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Basic Financial Statements, 2006

Missouri History Museum Subdistrict of the Metropolitan Zoological Park and Museum District
of the City of St. Louis and St. Louis County

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**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
ST. LOUIS AND ST. LOUIS COUNTY**

Basic Financial Statements

December 31, 2006

(With Independent Auditors' Report Thereon)



**Mayer
Hoffman
McCann P.C.**
An Independent CPA Firm

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
ST. LOUIS AND ST. LOUIS COUNTY**

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
The Missouri History Museum Subdistrict
of the Metropolitan Zoological Park
and Museum District of the City of
St. Louis and St. Louis County:

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, and the governmental fund of the Missouri History Museum Subdistrict of the Metropolitan Zoological Park and Museum District of the City of St. Louis and St. Louis County (the Subdistrict) as of and for the year ended December 31, 2006, which collectively comprise the Subdistrict's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Subdistrict's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, and the governmental fund of the Subdistrict, as of December 31, 2006, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information on pages 2 through 7 and pages 20 and 21, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Mayer Hoffman McCann P.C.

St. Louis, Missouri
March 26, 2007

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
ST. LOUIS AND ST. LOUIS COUNTY**

Management's Discussion and Analysis

December 31, 2006

The management's discussion and analysis of The Missouri History Museum Subdistrict of the Metropolitan Zoological Park and Museum District of the City of St. Louis and St. Louis County (the Subdistrict) provides an easily readable analysis of the Subdistrict's financial activities based on currently known facts, decisions, and conditions. The management's discussion and analysis should not be taken as a replacement for the financial statements and footnotes, but should be read in conjunction with them to enhance understanding of the Subdistrict's financial performance.

Financial Highlights

- The Subdistrict's share of support from the Metropolitan Zoological Park and Museum District, less assessments, increased from \$9.6 million in 2005 to \$9.9 million in 2006. This represents an increase of 3.4%. The increase results from the growth in the assessed valuations of properties within the District.
- The year-end balance of Due from the Metropolitan Zoological Park and Museum District increased from \$3.7 million in 2005 to \$3.8 million in 2006. The increase is due to a greater number of taxpayers from the City of St. Louis and St. Louis County paying their property tax bill prior to the last day of the year, when these taxes are due, resulting in an increase in the amount of support Due from the Metropolitan Zoological Park and Museum District.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Subdistrict's basic financial statements. The Subdistrict's financial report includes four components: 1) *Government-wide financial statements*; 2) *fund financial statements*; 3) *notes to the financial statements*; and 4) *required supplementary information*.

Government-wide financial statements

The government-wide financial statements (that is, the statement of net assets and the statement of activities) report information on all of the activities of the Subdistrict. These statements are prepared using the accrual basis of accounting. All of the Subdistrict's activities are classified as governmental activities, which normally are supported by tax revenues, as opposed to business-type activities, which rely to a significant extent on charges for services.

The statement of net assets presents information on all of the Subdistrict's assets and liabilities, with the difference between the two reported as net assets. Increases and decreases in net assets may serve as a useful indicator of whether or not the financial position of the Subdistrict is improving or deteriorating. The statement of net assets also provides information on unrestricted and restricted net assets and net assets invested in capital assets.

(Continued)

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
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ST. LOUIS AND ST. LOUIS COUNTY**

Management's Discussion and Analysis

December 31, 2006

The statement of activities presents information showing how the Subdistrict's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of the timing of related cash flows. The statement of activities presents the various functions of the Subdistrict and the degree to which they are supported by charges for services, operating or capital grants and contributions, tax revenues, and investment income.

The government-wide financial statements include not only the Subdistrict itself (the *primary government*), but also a legally separate not-for-profit organization, the Missouri Historical Society, for which the Subdistrict is financially accountable (a *component unit*). Financial information for the component unit is reported separately from the financial information of the primary government. The government-wide financial statements do not include any blended component units.

