

**Museum of South Texas History**

**Financial Statements  
and  
Auditor's Report**

**December 31, 2005**

## **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, 2005 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, 2005, 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.

August 30, 2006

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## **Financial Statements**

**MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2005**

**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)	\$ 366,355	\$ 226,836	\$ 90,184	\$ 126,435	\$ -	\$ 809,810
Short-term investments (Note 1)	405,970	248,607	-	848,205	-	1,502,782
Receivables from government agencies (Note 8)	146,622	-	-	-	-	146,622
Pledges receivable (Note 2)	11,264	10,250	69,563	-	-	91,077
Inventory (Notes 1 & 3)	91,755	-	-	-	-	91,755
Other current assets	5,848	-	-	1,126	-	6,974
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>200</u>	<u>(200)</u>	<u>-</u>
Total Current Assets	<u>1,027,814</u>	<u>485,693</u>	<u>159,747</u>	<u>975,966</u>	<u>(200)</u>	<u>2,649,020</u>
Long-term investments	-	-	-	105,000	-	105,000
Long-term receivables (Note 2)	-	-	90,561	-	-	90,561
Fixed assets (net of accumulated depreciation) (Notes 1, 4, 5, & 15)	<u>-</u>	<u>6,302,632</u>	<u>571,058</u>	<u>-</u>	<u>-</u>	<u>6,873,690</u>
TOTAL ASSETS	<u>\$1,027,814</u>	<u>\$6,788,325</u>	<u>\$ 821,366</u>	<u>\$1,080,966</u>	<u>\$ (200)</u>	<u>\$ 9,718,271</u>

The accompanying notes are an integral part of this report.

**MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2005**

**LIABILITIES AND NET ASSETS**

	<u>Operating</u>	<u>Plant</u>	<u>Capital Campaign #2</u>	<u>Endowment</u>	<u>Eliminations</u>	<u>Total</u>
<b>Current liabilities</b>						
Accounts payable	\$ 13,924	\$ -	\$ -	\$ -	\$ -	\$ 13,924
Payroll liabilities	237	-	-	-	-	237
Accrued expenses	31,491	-	-	-	-	31,491
Due to other funds	-	200	-	-	(200)	-
Deferred revenue	198,326	7,144	-	-	-	205,470
Current portion of long-term note (Note 5)	<u>7,301</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,301</u>
<b>Total Current Liabilities</b>	<u>251,279</u>	<u>7,344</u>	<u>-</u>	<u>-</u>	<u>(200)</u>	<u>258,423</u>
<b>Long-term liabilities</b>						
Long-term note (Note 5)	<u>14,601</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,601</u>
<b>TOTAL LIABILITIES</b>	<u>265,880</u>	<u>7,344</u>	<u>-</u>	<u>-</u>	<u>(200)</u>	<u>273,024</u>
<b>Net assets</b>						
Unrestricted (Note 1)	461,934	6,482,304	-	-	-	6,944,238
Temporarily restricted (Notes 1 & 7)	300,000	298,677	821,366	-	-	1,420,043
Permanently restricted (Note 1)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,080,966</u>	<u>-</u>	<u>1,080,966</u>
<b>TOTAL NET ASSETS</b>	<u>761,934</u>	<u>6,780,981</u>	<u>821,366</u>	<u>1,080,966</u>	<u>-</u>	<u>9,445,247</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$1,027,814</u>	<u>\$6,788,325</u>	<u>\$ 821,366</u>	<u>\$1,080,966</u>	<u>\$ (200)</u>	<u>\$ 9,718,271</u>

**MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2005**

	<u>Operating</u>	<u>Plant</u>	<u>Capital Campaign #2</u>	<u>Endowment</u>	<u>Total</u>
<b>CHANGES IN NET ASSETS</b>					
<b>Public Support and Revenue</b>					
Donations (Note 1)	\$ 102,777	\$ 24,869	\$ 123,459	\$ -	\$ 251,105
Grants from government agencies (Note 8)	462,155	-	-	-	462,155
Fund-raising events (Note 10)	<u>43,173</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,173</u>
	608,105	24,869	123,459	-	756,433
<b>Revenue</b>					
Membership dues (Note 10)	365,878	-	-	-	365,878
Investment income	12,985	8,185	5,832	20,220	47,222
Admission charges	89,476	-	-	-	89,476
Auxiliary activities (Note 11)	107,794	-	-	-	107,794
Rental property (Note 12)	25,825	-	-	-	25,825
Miscellaneous	<u>8,729</u>	<u>-</u>	<u>-</u>	<u>200</u>	<u>8,929</u>
Total revenue	<u>1,218,792</u>	<u>33,054</u>	<u>129,291</u>	<u>20,420</u>	<u>1,401,557</u>
<b>Assets released from restriction (Note 7)</b>					
	<u>50,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,100</u>
Total increases in net assets	<u>1,268,892</u>	<u>33,054</u>	<u>129,291</u>	<u>20,420</u>	<u>1,451,657</u>
<b>Expenses</b>					
<b>Program services (Note 14)</b>					
Archives, exhibits and collections (Note 1)	14,277	80,775	-	-	95,052
Education programs	15,798	-	-	-	15,798
General program services	598,239	151,698	-	-	749,937
Capital outlay	<u>-</u>	<u>-</u>	<u>598</u>	<u>-</u>	<u>598</u>
Total program services	<u>628,314</u>	<u>232,473</u>	<u>598</u>	<u>-</u>	<u>861,385</u>
<b>Supporting services (Note 14)</b>					
Management and general	236,728	2,700	11,458	-	250,886
Fund-raising	71,263	841	30,725	-	102,829
Auxiliary service	<u>87,359</u>	<u>260</u>	<u>-</u>	<u>-</u>	<u>87,619</u>
Total supporting services	<u>395,350</u>	<u>3,801</u>	<u>42,183</u>	<u>-</u>	<u>441,334</u>
Total decreases in net assets	1,023,664	236,274	42,781	-	1,302,719
Transfers out	(57,389)	(300,000)	-	-	(357,389)
Transfers in	<u>-</u>	<u>55,211</u>	<u>1,678</u>	<u>300,500</u>	<u>357,389</u>
Change in net assets	<u>\$ 187,839</u>	<u>\$ (448,009)</u>	<u>\$ 88,188</u>	<u>\$ 320,920</u>	<u>\$ 148,938</u>

The accompanying notes are an integral part of this report.

