

Museum of South Texas History

**Financial Statements
and
Auditor's Report**

December 31, 2007

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, 2007 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, 2007, 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.

October 3, 2008

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Financial Statements

**MUSEUM OF SOUTH TEXAS HISTORY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007**

ASSETS

	<u>Operating</u>	<u>Plant</u>	<u>Project Preservation</u>	<u>Legacy Park</u>	<u>Endowment</u>	<u>Eliminations</u>	<u>Total</u>
Current Assets							
Cash (Note 1)	\$ 293,213	\$ 137,434	\$ 10,448	\$ 233,609	\$ 23,801	\$ -	\$ 698,505
Short-term investments (Notes 1 & 9)	397,605	15,179	-	-	1,393,771	-	1,806,555
Receivables from government agencies (Note 8)	210,416	-	-	-	-	-	210,416
Pledges receivable (Notes 2 & 9)	13,978	1,100	75,870	31,668	-	-	122,616
Inventory (Notes 1 & 3)	91,320	-	-	-	-	-	91,320
Other current assets	40,719	-	-	-	13,067	-	53,786
Due from other funds	<u>17,188</u>	<u>-</u>	<u>-</u>	<u>3,709</u>	<u>59,979</u>	<u>(80,876)</u>	<u>-</u>
 Total Current Assets	 <u>1,064,439</u>	 <u>153,713</u>	 <u>86,318</u>	 <u>268,986</u>	 <u>1,490,618</u>	 <u>(80,876)</u>	 <u>2,983,198</u>
Long-term receivables (Note 2)	-	-	82,337	-	-	-	82,337
Fixed assets (net of accumulated depreciation) (Notes 1, 4, 5, & 16)	<u>-</u>	<u>7,491,341</u>	<u>111,340</u>	<u>360,823</u>	<u>-</u>	<u>-</u>	<u>7,963,504</u>
 TOTAL ASSETS	 <u>\$1,064,439</u>	 <u>\$7,645,054</u>	 <u>\$ 279,995</u>	 <u>\$ 629,809</u>	 <u>\$1,490,618</u>	 <u>\$ (80,876)</u>	 <u>\$11,029,039</u>

The accompanying notes are an integral part of this report.

**MUSEUM OF SOUTH TEXAS HISTORY
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007**

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>
Current liabilities							
Accounts payable	\$ 2,000	\$ -	\$ 50,877	\$ -	\$ -	\$ -	\$ 52,877
Accrued expenses	32,561	-	-	-	-	-	32,561
Other liabilities	-	-	11,182	-	-	-	11,182
Due to other funds	-	-	65,573	-	15,303	(80,876)	-
Deferred revenue (Note 7)	<u>271,691</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>271,691</u>
Total Current Liabilities	<u>306,252</u>	<u>-</u>	<u>127,632</u>	<u>-</u>	<u>15,303</u>	<u>(80,876)</u>	<u>368,311</u>
Long-term liabilities							
Long-term note (Notes 5 & 17)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>306,252</u>	<u>-</u>	<u>127,632</u>	<u>-</u>	<u>15,303</u>	<u>(80,876)</u>	<u>368,311</u>
Net assets							
Unrestricted (Note 1)	369,666	7,581,292	-	-	-	-	7,950,958
Temporarily restricted (Notes 1 & 7)	388,521	63,762	152,363	629,809	220,315	-	1,454,770
Permanently restricted (Notes 1 & 7)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,255,000</u>	<u>-</u>	<u>1,255,000</u>
Total Net Assets	<u>758,187</u>	<u>7,645,054</u>	<u>152,363</u>	<u>629,809</u>	<u>1,475,315</u>	<u>-</u>	<u>10,660,728</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,064,439</u>	<u>\$7,645,054</u>	<u>\$ 279,995</u>	<u>\$ 629,809</u>	<u>\$1,490,618</u>	<u>\$ (80,876)</u>	<u>\$11,029,039</u>

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MUSEUM OF SOUTH TEXAS HISTORY
STATEMENT OF ACTIVITIES
Year Ended December 31, 2007