Fund financial statements

The second set of statements is the fund financial statements, which provide information about groupings of related accounts that are used to maintain control over resources for specific activities or objectives. The Subdistrict uses fund accounting to demonstrate compliance with finance-related legal requirements.

The Subdistrict uses only one governmental fund type, a general fund, to account for all activities of the Subdistrict. Fund financial statements for governmental funds are prepared using a modified accrual basis of accounting, which differs from the full accrual basis of accounting used to prepare the government-wide financial statements. Therefore, the total fund balance for the governmental fund is reconciled to total net assets for governmental activities, as shown on the statement of net assets. The net change in fund balance for the governmental fund is reconciled to the total change in net assets as shown on the statement of activities in the government-wide statements.

Notes to the financial statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required supplementary information

In addition to the basic financial statements and notes to the financial statements, this report presents required supplementary information concerning the Subdistrict's budgetary comparisons for the general fund.

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
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AND MUSEUM DISTRICT OF THE CITY OF
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Management's Discussion and Analysis

December 31, 2006

Financial Analysis of the Subdistrict as a Whole

Net assets

On a government-wide basis, the Subdistrict's Statement of Net Assets at December 31, 2006 and 2005 are shown in the table below.

**The Missouri History Museum Subdistrict
of the Metropolitan Zoological Park
and Museum District of the City of
St. Louis and St. Louis County
Statement of Net Assets
December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Assets:		
Current and other assets	\$ 8,623,586	\$ 8,279,235
Capital assets, net	<u>528,084</u>	<u>546,546</u>
Total assets	<u>9,151,670</u>	<u>8,825,781</u>
Liabilities:		
Long-term liabilities outstanding	-	-
Other liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
Net assets:		
Invested in capital assets	528,084	546,546
Unrestricted	<u>8,623,586</u>	<u>8,279,235</u>
Total net assets	<u><u>\$ 9,151,670</u></u>	<u><u>\$ 8,825,781</u></u>

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the Subdistrict, assets exceeded liabilities by \$9.2 million at the close of the current fiscal year.

Approximately 5.8% of the Subdistrict's net assets reflect its investment of \$528,084 in capital assets. The Subdistrict uses these capital assets to provide services; consequently, these assets are not available for future spending.

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
ST. LOUIS AND ST. LOUIS COUNTY**

Management's Discussion and Analysis

December 31, 2006

Governmental activities

The following schedule shows the revenues and expenses for the Subdistrict's activities for the years ended December 31, 2006 and 2005.

**The Missouri History Museum Subdistrict
of the Metropolitan Zoological Park
and Museum District of the City of
St. Louis and St. Louis County
Statement of Activities
For the years ended December 31, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Revenues:		
General revenues:		
Support from the Metropolitan Zoological Park and Museum District	\$9,884,317	\$9,557,993
Unrestricted investment earnings	<u>1,419</u>	<u>804</u>
Total revenues	<u>9,885,736</u>	<u>9,558,797</u>
Expenses:		
General government	157,798	182,936
Payments to Missouri Historical Society – History museum services	<u>9,402,069</u>	<u>9,430,885</u>
Total expenses	<u>9,559,867</u>	<u>9,613,821</u>
Change in net assets	325,889	(55,024)
Net assets, beginning of year, as restated	<u>8,825,781</u>	<u>8,880,805</u>
Net assets, end of year	<u><u>\$9,151,670</u></u>	<u><u>\$8,825,781</u></u>

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
ST. LOUIS AND ST. LOUIS COUNTY**

Management's Discussion and Analysis

December 31, 2006

The Subdistrict's total revenue on a government-wide basis was \$9.9 million. Support from the Metropolitan Zoological Park and Museum District, net of assessments, accounted for all but \$1,419 of the Subdistrict's revenue.

The total cost of all programs and services was \$9.6 million. Amounts passed through to the Missouri Historical Society as reimbursement for museum services and capital projects comprised 98.3% of the Subdistrict's total expenses, while the Subdistrict's general government expenses comprised only 1.7% of the total.