**MUSEUM OF SOUTH TEXAS HISTORY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**For the Year Ended December 31, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING</b>				
Beginning balance	\$ 522,396	\$ 81,951	\$ -	\$ 604,347
Prior period adjustment (Note 15)	<u>19,848</u>	<u>-</u>	<u>-</u>	<u>19,848</u>
Beginning net assets restated	542,244	81,951	-	624,195
Assets restricted (Note 7)	(300,000)	300,000	-	-
Assets released from restriction (Note 7)	31,851	(81,951)	-	(50,100)
Change in net assets	<u>187,839</u>	<u>-</u>	<u>-</u>	<u>187,839</u>
Net assets, end of period	<u>\$ 461,934</u>	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ 761,934</u>
<b>PLANT</b>				
Beginning balance	\$ 7,047,334	\$ 246,412	\$ -	\$ 7,293,746
Prior period adjustment (Note 15)	<u>(64,756)</u>	<u>-</u>	<u>-</u>	<u>(64,756)</u>
Beginning net assets restated	6,982,578	246,412	-	7,228,990
Assets restricted (Note 7)	(50,100)	50,100	-	-
Change in net assets	<u>(450,174)</u>	<u>2,165</u>	<u>-</u>	<u>(448,009)</u>
Net assets, end of period	<u>\$ 6,482,304</u>	<u>\$ 298,677</u>	<u>\$ -</u>	<u>\$ 6,780,981</u>
<b>CAPITAL CAMPAIGN #2</b>				
Beginning balance	\$ -	\$ 733,178	\$ -	\$ 733,178
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	-	733,178	-	733,178
Change in net assets	<u>-</u>	<u>88,188</u>	<u>-</u>	<u>88,188</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ 821,366</u>	<u>\$ -</u>	<u>\$ 821,366</u>
<b>ENDOWMENT</b>				
Beginning balance	\$ -	\$ -	\$ 760,046	\$ 760,046
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	-	-	760,046	760,046
Change in net assets	<u>-</u>	<u>-</u>	<u>320,920</u>	<u>320,920</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,080,966</u>	<u>\$ 1,080,966</u>
<b>TOTAL</b>				
Beginning balance	\$ 7,569,730	\$ 1,061,541	\$ 760,046	\$ 9,391,317
Prior period adjustments (Note 15)	<u>(44,908)</u>	<u>-</u>	<u>-</u>	<u>(44,908)</u>
Beginning net assets restated	7,524,822	1,061,541	760,046	9,346,409
Assets restricted (Note 7)	(350,100)	350,100	-	-
Assets released from restriction (Note 7)	31,851	(81,951)	-	(50,100)
Change in net assets	<u>(262,335)</u>	<u>90,353</u>	<u>320,920</u>	<u>148,938</u>
Net assets, end of period	<u>\$ 6,944,238</u>	<u>\$ 1,420,043</u>	<u>\$ 1,080,966</u>	<u>\$ 9,445,247</u>

The accompanying notes are an integral part of this report.

**MUSEUM OF SOUTH TEXAS HISTORY**  
**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2005**

	<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	\$ 187,839	\$ (448,009)	\$ 88,188	\$ 320,920	\$ 148,938
Adjustments to reconcile change in net assets to net cash used by operating activities:					
Depreciation	-	235,586	-	-	235,586
(Increase) decrease in pledges and grants receivable	(20,806)	221,533	37,948	-	238,675
Increase in prepaid expenses and other current assets	(788)	-	-	(1,126)	(1,914)
Increase in inventories	(18,176)	-	-	-	(18,176)
Net increase (decrease) in due from other funds	(3,337)	9,055	(5,518)	(200)	-
Increase in accounts payable	3,356	-	-	-	3,356
Decrease in accrued expenses	(3,971)	-	(11,723)	-	(15,694)
Decrease in payroll liabilities	(6,675)	-	-	-	(6,675)
Increase in deferred revenue	72,826	7,144	-	-	79,970
Prior period adjustment	19,848	-	-	-	19,848
Assets released from restriction	<u>(50,100)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,100)</u>
Net cash provided by operating activities	<u>180,016</u>	<u>25,309</u>	<u>108,895</u>	<u>319,594</u>	<u>633,814</u>
Cash flows from investing activities:					
Maturity of certificates of deposit	50,100	-	-	231,165	281,265
Investment in certificates of deposit	(102,859)	(59,902)	-	(430,369)	(593,130)
Acquisition of fixed assets	<u>-</u>	<u>(50,559)</u>	<u>(2,877)</u>	<u>-</u>	<u>(53,436)</u>
Net cash used in investing activities	<u>(52,759)</u>	<u>(110,461)</u>	<u>(2,877)</u>	<u>(199,204)</u>	<u>(365,301)</u>
Cash flows from financing activities:					
Principal payment on note payable	<u>(7,301)</u>	<u>-</u>	<u>(500,000)</u>	<u>-</u>	<u>(507,301)</u>
Net cash used in financing activities	<u>(7,301)</u>	<u>-</u>	<u>(500,000)</u>	<u>-</u>	<u>(507,301)</u>
Net increase (decrease) in cash and cash equivalents	119,956	(85,152)	(393,982)	120,390	(238,788)
Cash and cash equivalents at beginning of year	<u>246,399</u>	<u>311,988</u>	<u>484,166</u>	<u>6,045</u>	<u>1,048,598</u>
Cash and cash equivalents at end of year	<u>\$ 366,355</u>	<u>\$ 226,836</u>	<u>\$ 90,184</u>	<u>\$ 126,435</u>	<u>\$ 809,810</u>
Supplemental data					
Donated supplies, advertising, and fund-raising materials (Note 13)	\$ 86,683	\$ 225	\$ -	\$ -	\$ 86,908
Interest paid	-	-	23,181	-	23,181
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, 2005**

