

**Museum of South Texas History**

**Financial Statements  
and  
Auditor's Report**

**December 31, 2006**

## **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, 2006 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, 2006, 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.

June 15, 2007

This page was intentionally left blank.

## **Financial Statements**

**MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2006**

**ASSETS**

	<u>Operating</u>	<u>Plant</u>	<u>Project Preservation</u>	<u>Legacy Park</u>	<u>Endowment</u>	<u>Eliminations</u>	<u>Total</u>
<b>Current Assets</b>							
Cash (Note 1)	\$ 285,785	\$ 131,541	\$ 84,159	\$ 110,704	\$ 15,123	\$ -	\$ 627,312
Short-term investments (Notes 1 & 9)	356,957	14,481	568,316	-	1,336,867	-	2,276,621
Receivables from government agencies (Note 8)	230,000	-	-	-	-	-	230,000
Pledges receivable (Note 2)	24,155	1,100	83,754	-	-	-	109,009
Inventory (Notes 1 & 3)	89,039	-	-	-	-	-	89,039
Other current assets	22,066	-	-	-	3,654	-	25,720
Due from other funds	<u>399</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(399)</u>	<u>-</u>
<b>Total Current Assets</b>	<u>1,008,401</u>	<u>147,122</u>	<u>736,229</u>	<u>110,704</u>	<u>1,355,644</u>	<u>(399)</u>	<u>3,357,701</u>
Long-term receivables (Note 2)	-	-	157,180	-	-	-	157,180
Fixed assets (net of accumulated depreciation) (Notes 1, 4, 5, & 16)	<u>-</u>	<u>6,085,294</u>	<u>709,426</u>	<u>274,984</u>	<u>-</u>	<u>-</u>	<u>7,069,704</u>
<b>TOTAL ASSETS</b>	<u>\$1,008,401</u>	<u>\$6,232,416</u>	<u>\$1,602,835</u>	<u>\$ 385,688</u>	<u>\$1,355,644</u>	<u>\$ (399)</u>	<u>\$10,584,585</u>

The accompanying notes are an integral part of this report.

**MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2006**

**LIABILITIES AND NET ASSETS**

	<u>Operating</u>	<u>Plant</u>	<u>Project Preservation</u>	<u>Legacy Park</u>	<u>Endowment</u>	<u>Eliminations</u>	<u>Total</u>
<b>Current liabilities</b>							
Accounts payable	\$ 3,770	\$ -	\$ -	\$ 6,006	\$ -	\$ -	\$ 9,776
Accrued expenses	31,073	-	-	-	-	-	31,073
Other liabilities	-	-	1,629	2,360	-	-	3,989
Due to other funds	-	-	-	399	-	(399)	-
Deferred revenue (Note 7)	<u>227,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>227,556</u>
Total Current Liabilities	<u>262,399</u>	<u>-</u>	<u>1,629</u>	<u>8,765</u>	<u>-</u>	<u>(399)</u>	<u>272,394</u>
<b>Long-term liabilities</b>							
Long-term note (Note 5)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>262,399</u>	<u>-</u>	<u>1,629</u>	<u>8,765</u>	<u>-</u>	<u>(399)</u>	<u>272,394</u>
<b>Net assets</b>							
Unrestricted (Note 1)	278,146	6,171,784	-	-	-	-	6,449,930
Temporarily restricted (Notes 1 & 7)	467,856	60,632	1,601,206	376,923	-	-	2,506,617
Permanently restricted (Notes 1, 7, & 17)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,355,644</u>	<u>-</u>	<u>1,355,644</u>
TOTAL NET ASSETS	<u>746,002</u>	<u>6,232,416</u>	<u>1,601,206</u>	<u>376,923</u>	<u>1,355,644</u>	<u>-</u>	<u>10,312,191</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,008,401</u>	<u>\$6,232,416</u>	<u>\$1,602,835</u>	<u>\$ 385,688</u>	<u>\$1,355,644</u>	<u>\$ (399)</u>	<u>\$10,584,585</u>