Governmental revenue increased the Subdistrict's net assets by \$326 thousand. The key factor influencing the increase is the net impact of the decline in the tax levy offset by an increase in property values during the year ended December 31, 2006.

Financial Analysis of the Subdistrict's Governmental Fund

As previously mentioned, the purpose and focus of the Subdistrict's governmental fund is different than that of the government-wide financial statements. The focus of the Subdistrict's governmental fund is to provide information on the inflows, outflows, and balances of resources that are available for spending as well as to demonstrate compliance with statutory and other legal requirements. As a result, the fund financial statements reflect a *current financial resources* focus rather than a *total economic resources* focus, which is used in the government-wide financial statements.

Given the focus of the fund financial statements, an unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the unreserved fund balance of the general fund was \$7.8 million. As a measure of the general fund's liquidity, it may be useful to compare this amount to total fund expenditures, which calculates to 81%.

The total fund balance in the Subdistrict's general fund increased by \$1.2 million, or by 18.7%. The change in the current fiscal year's fund balance is primarily due to the timing of the payment of property taxes by citizens of the City of St. Louis and St. Louis County, which affects the support provided by the Metropolitan Zoological Park and Museum District. Additionally, increased history museum services were provided to the Missouri Historical Society.

General Fund Budgetary Highlights

The final budget for the Subdistrict's general fund represents the original budget plus any supplemental appropriations approved during the year. No supplemental appropriations were made by the Subdistrict during 2006; therefore, the original budget and the final budget are identical. Revenues exceeded budgetary estimates by 1.1% and expenditures totaled 100.1% of budget.

(Continued)

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
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Management's Discussion and Analysis

December 31, 2006

Capital Assets

The Subdistrict has invested \$528,084 in capital assets (net of accumulated depreciation) as of the close of the fiscal year. These capital assets consist entirely of one parcel of property and the building located upon it. Aside from the recording of depreciation expense for the building, capital assets have not changed from the prior year. Detailed information is provided in the schedule below.

**The Missouri History Museum Subdistrict
of the Metropolitan Zoological Park
and Museum District of the City of
St. Louis and St. Louis County
Schedule of Capital Assets,
Net of Accumulated Depreciation
December 31, 2006**

	Governmental Activities
Land	\$ 105,000
Building	423,084
Total capital assets	\$ <u>528,084</u>

Requests for Information

This financial report is designed to provide a general overview of the finances of The Missouri History Museum Subdistrict of the Metropolitan Zoological Park and Museum District of the City of St. Louis and St. Louis County. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to:

The Missouri History Museum Subdistrict
of the Metropolitan Zoological Park and
Museum District of the City of St. Louis
and St. Louis County
c/o Stolar Partnership
911 Washington Avenue
St. Louis, MO 63101

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
ST. LOUIS AND ST. LOUIS COUNTY**

Statement of Net Assets

December 31, 2006

	<u>Primary Government</u>	<u>Discretely Presented</u>
	<u>Governmental</u>	<u>Component Unit</u>
	<u>Activities</u>	<u>Missouri Historical</u>
		<u>Society</u>
ASSETS		
Cash	\$ 7,902	1,997,114
Due from the Metropolitan Zoological Park and Museum District	3,790,751	-
Investments at fair market value	-	25,076,315
Receivables:		
Support from the Metropolitan Zoological Park and Museum District, net	4,824,806	-
Interest receivable	127	-
Grants and accounts receivables	-	765,685
Pledges receivable, net	-	185,608
Accrued investment income	-	182,514
Prepaid expenses	-	211,038
Inventories	-	407,959
Capital assets, net:		
Nondepreciable - land	105,000	961,614
Nondepreciable - construction in progress	-	81,080
Depreciable:		
Building	423,084	-
Leasehold improvements	-	26,394,687
Furnitures, fixtures, and equipment	-	326,544
Total assets	9,151,670	56,590,158
LIABILITIES		
Accounts payable and other liabilities	-	690,371
Long-term liabilities:		
Due within one year	-	85,659
Due in more than one year	-	1,026,059
Total liabilities	-	1,802,089
NET ASSETS		
Invested in capital assets	528,084	27,763,925
Restricted:		
Expendable	-	821,551
Nonexpendable	-	7,707,379
Unrestricted:	8,623,586	18,495,214
Total net assets	\$ 9,151,670	54,788,069

See accompanying notes to basic financial statements.