	<u>Operating</u>	<u>Plant</u>	<u>Project Preservation</u>	<u>Legacy Park</u>	<u>Endowment</u>	<u>Total</u>
CHANGES IN NET ASSETS						
Public Support and Revenue						
Donations (Notes 1 & 13)	\$ 96,141	\$ 3,437	\$ 86,408	\$ 236,820	\$ 72,276	\$ 495,082
Grants from government agencies (Note 8)	600,000	-	-	-	-	600,000
Fund-raising events (Note 10)	<u>(4,120)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,120)</u>
	<u>692,021</u>	<u>3,437</u>	<u>86,408</u>	<u>236,820</u>	<u>72,276</u>	<u>1,090,962</u>
Revenue						
Annual donations (Note 10)	413,746	-	-	-	-	413,746
Investment income	46,111	3,155	34,289	4,095	56,735	144,385
Admission charges	46,724	-	-	-	-	46,724
Auxiliary activities (Note 11)	162,407	-	-	-	-	162,407
Rental property (Note 12)	11,446	-	-	-	-	11,446
Miscellaneous	<u>7,832</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>696</u>	<u>8,529</u>
Total revenue	<u>688,266</u>	<u>3,155</u>	<u>34,290</u>	<u>4,095</u>	<u>57,431</u>	<u>787,237</u>
Total increases in net assets	<u>1,380,287</u>	<u>6,592</u>	<u>120,698</u>	<u>240,915</u>	<u>129,707</u>	<u>1,878,199</u>
Expenses						
Program services (Note 14)						
Archives, exhibits and collections (Note 1)	15,713	89,599	7,257	-	-	112,569
Education programs	31,594	1,247	-	-	-	32,841
General program services	<u>812,125</u>	<u>153,884</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>966,009</u>
Total program services	<u>859,432</u>	<u>244,730</u>	<u>7,257</u>	<u>-</u>	<u>-</u>	<u>1,111,419</u>
Supporting services (Note 14)						
Management and general	258,971	3,564	7,538	529	-	270,602
Fund-raising	99,526	1,077	1,150	-	-	101,753
Auxiliary service	<u>104,149</u>	<u>1,170</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,319</u>
Total supporting services	<u>462,646</u>	<u>5,811</u>	<u>8,688</u>	<u>529</u>	<u>-</u>	<u>477,674</u>
Total decreases in net assets	<u>1,322,078</u>	<u>250,541</u>	<u>15,945</u>	<u>529</u>	<u>-</u>	<u>1,589,093</u>
Change in net assets from operations	58,209	(243,949)	104,753	240,386	129,707	289,106
Transfers out	(102,991)	-	(1,553,596)	-	(68,542)	(1,725,129)
Transfers in	<u>68,542</u>	<u>1,656,587</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,725,129</u>
Change in net assets	<u>\$ 23,760</u>	<u>\$1,412,638</u>	<u>\$(1,448,843)</u>	<u>\$ 240,386</u>	<u>\$ 61,165</u>	<u>\$ 289,106</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, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING				
Beginning balance	\$ 278,146	\$ 467,856	\$ -	\$ 746,002
Prior period adjustment (Note 15)	<u>(11,575)</u>	<u>-</u>	<u>-</u>	<u>(11,575)</u>
Beginning net assets restated	266,571	467,856	-	734,427
Assets restricted (Note 7)	79,335	(79,335)	-	-
Change in net assets	<u>23,760</u>	<u>-</u>	<u>-</u>	<u>23,760</u>
Net assets, end of period	<u>\$ 369,666</u>	<u>\$ 388,521</u>	<u>\$ -</u>	<u>\$ 758,187</u>
PLANT				
Beginning balance	\$ 6,171,784	\$ 60,632	\$ -	\$ 6,232,416
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	6,171,784	60,632	-	6,232,416
Assets restricted (Note 7)	(3,130)	3,130	-	-
Change in net assets	<u>1,412,638</u>	<u>-</u>	<u>-</u>	<u>1,412,638</u>
Net assets, end of period	<u>\$ 7,581,292</u>	<u>\$ 63,762</u>	<u>\$ -</u>	<u>\$ 7,645,054</u>
PROJECT PRESERVATION				
Beginning balance	\$ -	\$ 1,601,206	\$ -	\$ 1,601,206
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Beginning net assets restated	-	1,601,206	-	1,601,206
Change in net assets	<u>-</u>	<u>(1,448,843)</u>	<u>-</u>	<u>(1,448,843)</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ 152,363</u>	<u>\$ -</u>	<u>\$ 152,363</u>
LEGACY PARK				
Beginning balance	\$ -	\$ 376,923	\$ -	\$ 376,923
Prior period adjustment (Note 15)	<u>-</u>	<u>12,500</u>	<u>-</u>	<u>12,500</u>
Beginning net assets restated	-	389,423	-	389,423
Change in net assets	<u>-</u>	<u>240,386</u>	<u>-</u>	<u>240,386</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ 629,809</u>	<u>\$ -</u>	<u>\$ 629,809</u>