This page was intentionally left blank.  
**MUSEUM OF SOUTH TEXAS HISTORY**

**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2006**

	<u>Operating</u>	<u>Plant</u>	<u>Project Preservation</u>	<u>Legacy Park</u>	<u>Endowment</u>	<u>Total</u>
<b>CHANGES IN NET ASSETS</b>						
<b>Public Support and Revenue</b>						
Donations (Note 1)	\$ 135,122	\$ 19,394	\$ 783,315	\$ 84,100	\$ -	\$1,021,931
Grants from government agencies (Note 8)	502,000	-	-	-	-	502,000
Fund-raising events (Note 10)	<u>23,401</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,401</u>
	660,523	19,394	783,315	84,100	-	1,547,332
<b>Revenue</b>						
Membership dues (Note 10)	379,885	-	-	-	-	379,885
Investment income	25,248	3,343	10,592	11,216	46,396	96,795
Admission charges	34,025	-	-	-	-	34,025
Auxiliary activities (Note 11)	158,332	-	-	-	-	158,332
Rental property (Note 12)	27,863	-	-	-	-	27,863
Miscellaneous	<u>1,774</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,243</u>	<u>3,017</u>
Total revenue	<u>1,287,650</u>	<u>22,737</u>	<u>793,907</u>	<u>95,316</u>	<u>47,639</u>	<u>2,247,249</u>
Total increases in net assets	<u>1,287,650</u>	<u>22,737</u>	<u>793,907</u>	<u>95,316</u>	<u>47,639</u>	<u>2,247,249</u>
<b>Expenses</b>						
<b>Program services (Note 14)</b>						
Archives, exhibits and collections (Note 1)	37,955	81,432	2,990	-	-	122,377
Education programs	16,862	-	-	-	-	16,862
General program services	<u>668,187</u>	<u>158,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>826,377</u>
Total program services	<u>723,004</u>	<u>239,622</u>	<u>2,990</u>	<u>-</u>	<u>-</u>	<u>965,616</u>
<b>Supporting services (Note 14)</b>						
Management and general	263,903	2,785	-	-	-	266,688
Fund-raising	77,264	1,812	11,077	-	-	90,153
Auxiliary service	<u>82,574</u>	<u>274</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,848</u>
Total supporting services	<u>423,741</u>	<u>4,871</u>	<u>11,077</u>	<u>-</u>	<u>-</u>	<u>439,689</u>
Total decreases in net assets	1,146,745	244,493	14,067	-	-	1,405,305
Transfers out	(181,837)	(375,769)	-	-	-	(557,606)
Transfers in	<u>-</u>	<u>48,960</u>	<u>-</u>	<u>281,607</u>	<u>227,039</u>	<u>557,606</u>
Change in net assets	<u>\$ (40,932)</u>	<u>\$ (548,565)</u>	<u>\$ 779,840</u>	<u>\$ 376,923</u>	<u>\$ 274,678</u>	<u>\$ 841,944</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, 2006**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING</b>				
Beginning balance	\$ 461,934	\$ 300,000	\$ -	\$ 761,934
Prior period adjustment (Note 15)	25,000	-	-	25,000
Assets restricted (Note 15)	<u>(158,123)</u>	<u>158,123</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	328,811	458,123	-	786,934
Assets restricted (Note 7)	(9,733)	9,733	-	-
Change in net assets	<u>(40,932)</u>	<u>-</u>	<u>-</u>	<u>(40,932)</u>
Net assets, end of period	<u>\$ 278,146</u>	<u>\$ 467,856</u>	<u>\$ -</u>	<u>\$ 746,002</u>
<b>PLANT</b>				
Beginning balance	\$ 6,482,304	\$ 298,677	\$ -	\$ 6,780,981
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	6,482,304	298,677	-	6,780,981
Change in net assets	<u>(310,520)</u>	<u>(238,045)</u>	<u>-</u>	<u>(548,565)</u>
Net assets, end of period	<u>\$ 6,171,784</u>	<u>\$ 60,632</u>	<u>\$ -</u>	<u>\$ 6,232,416</u>
<b>PROJECT PRESERVATION</b>				
Beginning balance	\$ -	\$ 821,366	\$ -	\$ 821,366
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	-	821,366	-	821,366
Change in net assets	<u>-</u>	<u>779,840</u>	<u>-</u>	<u>779,840</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ 1,601,206</u>	<u>\$ -</u>	<u>\$ 1,601,206</u>
<b>LEGACY PARK</b>				
Beginning balance	\$ -	\$ -	\$ -	\$ -
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	-	-	-	-
Change in net assets	<u>-</u>	<u>376,923</u>	<u>-</u>	<u>376,923</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ 376,923</u>	<u>\$ -</u>	<u>\$ 376,923</u>