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
ST. LOUIS AND ST. LOUIS COUNTY**

Statement of Activities

For the year ended December 31, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>	<u>Discretely Presented Component Unit Missouri Historical Society</u>
Primary Government:						
Governmental activities:						
General government	\$ 157,798	20	-	-	(157,778)	-
Museum services:						
Payments to Missouri Historical Society - History museum services	9,402,069	-	-	-	(9,402,069)	-
Total primary government	<u>\$ 9,559,867</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>(9,559,847)</u>	<u>-</u>
Discretely Presented Component Unit:						
Missouri Historical Society	<u>\$ 16,542,578</u>	<u>1,450,133</u>	<u>5,246,019</u>	<u>-</u>	<u>-</u>	<u>(9,846,426)</u>
General revenues:						
Support from the Metropolitan Zoological Park and Museum District					9,884,317	-
Unrestricted investment earnings					1,419	2,134,234
Support provided by Missouri History Museum Subdistrict					-	9,402,068
Total general revenues					<u>9,885,736</u>	<u>11,536,302</u>
Change in net assets					325,889	1,689,876
Net assets—beginning of year					8,825,781	53,098,193
Net assets—end of year					<u>\$ 9,151,670</u>	<u>54,788,069</u>

See accompanying notes to basic financial statements.

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
ST. LOUIS AND ST. LOUIS COUNTY**

Balance Sheet
Governmental Fund

December 31, 2006

		<u>General Fund</u>
ASSETS		
Cash	\$	7,902
Due from the Metropolitan Zoological Park and Museum District		3,790,751
Support from the Metropolitan Zoological Park and Museum District receivable, net		4,824,806
Interest receivable		127
Total assets	\$	<u><u>8,623,586</u></u>
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Deferred revenue	\$	<u>861,836</u>
Total liabilities		<u>861,836</u>
FUND BALANCE		
Fund balance—unreserved		<u>7,761,750</u>
Total fund balance		<u>7,761,750</u>
Total liabilities and fund balance	\$	<u><u>8,623,586</u></u>

**Reconciliation of the Balance Sheet of Governmental Fund
to the Statement of Net Assets:**

Total fund balance—governmental fund—balance sheet	\$	7,761,750
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements. Capital assets are reported in the government-wide statement of net assets		528,084
Property taxes levied by the Metropolitan Zoological Park and Museum District (District) are assessed on January 1st of each calendar year, but are not due until December 31st. Support from the District that is based upon delinquent taxes assessed on January 1, 2006 or prior, which were not received within the period of availability, is deferred within the fund financial statements. However, revenue for these amounts is recognized in the government-wide financial statements.		861,836
Total net assets—governmental activities—statement of net assets	\$	<u><u>9,151,670</u></u>

See accompanying notes to basic financial statements.

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
ST. LOUIS AND ST. LOUIS COUNTY**

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund

For the year ended December 31, 2006

	General Fund
REVENUES	
Support from the Metropolitan Zoological Park and Museum District	\$ 10,763,596
Total receipts	10,763,596
Interest income	1,419
Rental income	20
Total revenues	10,765,035
EXPENDITURES	
Payments to the Missouri Historical Society -	
History museum services	9,402,069
General government	139,336
Total expenditures	9,541,405
Net change in fund balance	1,223,630
Fund balances:	
Beginning of year	6,538,120
End of year	\$ 7,761,750

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance of Governmental Fund to the Statement of Activities**

Net change in fund balance—governmental fund—statement of revenues, expenditures, and changes in fund balance	\$ 1,223,630
Purchases of capital assets are recorded as capital outlay expenditures in the fund financial statements. Capital assets are capitalized and depreciated over their useful lives in the government-wide statement of activities. This is the amount of depreciation expense recorded on the statement of activities in the current year.	(18,462)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. Such amounts are attributable to revenues received after the 60 day period of availability. This amount represents the change in deferred revenues.	(879,279)
Change in net assets—governmental activities—statement of activities	\$ 325,889

See accompanying notes to basic financial statements.