**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 received. 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, 2005**

**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 the principal to be invested and 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, 2005, the Museum had certificates of deposit and other demand accounts in financial institutions which exceeded the Federal Deposit Insurance Corporation Coverage by approximately \$1,338,489.

**MUSEUM OF SOUTH TEXAS HISTORY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2005**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

*Investments*

Investments consist entirely of certificates of deposit purchased from local financial institutions.

*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. Purchase acquisitions are recorded at cost. Assets received by donation are recorded at fair value on date of receipt. Assets are depreciated based on the following estimated useful lives:

Furniture and fixtures	5 - 10
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 from Noble Walker and Associates of Austin. H.E. Butt Grocery (H-E-B) had owned and operated a grocery store in this property previously. Since that time, the Museum has been raising funds and making significant capital expenditures for the purpose of expanding, improving, and modifying the facility and surrounding property. In 2002, a new two story wing was added on the site of the parking lot. Renovations of the H-E-B building and installation of new exhibits were completed in 2003, and the Archive renovation was completed in 2004. 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, 2005**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

*Permanent Collections*

The Museum maintains permanent collections pertaining to northeastern Mexico and south Texas. These holdings are both two and three-dimensional artifacts ranging from prehistoric materials to items of contemporary culture. Collection strengths include numerous artifacts pertaining to farming and ranching with the largest photographic archive in the region. The Museum maintains, separate from the permanent collection, a collection of items used for hands-on-activities or other educational purposes.

In conformity with the practice followed by many museums, historical objects purchased and donated are not included as assets in the financial statements. Exhibits constructed are recorded at the cost of construction. Staff and trained volunteers use professionally recognized practices and archival quality materials to care for the collections. The museum provides storage and display environments that safeguard the artifacts from deleterious conditions.

*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. Significant estimates are made for depreciating fixed assets and valuing pledges receivable.

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2005**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

*Functional Allocation of Expenses*

The costs of providing various programs and supporting services have been summarized on a functional basis in Note 14. 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.

*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. Maturity for Project Preservation pledges are as follows:

2007	\$ 41,382
2008	32,300
2009	<u>16,879</u>
	90,561
Current	<u>69,563</u>
	<u>\$ 160,124</u>

Pledges not collected as specified are reviewed by management. If upon contacting the donor, payment is not forthcoming, management will instruct the balance to be charged off.

**MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2005**

**Note 3 - Inventories**

The Museum's inventories at December 31, 2005 consisted of the following:

Books	\$	71,562
Other store merchandise		<u>20,193</u>
Total	\$	<u>91,755</u>

Approximately \$54,560 of the book inventory is the cost of the remaining copies of *Borderlands: The Heritage of South Texas Through the Art of José Cisneros*.

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

**Note 4 - Property and Equipment**

Property and equipment in the Plant Fund at December 31, 2005 is comprised of the following:

Land	\$	318,574
Furniture, fixtures, and equipment		230,597
Permanent exhibits		1,625,170
Buildings and improvements		<u>5,322,473</u>
		7,496,814
Less: Accumulated depreciation		<u>(1,194,182)</u>
Total	\$	<u>6,302,632</u>

Depreciation for 2005 amounted to \$235,586. No interest was capitalized.