MUSEUM OF SOUTH TEXAS HISTORY
STATEMENT OF CHANGES IN NET ASSETS
(Continued)
For the Year Ended December 31, 2007

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
ENDOWMENT				
Beginning balance	\$ -	\$ -	\$ 1,355,644	\$ 1,355,644
Prior period adjustment (Note 15)	<u>-</u>	<u>58,506</u>	<u>-</u>	<u>58,506</u>
Beginning net assets restated	-	58,506	1,355,644	1,414,150
Assets released (Note 7)	-	100,644	(100,644)	-
Change in net assets	<u>-</u>	<u>61,165</u>	<u>-</u>	<u>61,165</u>
Net assets, end of period	<u>\$ -</u>	<u>\$ 220,315</u>	<u>\$ 1,255,000</u>	<u>\$ 1,475,315</u>
TOTAL				
Beginning balance	\$ 6,449,930	\$ 2,506,617	\$ 1,355,644	\$10,312,191
Prior period adjustment (Note 15)	<u>(11,575)</u>	<u>71,006</u>	<u>-</u>	<u>59,431</u>
Beginning net assets restated	6,438,355	2,577,623	1,355,644	10,371,622
Assets restricted (released) (Note 7)	76,205	24,439	(100,644)	-
Change in net assets	<u>1,436,398</u>	<u>(1,147,292)</u>	<u>-</u>	<u>289,106</u>
Net assets, end of period	<u>\$ 7,950,958</u>	<u>\$ 1,454,770</u>	<u>\$ 1,255,000</u>	<u>\$10,660,728</u>

The accompanying notes are an integral part of this report.

MUSEUM OF SOUTH TEXAS HISTORY
STATEMENT OF CASH FLOWS
Year Ended December 31, 2007