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
ST. LOUIS AND ST. LOUIS COUNTY**

Notes to Basic Financial Statements

December 31, 2006

(1) Summary of Significant Accounting Policies

On November 3, 1987, the voters of the City of St. Louis and St. Louis County approved the formation of The Missouri History Museum Subdistrict (the Subdistrict) of the Metropolitan Zoological Park and Museum District of the City of St. Louis and St. Louis County (the District). The Subdistrict was established to receive support from the District and to pay for history museum services (currently provided by the Missouri Historical Society).

The following is a summary of the more significant accounting policies of the Subdistrict and the Society:

(a) Reporting Entity

The Subdistrict's financial reporting entity has been determined in accordance with governmental standards for defining the reporting entity and identifying entities to be included in its basic financial statements. The Subdistrict's financial reporting entity consists of the Subdistrict (the primary government) and its discretely presented component unit, the Missouri Historical Society (the Society).

The Society is included as a discretely presented component unit of the Subdistrict because the Subdistrict is financially accountable for the Society, as the Society is fiscally dependent upon the Subdistrict because the Subdistrict approves the Society's budget. However, the Subdistrict's relationship with the Society is based on a formal contractual arrangement, which the Subdistrict has no obligation to continue beyond the annually renewable term (see Note 5). The financial activity of the Society is presented in a separate column in the accompanying basic financial statements to emphasize that it is legally separate from the Subdistrict. The Subdistrict has no authority over the selection of the Society's Board of Trustees or management. The Society is reported as a not-for-profit entity.

The accompanying basic financial statements present condensed financial statements of the Society. Complete financial statements of the Society may be obtained from their administrative offices as follows:

Missouri Historical Society
P. O. Box 11940
St. Louis, Missouri 63112

(b) Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net assets and the statement of activities) report information on all of the activities of the Subdistrict and the Society. All of the Subdistrict's activities are classified as governmental activities, which normally is supported by tax revenues, as opposed to business-type activities, which rely to a significant extent on charges for services. Likewise, the Subdistrict is reported separately from the Society, its discretely presented component unit.

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
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Notes to Basic Financial Statements

December 31, 2006

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges for services to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Support from the District, unrestricted interest earnings, gains, and other miscellaneous revenues not properly included among program revenues are reported instead as general revenues.

Following the government-wide financial statements are separate financial statements for the Subdistrict's governmental fund. The Subdistrict uses only one governmental fund type, a general fund, to account for all activities of the Subdistrict. The total fund balance for the governmental fund is reconciled to total net assets for governmental activities as shown on the statement of net assets. The net change in fund balance for the governmental fund is reconciled to the total change in net assets as shown on the statement of activities in the government-wide statements.

(c) *Measurement Focus and Basis of Accounting*

Measurement focus refers to what is being expressed in reporting the Subdistrict's financial performance and position. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting, as are the discretely presented component unit financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Subdistrict's governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both measurable and available. The term "available" is defined as collectible within the current period or soon enough thereafter to be used to pay the liabilities of the current period. For the Subdistrict, available is defined as expected to be received within 60 days of fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Support from the District represents a continuous appropriation to the Subdistrict by the District. Accordingly, the Subdistrict recognizes support from the District based on an allocation of property taxes which are levied by the District, net of management fees.

**THE MISSOURI HISTORY MUSEUM SUBDISTRICT
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Notes to Basic Financial Statements

December 31, 2006

(d) Investments

The Society's investments in marketable securities are carried at fair value. Fair value is established as readily determinable current market values for equity and debt securities.

