOTAL				
Beginning balance	\$ 7,105,880	\$ 1,489,857	\$ 284,894	\$ 8,880,631
Prior period adjustments (Note 14)	<u>631,290</u>	<u>(876,344)</u>	<u>-</u>	<u>(245,054)</u>
Beginning net assets restated	7,737,170	613,513	284,894	8,635,577
 Change in net assets	 <u>(167,440)</u>	 <u>448,028</u>	 <u>475,152</u>	 <u>755,740</u>
Net assets, end of period	<u>\$ 7,569,730</u>	<u>\$ 1,061,541</u>	<u>\$ 760,046</u>	<u>\$ 9,391,317</u>

The accompanying notes are an integral part of this report.

MUSEUM OF SOUTH TEXAS HISTORY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2004

	<u>Operating</u>	<u>Plant</u>	<u>Capital Campaign #2</u>	<u>Endowment</u>	<u>Total</u>
Cash flows from operating activities:					
Change in net assets	\$ (28,725)	\$ (423,865)	\$ 733,178	\$ 475,152	\$ 755,740
Adjustments to reconcile change in net assets to net cash used by operating activities:					
Depreciation	-	171,855	-	-	171,855
(Increase) decrease in pledges and grants receivable	(74,334)	358,222	(198,072)	-	85,816
Decrease in prepaid expenses and other current assets	1,293	-	-	-	1,293
Decrease in inventories	8,682	-	-	-	8,682
Net increase (decrease) in due from other funds	3,337	(8,855)	5,518	-	-
Decrease in other assets	3,991	-	-	-	3,991
Increase in accounts payable	8,244	-	-	-	8,244
Increase in accrued expenses	12,631	-	11,723	-	24,354
Increase in other current liabilities	6,912	-	-	-	6,912
Increase in deferred revenue	125,500	-	-	-	125,500
Prior period adjustments	<u>(50,438)</u>	<u>(6,628)</u>	<u>-</u>	<u>-</u>	<u>(57,066)</u>
Net cash provided by (used in) operating activities	<u>17,093</u>	<u>90,729</u>	<u>552,347</u>	<u>475,152</u>	<u>1,135,321</u>
Cash flows from investing activities:					
Investment in certificates of deposit	(353,211)	(188,705)	-	(754,001)	(1,295,917)
Acquisition of fixed assets	<u>-</u>	<u>(204,550)</u>	<u>(568,181)</u>	<u>-</u>	<u>(772,731)</u>
Net cash used in investing activities	<u>(353,211)</u>	<u>(393,255)</u>	<u>(568,181)</u>	<u>(754,001)</u>	<u>(2,068,648)</u>
Cash flows from financing activities:					
Proceeds long-term note	-	-	500,000	-	500,000
Principal payment on note payable	<u>(7,301)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,301)</u>
Net cash provided by (used in) financing activities	<u>(7,301)</u>	<u>-</u>	<u>500,000</u>	<u>-</u>	<u>492,699</u>
Net increase (decrease) in cash and cash equivalents	(343,419)	(302,526)	484,166	(278,849)	(440,628)
Cash and cash equivalents at beginning of year	<u>589,818</u>	<u>614,514</u>	<u>-</u>	<u>284,894</u>	<u>1,489,226</u>
Cash and cash equivalents at end of year	<u>\$ 246,399</u>	<u>\$ 311,988</u>	<u>\$ 484,166</u>	<u>\$ 6,045</u>	<u>\$1,048,598</u>
Supplemental data					
Donated supplies, advertising, and fund-raising materials	\$ -	\$ -	\$ -	\$ -	\$ -
Interest paid	-	-	-	-	-
Income tax paid	-	-	-	-	-

The accompanying notes are an integral part of this report.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

Note 1 - Summary of Significant Accounting Policies

Organization

On February 20, 1967, the Hidalgo County Historical Museum (Museum) was chartered by the Secretary of the State of Texas, as a nonprofit, education organization. The Museum's purpose is to increase and diffuse knowledge and appreciation of history by maintaining, in the City of Edinburg, a museum and reference library used to collect and preserve objects of historic interest, protect historic sites from needless destruction, provide facilities for research and publication, and offer popular instruction and opportunities for aesthetic enjoyment. The charter evolved from the efforts of the Hidalgo County Historical Survey Committee. The Museum is now governed by an elected Board of Trustees (Board). The mission statement adopted by the Board is: To preserve and present the borderland heritage of South Texas and Northeastern Mexico. On June 18, 2002, the Board voted to change the name to the Museum of South History to better reflect the scope of work done at the Museum.

The Museum is located at 121 East McIntyre, Edinburg, Texas.