**MUSEUM OF SOUTH TEXAS HISTORY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**(Continued)**  
**For the Year Ended December 31, 2006**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>ENDOWMENT</b>				
Beginning balance	\$ -	\$ -	\$ 1,080,966	\$ 1,080,966
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	-	-	1,080,966	1,080,966
Change in net assets	<u>-</u>	<u>-</u>	<u>274,678</u>	<u>274,678</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,355,644</u>	<u>\$ 1,355,644</u>
<b>TOTAL</b>				
Beginning balance	\$ 6,944,238	\$ 1,420,043	\$ 1,080,966	\$ 9,445,247
Prior period adjustment (Note 15)	25,000	-	-	25,000
Assets restricted (Note 15)	<u>(158,123)</u>	<u>158,123</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	6,811,115	1,578,166	1,080,966	9,470,247
Assets restricted (Note 7)	(9,733)	9,733	-	-
Change in net assets	<u>(351,452)</u>	<u>918,718</u>	<u>274,678</u>	<u>841,944</u>
Net assets, end of period	<u>\$ 6,449,930</u>	<u>\$ 2,506,617</u>	<u>\$ 1,355,644</u>	<u>\$10,312,191</u>

The accompanying notes are an integral part of this report.

**MUSEUM OF SOUTH TEXAS HISTORY**  
**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2006**

	<u>Operating</u>	<u>Plant</u>	<u>Project Preservation</u>	<u>Legacy Park</u>	<u>Endowment</u>	<u>Total</u>
Cash flows from operating activities:						
Change in net assets	\$ (40,932)	\$ (548,565)	\$ 779,840	\$ 376,923	\$ 274,678	\$ 841,944
Adjustments to reconcile change in net assets to net cash used by operating activities:						
Depreciation	-	241,217	-	-	-	241,217
(Increase) decrease in pledges and grants receivable	(96,269)	9,150	(80,810)	-	-	(167,929)
Increase in prepaid expenses and other current assets	-	-	-	-	(2,528)	(2,528)
Decrease in inventories	2,716	-	-	-	-	2,716
Net (increase) decrease in due from other funds	(399)	(200)	-	399	200	-
Increase (decrease) in accounts payable	(10,154)	-	-	6,006	-	(4,148)
Decrease in accrued expenses	(418)	-	-	-	-	(418)
Increase (decrease) in other liabilities	(16,218)	-	1,629	2,360	-	(12,229)
Decrease in payroll liabilities	(237)	-	-	-	-	(237)
Increase (decrease) in deferred revenue	29,230	(7,144)	-	-	-	22,086
Prior period adjustment	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
Net cash provided by operating activities	<u>(107,681)</u>	<u>(305,542)</u>	<u>700,659</u>	<u>385,688</u>	<u>272,350</u>	<u>945,474</u>
Cash flows from investing activities:						
Maturity of certificates of deposit	100,000	248,607	52,208	-	362,418	763,233
Investment in certificates of deposit	(50,987)	(14,481)	(620,524)	-	(746,080)	(1,432,072)
Acquisition of fixed assets	<u>-</u>	<u>(23,879)</u>	<u>(138,368)</u>	<u>(274,984)</u>	<u>-</u>	<u>(437,231)</u>
Net cash used in investing activities	<u>49,013</u>	<u>210,247</u>	<u>(706,684)</u>	<u>(274,984)</u>	<u>(383,662)</u>	<u>(1,106,070)</u>
Cash flows from financing activities:						
Principal payment on note payable	<u>(21,902)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,902)</u>
Net cash used in financing activities	<u>(21,902)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,902)</u>
Net increase (decrease) in cash and cash equivalents	(80,570)	(95,295)	(6,025)	110,704	(111,312)	(182,498)
Cash and cash equivalents at beginning of year	<u>366,355</u>	<u>226,836</u>	<u>90,184</u>	<u>-</u>	<u>126,435</u>	<u>809,810</u>
Cash and cash equivalents at end of year	<u>\$ 285,785</u>	<u>\$ 131,541</u>	<u>\$ 84,159</u>	<u>\$ 110,704</u>	<u>\$ 15,123</u>	<u>\$ 627,312</u>
Supplemental data						
In-kind donations (Note 13)	\$ 114,537	\$ 10,000	\$ -	\$ -	\$ -	\$ 124,537
Interest paid	-	-	-	-	-	-
Income tax paid	-	-	-	-	-	-
Assets transferred to plant fund	48,960	-	-	-	-	48,960