(e) Capital Assets

Purchased property and equipment of the Subdistrict are accounted for as expenditures in the general fund. On the government-wide financial statements, property and equipment are capitalized at their historical cost. Donated property and equipment are recorded at estimated fair market value at the date of donation unless fair market value is not readily determinable, in which case the asset is recorded at nominal value to establish accountability. Within the government-wide financial statements, depreciation on buildings is computed on the straight-line basis over the estimated useful lives of the assets, which is 40 years. Land is not depreciated.

The Society's property and equipment consist of leasehold improvements and furniture, fixtures, and equipment, which is stated at cost or, if donated, at fair market value at the date of donation. Amortization on leasehold improvements and depreciation on furniture, fixtures, and equipment is computed on the straight-line basis over the estimated useful lives of the assets, ranging from 3 to 40 years. Total amortization and depreciation for the Society for 2006 was \$1,219,116.

(f) Museum Collections

The Society's purchased historic material is expensed at the time of purchase and not capitalized. Contributed historic material is not valued and thus not reflected in the accompanying financial statements.

(g) Contributions

The Society reports contributions, including unconditional promises to give due in future periods, as revenue in the period the pledge is received.

(h) Inventories

The Society's inventories consist of Museum Shop items held for resale. Inventories are recorded at the lower of cost or market, determined by the retail inventory method.

(i) Federal Income Taxes

The Subdistrict and Society are exempt from Federal income taxes under Sections 115(a) and 501(c)(3) of the Internal Revenue Code, respectively.

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(j) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Subdistrict and Society to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenues, expenses and expenditures during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

Subdistrict:

At December 31, 2006, the carrying amount of the Subdistrict's cash deposits was \$7,902 and the bank balance was \$11,877. These amounts were entirely covered by federal depository insurance.

Society:

The Society is a private not-for-profit organization and, as such, its deposits and investments are not subject to collateralization and categorization disclosures as required by U.S. generally accepted accounting principles related to governmental entities. At December 31, 2006, the Society's investments are comprised of the following:

	<u>Cost</u>	<u>Carrying value</u>
Money market funds and cash equivalents	\$ 1,161,888	\$ 1,161,888
Certificates of deposit	435,630	435,630
Corporate stocks	2,652,570	3,227,360
Corporate papers	4,368,197	4,368,197
Corporate bonds and debentures	894,738	874,980
U.S. Government obligations	7,262,872	7,169,779
Mutual funds	6,808,625	7,774,525
Real estate	63,956	63,956
	<u>\$ 23,648,476</u>	<u>\$ 25,076,315</u>

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(3) Capital Assets

Subdistrict:

The following is a summary of changes in capital assets for the Subdistrict for the year ended December 31, 2006:

	<u>Balance January 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2006</u>
Capital assets not being depreciated:				
Land	\$ 105,000	—	—	105,000
Total capital assets not being depreciated	<u>105,000</u>	<u>—</u>	<u>—</u>	<u>105,000</u>
Capital assets being depreciated:				
Building	738,474	—	—	738,474
Total capital assets being depreciated	<u>738,474</u>	<u>—</u>	<u>—</u>	<u>738,474</u>
Less accumulated depreciation for:				
Building	296,928	18,462	—	315,390
Total accumulated depreciation	<u>296,928</u>	<u>18,462</u>	<u>—</u>	<u>315,390</u>
Total capital assets being depreciated, net	<u>441,546</u>	<u>(18,462)</u>	<u>—</u>	<u>423,084</u>
Capital assets, net	<u>\$ 546,546</u>	<u>(18,462)</u>	<u>—</u>	<u>528,084</u>

Depreciation expense for the Subdistrict is charged entirely to the general government expense function on the statement of activities.