The fixed asset in the Capital Campaign #2 Fund is the land purchased on the Closner side of the Museum (formerly the Risica & Sons glass company property) for parking and program space, related environmental studies and other costs associated with this acquisition.

**MUSEUM OF SOUTH TEXAS HISTORY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2005**

**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, 2005, 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 Texas Through the Art of José 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.

Principal payments due on this note are as follows:

2007	\$ 7,301
2008	<u>7,300</u>
	14,601
Current	<u>7,301</u>
	<u>\$ 21,902</u>

Interest expense of approximately \$11,458 and accrued interest of approximately \$11,723 were paid relating to a note obtained to purchase Lots 1, 22, 23, & 24 Block 209 of the Original Townsite of Edinburg (the Risica property). This note was paid in full during 2005.

**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 2005, the Board elected to contribute five percent of employees' base salary to the Plan. Contributions were approximately \$23,311. 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, 2005**

**Note 7 - Temporary Restrictions**

Certain temporary restricted operating funds have been released. The restriction specified by the Texas Commission for Humanities has been met. Accordingly, the \$4,226 was released. Inland Education Grant funds in the amount of \$27,625 were transferred to the plant fund and used to install lighting for the exhibits as specified. Will Looney Memorial funds were transferred to the plant fund to be used in the Legacy Park.

The Board approved an Emergency Reserve fund during the September 20, 2005, meeting. Accordingly, \$300,000 is reflected in restricted net assets as the required amount to cover three months of anticipated expenses.

Temporary restrictions in the plant fund are as follows:

<u>Plant</u>	
Legacy Park	\$ 238,805
Archives	53,952
Sound for exhibits	3,050
Memorial bricks	2,375
Collections	495
	<u>\$ 298,677</u>

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 in the operating fund at December 31, 2005 from government agencies are summarized below.

	<u>Operating</u>
City of Edinburg	\$ 100,622
City of McAllen	30,000
La Joya I.S.D.	<u>16,000</u>
	<u>\$ 146,622</u>

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**Note 8 - Grants from Government Agencies (Continued)**

Sources of operating funds provided by grants from government agencies are as follows:

	<u>Revenue</u>
City of Edinburg	\$ 197,655
Hidalgo County	222,500
City of McAllen	40,000
City of Mission	2,000
	<u>\$ 462,155</u>

**Note 9 - Related Party Transactions**

Certain members of the Board are officers at local financial institutions. Deposits at these institutions were approximately \$1,204,790 at December 31, 2005. Also substantial donations were received from related parties. Pledges outstanding from related parties at December 31, 2005 amounted to \$21,500.

**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 \$365,878. 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	\$ 41,852	\$ 152,826	\$ 194,678
Direct expenses	(51,010)	(100,495)	(151,505)
	<u>\$ (9,158)</u>	<u>\$ 52,331</u>	<u>\$ 43,173</u>

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**Note 10 - Special Events (Continued)**

The revenue and expenses reflected above for the Heritage Gala must be linked to the \$365,878 raised in the annual campaign to reflect the true impact of this effort. 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 \$222,768.

**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 for the year were as follows:

Student/School fees	\$	30,523
General merchandise sales		74,090
Wholesale book sales		<u>3,181</u>
		<u>\$ 107,794</u>

**Note 12 - Rents Received**

Rents are collected from individuals and various organizations holding special events in the facility. Also, the seller of the property described in Note 4 rented said property until their retail business could operate from their new facility. This lease has terminated.