	<u>Operating</u>	<u>Plant</u>	<u>Project Preservation</u>	<u>Legacy Park</u>	<u>Endowment</u>	<u>Eliminations</u>	<u>Total</u>
Cash flows from operating activities:							
Change in net assets	\$ 23,760	\$ 1,412,638	\$ (1,448,843)	\$ 240,386	\$ 61,165	\$ -	\$ 289,106
Adjustments to reconcile change in net assets to net cash used by operating activities:							
Depreciation	-	250,541	-	-	-	-	250,541
(Increase) decrease in pledges and grants receivable	29,761	-	82,727	(31,668)	-	-	80,820
Increase in prepaid expenses and other current assets	(18,653)	-	-	-	(9,413)	-	(28,066)
Increase in inventories	(2,281)	-	-	-	-	-	(2,281)
Net (increase) decrease in due from other funds	(16,789)	-	65,573	(3,709)	(59,979)	(14,904)	-
Increase (decrease) in accounts payable	(1,770)	-	50,877	(6,006)	-	-	43,101
Increase (decrease) in accrued expenses	1,488	-	-	(2,360)	-	-	(872)
Increase in other liabilities	-	-	9,553	-	-	-	9,553
Increase (decrease) in due to other funds	-	-	-	(399)	15,303	14,904	-
Increase in deferred revenue	44,135	-	-	-	-	-	44,135
Prior period adjustment	(11,575)	-	-	12,500	58,506	-	59,431
Net cash provided by operating activities	<u>48,076</u>	<u>1,663,179</u>	<u>(1,240,113)</u>	<u>208,744</u>	<u>65,582</u>	<u>-</u>	<u>745,468</u>
Cash flows from investing activities:							
Maturity of certificates of deposit	356,957	14,481	568,316	-	1,336,867	-	2,276,621
Investment in certificates of deposit	(397,605)	(15,179)	-	-	(1,393,771)	-	(1,806,555)
Acquisition of fixed assets	(102,991)	(1,656,588)	(955,510)	(85,839)	-	-	(2,800,928)
Fixed asset transfers	<u>102,991</u>	<u>-</u>	<u>1,553,596</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,656,587</u>
Net cash used in investing activities	<u>(40,648)</u>	<u>(1,657,286)</u>	<u>1,166,402</u>	<u>(85,839)</u>	<u>(56,904)</u>	<u>-</u>	<u>(674,275)</u>
Net increase (decrease) in cash and cash equivalents	7,428	5,893	(73,711)	122,905	8,678	-	71,193
Cash and cash equivalents at beginning of year	<u>285,785</u>	<u>131,541</u>	<u>84,159</u>	<u>110,704</u>	<u>15,123</u>	<u>-</u>	<u>627,312</u>
Cash and cash equivalents at end of year	<u>\$ 293,213</u>	<u>\$ 137,434</u>	<u>\$ 10,448</u>	<u>\$ 233,609</u>	<u>\$ 23,801</u>	<u>\$ -</u>	<u>\$ 698,505</u>
Supplemental data							
In-kind donations (Note 13)	\$ 73,559	\$ -	\$ 28,158	\$ 5,770	\$ -	\$ -	\$ 107,487
Interest paid	-	-	-	-	-	-	-
Income tax paid (Note 1)	-	-	-	-	-	-	-
Assets transferred to plant fund	102,991	-	1,553,596	-	-	-	1,656,587

The accompanying notes are an integral part of this report.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

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 200 North Closner Boulevard, 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:

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.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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, 2007, the Museum had certificates of deposit and other demand accounts in financial institutions which exceeded the Federal Deposit Insurance Corporation Coverage by approximately \$1,433,439.

Investments

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

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

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 are 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. 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, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Another major fund-raising campaign, Project Preservation, was begun in 2004. The purpose was to provide funds to pay for the debt-financed purchase of the adjacent property owned by Risica & Sons and its conversion to additional parking and program space, a master plan for stabilization of the historic 1910 Hidalgo County Jail, a new jail roof, and completion of the River Crossroads portion of the Rio Grande Legacy exhibit. All but the jail roof and fencing portion of the project was completed by November of 2007.

Memorials and contributions given to the Museum following the death of Will Looney in 2003 were used to begin the Will Looney Legacy Park. Adjacent property owned by Olivia (Mrs. Raul) Rios was acquired for conversion to green space to feature a bronze sculpture, windmill, and "education stations" to be incorporated into the Museum's programs.

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 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. Annual donations are made by individuals. Benefits are determined by the amount donated.

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

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

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 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.

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.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

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:

2009		\$ 44,050
2010		13,287
2011		5,000
2012		5,000
2013		5,000
Subsequent		<u>10,000</u>
		82,337
Current		<u>75,870</u>
		<u>\$ 158,207</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 \$40,000 was received contingent on the life of the donor. This pledge is to be received in annual payments of \$5,000.

Note 3 - Inventories

The Museum's inventories at December 31, 2007 consisted of the following:

Books		\$ 68,653
Other store merchandise		<u>22,667</u>
Total		<u>\$ 91,320</u>

Approximately \$54,353 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.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

Note 4 - Property and Equipment

Property and equipment in the Plant Fund at December 31, 2007 is comprised of the following:

Land and improvements	\$ 1,209,906
Furniture, fixtures, and equipment	261,512
Permanent exhibits	2,383,390
Buildings and improvements	<u>5,322,473</u>
	9,177,281
Less: Accumulated depreciation	<u>(1,685,940)</u>
Total	<u>\$ 7,491,341</u>

Depreciation and amortization for 2007 amounted to \$250,541. Capitalized interest was approximately \$21,913.