Society:

The following is a summary of capital assets for the Society at December 31, 2006:

Leasehold improvements	\$ 36,892,724
Furniture, fixtures and equipment	939,980
Land	961,614
	<u>38,794,318</u>
Less accumulated depreciation and amortization	(11,111,473)
Construction in progress	81,080
	<u>\$ 27,763,925</u>

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(4) Support from the Metropolitan Zoological Park and Museum District

The District levies property taxes on the assessed value listed as of each January 1 for all real and personal property located in the City of St. Louis and St. Louis County. The levy is based on an annual submission from the Subdistrict, which cannot exceed 4.0 cents per \$100 of assessed valuation. The tax levy was 3.73 cents per \$100 of assessed valuation for 2006. Taxes are levied each October and are due on December 31 for the previous January 1 assessment. Utilizing a continuous appropriation, the District provides support to the Subdistrict based upon an allocation of the property taxes levied by the District. The support from the District for the year ended December 31, 2006 is represented by the following sources:

	Year ended December 31, 2006	
	Governmental activities	General fund
Revenue from the District:		
Support from the District	\$ 9,889,569	10,768,848
Interest earned	92,768	92,768
Less assessments, net	(98,020)	(98,020)
Revenue from the District	\$ 9,884,317	10,763,596

The amount due from the Metropolitan Zoological Park and Museum District within the accompanying financial statements represents funds collected by and held by the District in an account on behalf of the Subdistrict. The support from the Metropolitan Zoological Park and Museum District receivable within the accompanying financial statements represents the estimated support provided from the District based upon property tax receipts, which was not collected at year end. This receivable is recorded net of an allowance for uncollectible accounts, which was \$433,993 at December 31, 2006.

(5) Contract with the Missouri Historical Society

The Subdistrict and the Society entered into an annually renewable contract for history museum services in 1988, which renews automatically for one year each April 21 unless either party gives written notice regarding their desire to terminate the agreement 90 days prior to renewal. The contract provides for history museum facilities and services to be provided to the public in exchange for compensation not to exceed the amount of support received by the Subdistrict from the District, less any Subdistrict expenses. The annual compensation is determined each year based upon an annual budget submitted by the Society to the Subdistrict. This budget is approved annually by the Subdistrict. The Subdistrict reimburses the Society for eligible expenditures incurred relative to history museum services provided by the Society.

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(6) Employee Benefit Plan

Effective January 1, 1986, the Society adopted a defined contribution plan for all employees with at least two years of service. The plan provided for the Society to contribute 5% of the participants' salaries with no employee contributions permitted. In 1996, the Society adopted a 403(b) salary reduction plan, which provides for the Society to match employee contributions at the maximum of \$500 or 1% of annual participants' salaries. Plan expenses were \$281,056 for the Society for the year ended December 31, 2006.

(7) Employee Deferred Compensation Plan

Effective December 1, 2002, the Society adopted a 457(b) deferred compensation plan for certain employees. Participation in the plan for this employee group is voluntary and allows them to defer a portion of their salary to future years. The investments for the deferred compensation plan are presented in the financial statements as non-current assets and liabilities. The value of these plan assets was \$184,036 at December 31, 2006.

(8) Commitments

At December 31, 2006, the Society was committed for certain equipment under noncancelable operation and certain warehouse and temporary storage leases which expire at various dates through the year 2011. Additionally, the Society leases the Missouri History Museum and the Library and Research Center from the Missouri History Museum Subdistrict (Subdistrict) of the Metropolitan Zoological Park and Museum District. The lease agreement for these facilities is coterminous with the term of the Agreement the Society has with the Subdistrict to provide history museum services. This agreement renews automatically December 31 each year unless either party gives ninety days notice prior to the expiration date. The annual lease payment is \$10 for each facility. The following is a schedule by years of future minimum rental payments required under these leases:

Years ending December 31	
2007	\$ 104,626
2008	71,092
2009	22,095
2010	20
2011	<u>20</u>
 Total Minimum Rental Payments Required	 \$ 197,853 <u><u> </u></u>

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(9) Note Receivable

In 2003, the Society has entered into a promissory note agreement with the Lewis and Clark National Bicentennial Council (the Council) to provide financing for the Council's activities. This note initially allowed the Society to provide a maximum amount of funding to the Council of \$845,000 with all principal and interest due December 15, 2005. In 2005, the Society amended the note to increase the maximum funding provided to \$1,045,000. The maturity date of the note was extended to December 15, 2006. All other provisions of the note agreement remained the same. The note receivable balance was \$1,009,825 at December 31, 2005. During 2006 the note earned interest at a rate of 4.364% based on 10-year U.S. Treasury Note yield effective January 3, 2006. The note was amended in 2006 to increase the maximum funding provided to \$1,545,000. The note in the amount of \$1,245,000 plus accrued interest of \$92,889 was paid in full on October 30, 2006. The president of the Missouri Historical Society also serves as president of the Lewis and Clark National Bicentennial Council.