The accompanying notes are an integral part of this report.

**MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006**

**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, 2006**

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

Operating Fund

The operating fund consists of 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.

Project Preservation

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. This fund was previously called Capital Campaign II.

Legacy Park

Memorials in honor of Will Looney were designated for property acquisition and construction of a park on the corner of Closner and McIntyre.

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.

**MUSEUM OF SOUTH TEXAS HISTORY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

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

*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, 2006, the Museum had certificates of deposit and other demand accounts in financial institutions which exceeded the Federal Deposit Insurance Corporation Coverage by approximately \$2,646,590.

*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 or amortized based on the following estimated useful lives:

Website	3
Furniture and fixtures	5 - 10
Buildings and improvements	10 - 40

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

**MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006**

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

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 2006, implementation of Project Preservation and the property acquisition and preparation of Legacy Park were begun. Project Preservation includes stabilizing the historic Hidalgo County Jail, construction and installation of the River Crossroads exhibit, and acquiring property for parking, program space and increased visibility.

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. The Archive renovation was completed in 2004. These capital expenditures are classified according to their nature and depreciated pursuant to the lives described above.

Another major fund-raising campaign, Project Preservation, was begun in 2004 to develop a master plan for jail stabilization, preservation, and to replace its roof. This campaign also provided funds to acquire adjacent property and convert it to museum use and to construct new exhibits.

***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 a large photographic archive. 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

**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

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

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.

Sources of Revenue

The primary source of revenue for the Museum is donations. These donations are received from individuals, charitable organizations and governmental agencies. Individual donations are also classified as membership dues. Levels of membership are determined by the amount donated.

Lesser amounts of revenue are received from admission charges, investment income and auxiliary activities.

*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. Professional services are recorded as described in Note 13.

*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, valuing pledges receivable and in-kind donations.

**MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006**

**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:

2008	\$	66,153
2009		46,977
2010		18,300
2011		5,750
2012		5,000
Subsequent		<u>15,000</u>
		157,180
Current		<u>83,754</u>
	\$	<u><u>240,934</u></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.

An outstanding pledge of \$45,000 was received contingent on the life of the donor. This pledge is to be received in annual payments of \$5,000.

**MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006**

**Note 3 - Inventories**

The Museum's inventories at December 31, 2006 consisted of the following:

Books	\$ 70,911
Other store merchandise	<u>18,128</u>
Total	<u>\$ 89,039</u>

Approximately \$53,717 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, 2006 is comprised of the following:

Land	\$ 318,573
Furniture, fixtures, and equipment	254,476
Permanent exhibits	1,625,171
Buildings and improvements	<u>5,322,473</u>
	7,520,693
Less: Accumulated depreciation	<u>(1,435,399)</u>
Total	<u>\$ 6,085,294</u>

Depreciation and amortization for 2006 amounted to \$241,217. No interest was capitalized.

The fixed assets in the Project Preservation Fund are the land on the Closner side of the Museum (formerly the Risica & Sons Glass Company property) and the construction described in Note 1.