The fixed assets in the Project Preservation Fund are the landscaping and construction in progress on the old jail.

The assets in the Legacy Park Fund are land which has been cleared of structures and fuel tanks and construction in progress 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, 2007, the Museum had no outstanding indebtedness under this line of credit.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

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 2007, the Board elected to contribute five percent of employees' base salary to the Plan. Contributions were approximately \$27,291. The Plan is self-directed by the individual employee. The trustee is Wachovia Securities, or another agent if the employee so designates.

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 2008 operations	40,236
Raul Tijerina Grant	25,000
Sam's Education Grant	1,771
Edinburg C.I.S.D.	9,800
La Joya I.S.D.	7,450
McAllen I.S.D.	7,434
	<u>\$ 271,691</u>

Accumulated net assets restricted by state statute were reduced by \$79,336 because allowable expenditures exceeded 2007 hotel occupancy revenue thus reducing those assets to \$88,521. Hence temporary restrictions at December 31 are as follows:

<u>Operating</u>	
Emergency reserve	\$ 300,000
Hotel/Motel	88,521
	<u>\$ 388,521</u>
<u>Plant</u>	
Archives	\$ 54,987
Memorial bricks	5,230
Sound for exhibits	3,050
Collections	495
	<u>\$ 63,762</u>

Pledges for Project Preservation and Legacy Park are reflected as temporarily restricted since work has not been completed on these projects.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

Note 7 - Deferred Revenue and Restrictions on Net Assets (Continued)

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. 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.

Note 8 - Grants from Government Agencies

Grants from government agencies constitute a concentration of funding. Balances due in the operating fund at December 31, 2007 from government agencies are summarized below.

	<u>Receivables</u>
City of Edinburg	\$ 175,000
City of McAllen	30,000
Region One Education Service Center	320
University of Texas Pan American	96
La Joya I.S.D.	5,000
	<u>\$ 210,416</u>

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

	<u>Revenue</u>
City of Edinburg	\$ 200,000
Hidalgo County	360,000
City of McAllen	40,000
	<u>\$ 600,000</u>

Note 9 - Related Party Transactions

Certain members of the Board are officers at local financial institutions. Deposits at these institutions were approximately \$1,450,850 at December 31, 2007. These balances exceeded Federal Deposit Insurance by \$950,850. Also substantial donations were received from related parties. Pledges outstanding from related parties at December 31, 2007 amounted to approximately \$126,572.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

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 are reflected as annual donations in the Statement of Activities.

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 \$59,917 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	\$ 30,690	\$ 107,268	\$ 137,958
Direct expenses	<u>(52,300)</u>	<u>(89,778)</u>	<u>(142,078)</u>
	<u>\$ (21,610)</u>	<u>\$ 17,490</u>	<u>\$ (4,120)</u>

The revenue and expenses reflected above for the Heritage Gala must be linked to the \$413,746 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 \$241,604.

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	\$ 65,920
General merchandise sales	61,319
Wholesale book sales	<u>35,168</u>
	<u>\$ 162,407</u>

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

Note 12 - Rents Received

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

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 Fund</u>	<u>Project Preservation</u>	<u>Legacy Park</u>
Maintenance	\$ 3,600	\$ -	\$ -
Landscaping	-	5,207	-
Professional services	4,802	7,518	5,770
Rental of ranch for Gala	2,500	-	-
Advertising	1,000	-	-
Furniture and fixtures	-	2,090	-
Items for Fandango sale	59,917	-	-
Office supplies	1,000	-	-
Construction materials	-	12,843	-
Other	<u>740</u>	<u>500</u>	<u>-</u>
	<u>\$ 73,559</u>	<u>\$ 28,158</u>	<u>\$ 5,770</u>

A pledge has been received for approximately \$20,000 of additional landscaping and architect fees for Legacy Park.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