Recognition of Donor Restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction is satisfied in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources available, the Museum's accounts are maintained in accordance with the principles of fund accounting.

Accordingly, resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purpose. The assets, liabilities, and net assets of the Museum are reported in the following funds:

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Operating Fund

The general fund consists of unrestricted resources that are available for the support of the Museum's general operations. Alternatively, the Board may transfer unrestricted funds to any restricted fund with the approval of a majority of the Board members present at a properly convened meeting.

Plant Fund

Plant fund resources are restricted for land, buildings, and equipment acquisitions. The cost of these acquisitions and accumulated depreciation is recorded in this fund.

Capital Campaign II

Project Preservation is a campaign begun in 2004 for the purpose of acquiring property to be used as a parking lot and program space, stabilizing the old jail and developing a master plan for its preservation, and constructing a River Crossroads exhibit. Contributions to this campaign are temporarily restricted until the funds are spent for the designated purpose.

Endowment Fund

Endowment fund resources are subject to certain Museum policies and Board restrictions, which require that the principal be invested and that the income derived from such investments be utilized at the Board's discretion. The principal may be transferred to any other fund, subject to approval by 80 percent of the Board.

Cash and Cash Equivalents

For the purpose of preparing the statements of cash flows, the Museum considers all highly liquid investments purchased with a maturity of 90 days or less to be cash equivalents. As of December 31, 2004, the Museum had certificates of deposit and other demand accounts in financial institutions which exceeded the Federal Deposit Insurance Corporation Coverage by approximately \$1,256,951.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Donated Investments

Donated investments which consist of equity securities are recorded at fair market value at the date of donation. The investments are sold upon receipt.

Inventories

Inventories are stated at the lower of cost or market as determined by the first-in, first-out method.

Property and Equipment

Plant fund resources are restricted for the acquisition of land, buildings, and equipment. Any operating fund amounts used to acquire property and equipment are accounted for as transfers to the plant fund. All acquisitions are recorded at cost and are depreciated based on the following estimated useful lives:

Furniture and fixtures	5 - 10
Rental property improvements	30 - 40
Buildings and improvements	10 - 40

Depreciation is computed using the straight-line method and is charged against current operations.

Expenditures for major additions and improvements are capitalized. Routine maintenance, repairs, and replacement costs are charged against current operations. When equipment or other property is disposed of, the cost and related accumulated depreciation is removed from the respective accounts, and any gain or loss is reflected in the results of operations.

In June 1988, the Museum acquired the building and land adjacent to the original structure. H.E. Butt Grocery Company (H-E-B) originally owned this property. Since that time, the Museum has been raising funds and making significant capital expenditures for the purpose of expanding, improving, and modifying the facility. These capital expenditures are classified according to their nature and depreciated pursuant to the lives described above.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Permanent Collections

In conformity with the practice followed by many museums, historical objects purchased and donated are not included as assets on the financial statements. Exhibits constructed are recorded at the cost of the construction.

Contributed Services

A substantial number of unpaid volunteers and other supporters make significant contributions of their time and services to assist in the continued development of the Museum's mission, principally in the educational programs. The value of this contributed time and service is not reflected in the accompanying financial statements.

Income Tax Status

The Museum is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Museum's tax-exempt purpose is subject to taxation as unrelated business income.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions. These estimates affect the reported amounts of assets and liabilities. Also affected are the required disclosure of contingent assets and liabilities and revenues and expenses during the reporting period. Actual results could differ from these estimates.

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in Note 13. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

**MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004**

Note 1 - Summary of Significant Accounting Policies (Continued)

Other Matters

All gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets are reflected in the fund that owned the assets. Income earned from these investments is also recorded in the respective fund.

Note 2 - Pledges Receivable

The Museum conducts an annual campaign each year to raise funds needed for daily operations. In recent years, two capital campaigns have been conducted. The great majority of these pledges are due in 2005. Maturity for Project Preservation pledges are as follows:

2006		\$ 44,078
2007		40,382
2008		35,800
2009		<u>13,879</u>
		134,139
Current		<u>112,797</u>
		<u>\$ 246,936</u>

Note 3 - Inventories

The Museum's inventories at December 31, 2004 consisted of the following:

Books		\$ 56,555
Other store merchandise		<u>17,024</u>
Total		<u>\$ 73,579</u>

Shipping and handling costs are included with cost of items purchased.

**MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004**

Note 4 - Property and Equipment

Property and equipment in the Plant Fund at December 31, 2004 is comprised of the following:

Land	\$	318,574
Furniture and fixtures		210,633
Permanent exhibits		1,597,510
Rental property improvements		23,908
Buildings and improvements		<u>5,295,630</u>
		7,446,255
 Less: Accumulated depreciation		 <u>(893,840)</u>
 Total		 <u>\$ 6,552,415</u>

Depreciation for 2004 amounted to \$171,855. No interest was capitalized.