**MUSEUM OF SOUTH TEXAS HISTORY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

**Note 4 - Property and Equipment (Continued)**

Land	\$ 568,181
Construction in progress	<u>141,245</u>
	<u>\$ 709,426</u>

The sole asset in the Legacy Park Fund is land which has been cleared of structures and fuel tanks. The land is ready for construction of the Park.

**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, 2006, 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 was paid in full on October 4, 2006.

**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 2006, the Board elected to contribute five percent of employees' base salary to the Plan. Contributions were approximately \$22,799. 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, 2006**

**Note 7 - Deferred Revenue and Restrictions on Net Assets**

Revenue not earned at December 31 and thus reflected as deferred consists of:

City of Edinburg	\$ 150,000
City of McAllen	30,000
Prepayments for 2007 operations	42,769
Chase Educational Grant	4,000
Sam's Education Grant	<u>787</u>
	<u>\$ 227,556</u>

The revenue received from hotel/motel taxes in 2006 exceeded permissible expenditures by \$9,733. This amount increased the net assets temporarily restricted by state statute to \$167,856. Hence temporary restrictions at December 31 are as follows:

<u>Operating</u>	
Emergency reserve	\$ 300,000
Hotel/Motel	<u>167,856</u>
	<u>\$ 467,856</u>
<u>Plant</u>	
Archives	\$ 53,962
Memorial bricks	3,125
Sound for exhibits	3,050
Collections	<u>495</u>
	<u>\$ 60,632</u>

Pledges for Project Preservation and Legacy Park are reflected as temporarily restricted since limited work has been completed on these projects.

The endowment fund was established with a restricted donation from Margaret and Argyle McAllen in the amount of \$10,000. A bequest from Mary Ellen McFadden of \$105,000 was established as a named endowment by the Board. The Campaign Discovery specified that \$1,000,000 would be added to the endowment fund. Earnings on these amounts, together with operating funds set aside by the Board, make up the corpus of the \$1,255,000 endowment. As described in Note 17, approximately \$54,238 was transferred into the endowment fund in error.

**MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2006**

**Note 8 - Grants from Government Agencies**

Grants from government agencies constitute a concentration of funding. Balances due in the operating fund at December 31, 2006 from government agencies are summarized below.

	<u>Receivables</u>
City of Edinburg	\$ 200,000
City of McAllen	30,000
	<u>\$ 230,000</u>

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

	<u>Revenue</u>
City of Edinburg	\$ 200,000
Hidalgo County	260,000
City of McAllen	40,000
City of Mission	2,000
	<u>\$ 502,000</u>

**Note 9 - Related Party Transactions**

Certain members of the Board are officers at local financial institutions. Deposits at these institutions were approximately \$2,198,907 at December 31, 2006. Also substantial donations were received from related parties. Pledges outstanding from related parties at December 31, 2006 amounted to approximately \$91,318.

**Note 10 - Special Events**

The Museum has two annual special events. The Heritage Gala is held at the conclusion of the Heritage Associate portion 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 \$379,885. This revenue is reflected as membership dues in the Statement of Activities.

**MUSEUM OF SOUTH TEXAS HISTORY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

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

The purpose of the Fandango is to raise funds to be used in operations. Included in the direct expenses for the Fandango are items donated for the auction. These items were valued at approximately \$69,934 and are included in the in-kind donations described in Note 13. The revenue generated from these events and the corresponding expenses are as follows:

	<u>Heritage Gala</u>	<u>Fandango</u>	<u>Total</u>
Revenue	\$ 41,615	\$ 142,986	\$ 184,601
Direct expenses	<u>(64,205)</u>	<u>(96,995)</u>	<u>(161,200)</u>
	<u>\$ (22,590)</u>	<u>\$ 45,991</u>	<u>\$ 23,401</u>

The revenue and expenses reflected above for the Heritage Gala must be linked to the \$379,885 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 \$251,353.