Note 14 - Operating Fund Functional Expenses

Expenses of the operating fund are assigned by function for the year ending December 31, 2007 as follows:

	<u>Program</u>	Management <u>General</u>	Fund <u>Raising</u>	<u>Auxiliary</u>	<u>Total</u>
Salaries	\$ 348,614	\$ 159,989	\$ 60,158	\$ 22,182	\$ 590,943
Employee health and retirement benefits	43,952	20,294	7,622	3,111	74,979
Payroll taxes	<u>28,127</u>	<u>12,871</u>	<u>4,767</u>	<u>1,907</u>	<u>47,672</u>
Total salaries and related expenses	420,693	193,154	72,547	27,200	713,594
Advertising	59,278	-	-	-	59,278
Public relations	487	-	2,326	-	2,813
Archives and exhibits	15,713	-	-	-	15,713
Bad debts	-	-	16,300	-	16,300
Bank charges	631	367	4,092	701	5,791
Cost of goods sold	-	-	-	54,590	54,590
Contract labor	35,157	-	-	17,578	52,735
Dues & subscriptions	3,000	-	-	-	3,000
Education programs	31,594	-	-	-	31,594
Insurance	50,458	4,390	605	251	55,704
Miscellaneous	841	6,899	49	779	8,568
Professional fees	-	30,396	-	-	30,396
Supplies	-	14,207	-	2,170	16,377
Printing/publications	3,476	-	183	-	3,659
Postage & shipping	1,770	1,549	1,106	-	4,425
Rental of equipment	198	264	198	-	660
Repair & maintenance	50,037	4,205	1,467	588	56,297
Travel	1,292	1,291	-	-	2,583
Conferences & meetings	16,291	-	-	-	16,291
Utilities	<u>168,516</u>	<u>2,249</u>	<u>653</u>	<u>292</u>	<u>171,710</u>
Total expenses	<u>\$ 859,432</u>	<u>\$ 258,971</u>	<u>\$ 99,526</u>	<u>\$ 104,149</u>	<u>\$1,322,078</u>

Advertising costs are expensed as used. Advertising cost for 2007 amounted to approximately \$59,278.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

Note 15 - Prior Period Adjustments

Reliant energy drafted the bank for electricity billed on meter readings through December 13, 2007. However, during the year, the draft date was changed from the beginning of the subsequent month to the end of the month for the reading. This change resulted in 13 bank drafts during 2007. Accordingly, a prior period adjustment was made for approximately \$11,575 for the bank draft on January 5, 2007 for electricity used through December 13, 2006.

A related party pledged \$25,000 for Legacy Park during December 2006 with \$12,500 payable in 2006 and the remaining \$12,500 due in 2007. A pledge was made of stock valued at \$58,506 for the endowment fund during 2006. Due to difficulties in transferring the stock, the transaction was not completed until 2007. Neither of these pledges were recorded as revenue in 2006.

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 contract as amended for jail and parking lot work amounted to \$926,053. Work completed and payments made through December 31, 2007 were approximately \$824,278 and \$757,795 respectively.

A contract was executed with Deborah Copenhaver Fellows for the statue to be placed in Legacy Park. The contract amount was \$100,000 with three payments of \$33,333 to be made as work was completed. At December 31, 2007, two payments had been made. Accordingly, \$66,666 was included in work in progress. The final payment of \$33,334 is due upon completion.

The government grants and receivables described in Note 8 are considered a concentration. Additionally, a pledge in the amount of \$40,000 is due from James L. Barrett according to the terms described in Note 2.

MUSEUM OF SOUTH TEXAS HISTORY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007

Note 17 - Subsequent Events

In the subsequent period, a contract was executed with D. Wilson Construction in the amount of \$250,900 to complete the Will Looney Legacy Park.

Also in the subsequent period, approximately \$206,900 was drawn on the line of credit described in Note 5. These funds were used for the Project Preservation construction described in Note 16 and in the Legacy Park project described above. It is anticipated that pledges and subsequent donations will be used to liquidate this note.