The fixed asset in the Capital Campaign #2 Fund is the land purchased in front of the Museum for parking and program space, related environmental studies and other costs associated with this acquisition. This property is pledged as collateral on the loan described in Note 5.

Note 5 - Note Payable

The Museum has a line of credit at First National Bank in Edinburg (FNB), which is secured by a real estate lien on the H-E-B building and land. The terms of the agreement provide for a principal credit amount of \$280,000. The Museum may use all or any part of the credit provided the amount borrowed does not exceed the credit limit. Interest on any unpaid principal balance will be calculated at the Wall Street Journal Prime rate. Principal is due on January 13, 2011. At December 31, 2004, the Museum had no outstanding indebtedness under this line of credit.

On March 18, 1998 the Museum obtained a credit line of \$75,000 from FNB to be used to develop and publish Borderlands: The Heritage of South TX Through the Art of Jose Cisneros. Total advances received were \$73,961. This unsecured non-interest bearing note matured on March 18, 2003. The renegotiated terms call for annual payments of \$7,301.

**MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004**

Note 5 - Note Payable (Continued)

In the initial stage of Project Preservation, a promissory note was executed in favor of FNB in the amount of \$500,000 to finance the purchase of Lots 1, 22, 23, & 24 Block 209 of the Original Townsite of Edinburg. This property will be converted to parking and program space. Interest only is due computed at the prime rate published in the Wall Street Journal (5.25% at December 31, 2004) on July 21, 2005, and 2006. On July 21, 2007 a balloon payment in the amount of \$500,000 is due to liquidate this note.

Principal payments due on these notes are as follows:

2006	\$ 7,301
2007	507,301
2008	<u>7,300</u>
	521,902
Current	<u>7,301</u>
	<u>\$ 529,203</u>

Interest costs were approximately \$11,723.

Note 6 - Employee Benefit Plan

The Museum sponsors a Simplified Employee Pension Plan (Plan) offered to all employees. An employee becomes eligible to participate in the Plan in the quarter beginning after the employee's sixth month of employment. The Museum makes contributions to the Plan at the discretion of the Board. For 2004, the Board elected to contribute five percent of employees' base salary to the Plan. Contributions were approximately \$20,319. The Plan is self-directed by the individual employee. The trustee is A.G. Edwards and Sons, Inc., or another agent if the employee so designates.

**MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004**

Note 7 - Temporary Restrictions

The temporary restrictions are as follows:

<u>Operating</u>	
Will Looney Memorial	\$ 50,100
Inland Education Grant	27,625
Texas Commission for Humanities	4,226
	\$ 81,951
<u>Plant</u>	
Legacy Park	\$ 188,705
Archives	53,052
Sound for exhibits	3,050
Memorial bricks	1,110
Collections	495
	\$ 246,412

Pledges for Project Preservation are reflected as temporarily restricted in Capital Campaign #2 Fund since limited work has been completed on the designated project.

Note 8 - Grants from Government Agencies

Grants from government agencies constitute a concentration of funding. Balances due from government agencies at December 31, 2004 are summarized below.

	<u>Operating</u>	<u>Plant</u>	<u>Total</u>
Hidalgo County	\$ 15,416	\$ 152,083	\$ 167,499
City of Edinburg	82,500	-	82,500
City of McAllen	30,000	-	30,000
City of Mission	-	40,000	40,000
	\$ 127,916	\$ 192,083	\$ 319,999

**MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2004**

Note 8 - Grants from Government Agencies (Continued)

Sources of operating funds provided by these grants are as follows:

	<u>Revenue</u>
City of Edinburg	\$ 202,501
Hidalgo County	185,003
City of McAllen	36,250
City of Weslaco	3,500
	<u>\$ 427,254</u>

Note 9 - Related Party Transactions

Certain members of the Board are officers at local financial institutions. Deposits at these institutions are approximately \$220,102 at December 31, 2004.

Note 10 - Special Events

The Museum has two annual special events. The Heritage Gala is held at the conclusion of the Annual Campaign to recognize donors to the Museum's Operating Fund at a level of \$1,000 or more. Funds raised by the Annual Campaign were approximately \$309,350. This revenue is reflected as membership dues in the Statement of Activities.