**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	\$ 80,202
General merchandise sales	50,361
Wholesale book sales	<u>27,769</u>
	<u>\$ 158,332</u>

**Note 12 - Rents Received**

Rents are collected from individuals and various organizations holding special events in the facility.

**MUSEUM OF SOUTH TEXAS HISTORY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

**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:

	Operating <u>Fund</u>	<u>Plant</u>
Website upgrade	\$ -	\$ 10,000
Professional services	27,592	-
Rental of ranch for Gala	2,500	-
Advertising	14,160	-
Items for Fandango sale	69,934	-
Office supplies	<u>351</u>	<u>-</u>
	<u>\$114,537</u>	<u>\$ 10,000</u>

A pledge has been received for approximately \$16,000 of materials to be used in the construction of the parking lot described in Note 1.

**MUSEUM OF SOUTH TEXAS HISTORY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

**Note 14 - Operating Fund Functional Expenses**

Expenses of the operating fund are assigned by function for the year ending December 31, 2006 as follows:

	<u>Program</u>	<u>Management General</u>	<u>Fund Raising</u>	<u>Auxiliary</u>	<u>Total</u>
Salaries \$	272,771 \$	154,353 \$	52,581 \$	22,948 \$	502,653
Employee health and retirement benefits	33,968	21,404	4,339	1,976	61,687
Payroll taxes	<u>21,021</u>	<u>11,895</u>	<u>4,053</u>	<u>1,768</u>	<u>38,737</u>
Total salaries and related expenses	327,760	187,652	60,973	26,692	603,077
Advertising/public relations	68,536	-	2,605	-	71,141
Archives and exhibits	37,955	-	-	-	37,955
Bad debts	-	-	5,150	-	5,150
Bank charges	578	90	3,655	698	5,021
Cost of goods sold	-	-	-	40,540	40,540
Contract labor	25,775	-	-	12,887	38,662
Dues & subscriptions	3,213	-	-	-	3,213
Education programs	16,862	-	-	-	16,862
Insurance	46,588	4,783	448	215	52,034
Miscellaneous	2,195	5,973	43	316	8,527
Professional fees	-	43,169	-	-	43,169
Supplies	-	12,682	-	329	13,011
Printing/publications	3,984	-	210	-	4,194
Postage & shipping	1,735	1,518	1,084	-	4,337
Rental of equipment	130	174	1,145	-	1,449
Repair & maintenance	48,679	4,564	1,448	672	55,363
Travel	1,563	1,563	-	-	3,126
Conferences & meetings	7,488	-	-	-	7,488
Utilities	<u>129,963</u>	<u>1,735</u>	<u>503</u>	<u>225</u>	<u>132,426</u>
Total expenses	<u>\$ 723,004</u>	<u>\$ 263,903</u>	<u>\$ 77,264</u>	<u>\$ 82,574</u>	<u>\$1,146,745</u>

Advertising costs are expensed as used. Advertising cost for 2006 amounted to approximately \$68,197.

**MUSEUM OF SOUTH TEXAS HISTORY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

**Note 15 - Prior Period Adjustments**

The City of Edinburg contributes funds from its general revenue and hotel/motel taxes. The general revenue funds can be spent at the discretion of the Museum, but the use of the hotel/motel taxes is restricted by state statute. The restriction of approximately \$158,123 was not properly reflected in the 2005 financial statements. Also, the \$25,000 earned portion of the operating revenues was not reflected.

**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.

On December 29, 2006, a contract with D. Wilson Construction was executed for construction of the River Crossroads Exhibit Gallery. This \$506,280 contract requires the project to be substantially complete in 150 days. Work completed and payments made in 2006 were approximately \$32,572 and \$30,943 respectively.

**Note 17 - Subsequent Events**

A contract in the amount of \$103,075 was executed for multimedia in the Crossroads Exhibit Gallery. The Texas Department of Parks and Wildlife's budget for 2008 includes \$750,000 for use in construction of Legacy Park. These funds must be spent in compliance with Chapter 24 of the Texas Parks and Wildlife Code.

In December 2006, approximately \$54,238 was transferred to the endowment fund in error. This amount was returned to the operating fund on March 5, 2007.