**Note 13 - In-Kind Donations**

As described in Note 1, volunteers contributed substantial services to the Museum in various capacities. Donations that had values assigned and met the requirements of Financial Accounting Standard Board Statement 116 Accounting for Not-for-Profit Organizations are as follows:

	<u>Operating</u> <u>Fund</u>	<u>Project</u> <u>Preservation</u>
Professional services	\$ 12,462	\$ 225
Prepaid office equipment	1,000	-
Advertising	5,000	-
Items for Fandango sale	<u>68,221</u>	<u>-</u>
	<u>\$ 86,683</u>	<u>\$ 225</u>

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**Note 14 - Operating Fund Functional Expenses**

Expenses of the operating fund are assigned by function for the year ending December 31, 2005 as follows:

	<u>Program</u>	<u>Management General</u>	<u>Fund Raising</u>	<u>Auxiliary</u>	<u>Total</u>
Salaries \$	261,671 \$	138,446 \$	48,482 \$	21,187 \$	469,786
Employee health and retirement benefits	35,616	20,185	6,282	3,365	65,448
Payroll taxes	<u>20,376</u>	<u>10,781</u>	<u>3,775</u>	<u>1,650</u>	<u>36,582</u>
Total salaries and related expenses	317,663	169,412	58,539	26,202	571,816
Advertising/public relations	28,153	-	297	-	28,450
Archives and exhibits	14,277	-	-	-	14,277
Bad debts	-	-	3,750	-	3,750
Cost of goods sold	-	-	-	43,548	43,548
Contract labor	24,499	-	-	12,249	36,748
Dues & subscriptions	3,350	-	-	-	3,350
Education programs	15,798	-	-	-	15,798
Insurance	48,835	2,134	622	343	51,934
Miscellaneous	1,275	6,369	4,469	1,874	13,987
Professional fees	-	52,931	-	-	52,931
Supplies	9,062	121	35	2,775	11,993
Printing/publications	3,105	-	776	-	3,881
Postage & shipping	1,598	1,369	1,597	-	4,564
Rental of equipment	129	171	129	-	429
Repair & maintenance	43,001	574	167	74	43,816
Travel	-	2,472	-	-	2,472
Conferences & meetings	2,379	-	-	-	2,379
Utilities	<u>115,190</u>	<u>1,175</u>	<u>882</u>	<u>294</u>	<u>117,541</u>
Total expenses	<u>\$ 628,314</u>	<u>\$ 236,728</u>	<u>\$ 71,263</u>	<u>\$ 87,359</u>	<u>\$1,023,664</u>

Advertising costs are expensed as incurred. Advertising cost for 2005 amounted to approximately \$25,480.

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**Note 15 - Prior Period Adjustments**

In the process of taking the physical inventory it was discovered that some cases of *Borderlands: The Heritage of South Texas Through the Art of José Cisneros* described in Note 3, had not been included in the previous inventory count. Accordingly, a prior period adjustment was made to reflect the correct beginning inventory. This adjustment was approximately \$19,848.

Major renovations were completed near the end of 2003. When depreciation was computed on these renovations in 2004, a computational error was made causing only a partial year of depreciation to be taken in 2004 as was the case for 2003. The required adjustment was to increase accumulated depreciation at December 31, 2004 by approximately \$64,756.

**Note 16 - Commitments & Concentrations**

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.

Some artifacts and pieces of furniture are loaned to the Museum. Since these assets are not owned, their values are not reflected in the financial statements.

**Note 17 - Subsequent Events**

In the subsequent period, grants were received from the Brown Foundation for \$100,000, the Meadows Foundation for \$150,000, the Loring Cook Foundation for \$25,000 and the Kenedy Foundation for \$20,000. These grants along with a pledge from James L. Barrett for \$50,000 and various other donations completed the challenge by the Mabee Foundation. This \$175,000 grant is to help fund Project Preservation described in Note 1.

With funding from the Will Looney Memorial, Lots 18, 19, and the West 15 feet of Lot 17, Block 209 of the Original Townsite of Edinburg (Rios property) were purchased. Contracts have been executed for the demolition of the structures and paving from this site and the Risica property described in Note 4. Asbestos removal has been completed from the Risica site; there was no asbestos at the Rios site. An award has been made for the design of graphic panels for the Twentieth Century Exhibit.

Also in the subsequent period, a director of operations/human resources has been employed.