The purpose of the Fandango is to raise funds to be used in operations. The revenue generated from these events and the corresponding expenses are as follows:

	<u>Heritage Gala</u>	<u>Fandango</u>	<u>Total</u>
Revenue	\$ 37,220	\$ 102,977	\$ 140,197
Direct expenses	(51,634)	(30,433)	(82,067)
	<u>\$ (14,414)</u>	<u>\$ 72,544</u>	<u>\$ 58,130</u>

Additionally, a substantial amount of the fund raising expenses allocated in the statement of functional expenses relate to these two events. Total fund raising costs are approximately \$150,214.

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Note 11 - Auxiliary Activities

Additional revenue is earned by providing services and the sale of merchandise and publications related to the Museum's mission either to specified groups or to general visitors to the Museum. Proceeds from these activities from the year were as follows:

Student fees	\$ 7,500
Teaching Traditional American History project with La Joya ISD	30,000
General merchandise sales	36,805
Retail book sales	41,030
Wholesale book sales	<u>5,094</u>
	<u>\$ 120,429</u>

Note 12 - Rents Received

A tenant in the Museum's main building, prior to the renovation completed in 2003, continued to rent office space until their new office building was ready for occupancy. Also, the seller of the property described in Note 4 rented said property until their retail business could operate from their new facility. Each of the leases have terminated.

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Note 13 - Operating Fund Functional Expenses

Expenses of the operating fund are assigned by function for the year ending December 31, 2004 as follows:

	<u>Program</u>	<u>Management General</u>	<u>Fund Raising</u>	<u>Auxiliary</u>	<u>Total</u>
Salaries \$	256,726 \$	140,032 \$	46,678 \$	23,339 \$	466,775
Employee health and retirement benefits	33,862	18,883	5,744	3,078	61,567
Payroll taxes	<u>19,833</u>	<u>10,818</u>	<u>3,606</u>	<u>1,803</u>	<u>36,060</u>
Total salaries and related expenses	310,421	169,733	56,028	28,220	564,402
Advertising/public relations	43,234	-	408	-	43,642
Archives and exhibits	10,790	-	-	-	10,790
Bad debts	-	-	3,566	-	3,566
Cost of goods sold	-	-	-	61,673	61,673
Contract labor	24,903	-	-	12,452	37,355
Dues & subscriptions	2,876	-	-	-	2,876
Education programs	9,208	-	-	-	9,208
Insurance	6,395	41,631	688	378	49,092
Miscellaneous	280	828	3,147	2,095	6,350
Professional fees	-	23,935	-	-	23,935
Supplies	13,737	755	84	28	14,604
Telephone	4,473	46	34	11	4,564
Printing/publications	4,359	-	1,090	-	5,449
Property tax	844	-	-	-	844
Postage & shipping	1,674	1,435	1,674	-	4,783
Rental of equipment	132	177	132	-	441
Repair & maintenance	40,850	417	313	104	41,684
Travel	-	1,774	-	-	1,774
Conference & meetings	635	-	-	-	635
Utilities	<u>128,450</u>	<u>1,311</u>	<u>983</u>	<u>328</u>	<u>131,072</u>
Total expenses	<u>\$ 603,261</u>	<u>\$ 242,042</u>	<u>\$ 68,147</u>	<u>\$ 105,289</u>	<u>\$1,018,739</u>

Advertising costs are expensed as incurred. Advertising cost for 2004 amounted to approximately \$39,559.

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Note 14 - Prior Period Adjustments

Various adjustments were required in the plant and operating funds to correct the balances for December 31, 2003. These entries are summarized below.

<u>Operating Fund</u>	
Receivables	\$ (17,186)
Deferred revenue	(26,250)
Accrued expenses	(3,011)
Collections capitalized in error	(3,991)
	<u>\$ (50,438)</u>
<u>Plant Fund</u>	
Fixed assets and accumulated depreciation	\$ (187,988)
Deferred revenue	(7,142)
Due from other funds	514
	<u>\$ (194,616)</u>

Note 15 - Commitments

Leases

The Museum leases the land on which its original building is located under a noncancellable operating lease with Hidalgo County. The lease agreement has a term of 99 years, beginning on June 12, 1968. The lease requires an annual payment of \$1.00 and the fulfillment of certain covenants, such as payment for improvements and maintenance, as consideration.

Note 16 - Subsequent Events

In the subsequent period, grants were awarded by SBC for \$25,000 for the purchase of eight computers, a server and enhancement of the website and \$20,000 by the Summerlee Foundation. Additionally, a challenge grant for \$175,000 was approved by the Mabee Foundation for Project Preservation.

The school contracts with McAllen, Edinburg and La Joya were renewed to cover the 2005-06 school year. The \$500,000 note described in Note 5 was liquidated.

A policy was adopted requiring a three month reserve of operating expenses to be established. The sufficiency of this reserve is to be evaluated with the approval of the annual budget.