(10) Risk Management

The Subdistrict is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Subdistrict maintains commercial insurance for certain of these risks of loss. Settled claims did not exceed commercial coverage in the past three years.

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Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual—General Fund—Budgetary Basis
Required Supplementary Information—UNAUDITED

For the year ended December 31, 2006

REVENUES	Original Budget	Final Revised Budget	Actual (Budget Basis)	Variance with Final Budget Positive (Negative)
Receipts from the Metropolitan Zoological Park and Museum District:				
Support from the Metropolitan Zoological Park and Museum District	\$ 9,400,000	9,400,000	9,505,871	105,871
Total receipts	<u>9,400,000</u>	<u>9,400,000</u>	<u>9,505,871</u>	<u>105,871</u>
Interest income	600	600	1,419	819
Rental income	20	20	20	-
Total revenues	<u>9,400,620</u>	<u>9,400,620</u>	<u>9,507,310</u>	<u>106,690</u>
EXPENDITURES				
Current:				
Payments to the Missouri Historical Society - History museum services	9,400,000	9,400,000	9,402,069	(2,069)
General government	33,250	33,250	41,316	(8,066)
Total expenditures	<u>9,433,250</u>	<u>9,433,250</u>	<u>9,443,385</u>	<u>(10,135)</u>
Excess of revenues over expenditures	\$ <u><u>(32,630)</u></u>	<u><u>(32,630)</u></u>	<u><u>63,925</u></u>	<u><u>96,555</u></u>

See accompanying independent auditor's report.

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Notes to Schedule of Revenues, Expenditures, and Changes in Fund Balances—
Budget and Actual—General Fund—Budgetary Basis
Required Supplementary Information—UNAUDITED

For the year ended December 31, 2006

(1) Explanation of Budgetary Process

The Subdistrict adopts an annual budget based on the operating budget submitted to the Subdistrict by the Society and estimated Subdistrict administrative expenses. The annual budget is prepared on the cash basis of accounting, approved by the Subdistrict's Board of Commissioners, and submitted to the District for use in establishing the annual tax levy. Expenditures in total may not legally exceed appropriations. For the year ended December 31, 2006, expenditures exceeded appropriations in the General fund by \$10,135. The overexpenditure occurred due to increased payments to the Missouri Historical Society and additional general government expenditures. The overexpenditure was funded by greater than anticipated support from the District and the General fund's unreserved fund balance and has no detrimental impact on the legally adopted budget.

(2) Explanation of the Differences between the Excess of Revenues over Expenditures – Budget Basis and Net Change in Fund Balance – GAAP Basis

The Subdistrict's budgetary process is based upon accounting for certain transactions on a basis other than U.S. generally accepted accounting principles for governmental entities (GAAP). To provide meaningful comparison of actual results with the budget, the actual results of operations are presented in the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund in accordance with a budget basis of accounting.

The major differences between the budget and GAAP basis of accounting are:

- 1) Revenues are recorded when received in cash (budget), as opposed to when they are measurable and available (GAAP).
- 2) Expenditures are recorded when paid (budget), as opposed to when the obligation is incurred (GAAP).

Adjustments necessary to reconcile the excess of revenues over expenditures from the GAAP basis to the budget basis of accounting are as follows:

Budget basis	\$	63,925
Increase (decrease) due to:		
Revenue accruals		1,257,725
Expenditure accruals		(98,020)
GAAP basis	\$	<u>1,223,630</u>

See accompanying independent auditors' report.