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Financial Statements, 2005

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

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

Financial Statements

December 31, 2005

(With Independent Auditors' Report Thereon)

ART MUSEUM SUBDISTRICT
OF THE METROPOLITAN ZOOLOGICAL PARK
AND MUSEUM DISTRICT OF THE CITY OF
ST. LOUIS AND ST. LOUIS COUNTY

Financial Statements

December 31, 2005

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KPMG LLP
Suite 900
10 South Broadway
St. Louis, MO 63102-1761

Independent Auditors' Report

The Board of Commissioners
Art 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 business-type activities and the discretely presented component unit, the St. Louis Art Museum Foundation (the Foundation), of the Art 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, 2005, which collectively comprise the Subdistrict's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Subdistrict's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Subdistrict's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Subdistrict as of December 31, 2005, and the respective changes in its financial position and cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As disclosed in note 12 to the financial statements, the net assets of the business-type activities of the Subdistrict and the Foundation as of December 31, 2004 have been restated.

The Management's Discussion and Analysis, on pages 2 through 6, is not a required part of the basic financial statements, but is 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.

St. Louis, Missouri
April 20, 2006

KPMG LLP

ART MUSEUM SUBDISTRICT
of the METROPOLITAN ZOOLOGICAL PARK AND MUSEUM DISTRICT of the CITY OF ST.
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Management's Discussion and Analysis
Year ended December 31, 2005

Background Information

The Art Museum Subdistrict of the Metropolitan Zoological Park and Museum District of the City of St. Louis and St. Louis County (Subdistrict) and the St. Louis Art Museum Foundation (Foundation) are included within these financial statements. Both entities are tax exempt under section 501(c) (3) of the Internal Revenue Code. The management's discussion and analysis relates only to the activities of the Subdistrict.

This is the initial year that the Subdistrict is adopting financial statement formatting according to those standards prescribed by the Governmental Accounting Standards Board (GASB). The Subdistrict previously reported financial statements using standards prescribed by the Financial Accounting Standards Board (FASB.) The audited statements cover the one-year ended December 31, 2005. However, the management discussion does include some comparisons to the prior year.

The management discussion and analysis of the Subdistrict financial performance provides an overview of the Subdistrict's financial activities for the year ended December 31, 2005. The management's discussion and analysis should not be taken as a replacement for the financial statements but should be read in conjunction with them to enhance understanding of the Subdistrict's financial performance.

Financial Highlights

- Support from the Zoo-Museum District is a result of an allocation of property taxes levied by the Zoo-Museum District on behalf of the Subdistrict per \$100 of assessed valuation equal to 7.63 cents and 7.84 cents respectively for the years ended December 31, 2005 and 2004.
- The Subdistrict restated its December 31, 2004 net assets as a result of corrections discussed in note 12 to the financial statements, which resulted in an increase to the December 31, 2004 net assets of \$6.9 million.
- Support from the Zoo-Museum District under the accrual basis method was \$18.3 million and \$17.5 million respectively for the years ended December 31, 2005 and 2004.
- The Foundation provided support to the Subdistrict in the amount of \$3.0 million and \$3.2 million respectively for the years ended December 31, 2005 and 2004.

Financial Statements

- This is the initial year that the Subdistrict is adopting financial statement formatting according to those standards prescribed by the Governmental Accounting Standards Board (GASB.) The Subdistrict previously reported financial statements using standards prescribed by the Financial Accounting Standards Board (FASB). For further information on this change in financial reporting entity, refer to note 12 to the financial statements.
- The statement of net assets includes the assets, liabilities, and net assets of the Subdistrict as of December 31, 2005. The statement is prepared under the accrual basis of accounting. The statement of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred during the year. The statement of cash flows' primary purpose is to provide information about the Subdistrict's cash receipts and payments summarized by operating, noncapital financing, investing, and capital and related financing activities.

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- The Subdistrict meets the criterion for formatting its statements as a government. The Subdistrict activity represents activity of the primary government on the statements.
- The Foundation is reported in a separate column and is called a "discretely presented component unit."
- The Foundation is incorporated under Missouri non-profit law and its primary purpose is to raise funds for the benefit of the Subdistrict and then subsequently make gifts to the Subdistrict. Its other purpose is to manage the Foundation's endowment portfolio.

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 financial statements.

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Management's Discussion and Analysis
Year ended December 31, 2005

Table 1 – Subdistrict Condensed Schedule of Net Assets

	In thousands	
	2005	2004, as restated*
Assets:		
Cash and cash equivalents	\$ 8,043	3,529
Due from the Subdistrict by the Zoo-Museum District	6,822	4,451
Investments	27,650	30,223
Receivables:		
Support from the Zoo-Museum District	8,471	9,932
Contributions	315	557
Interest and investment proceeds	208	232
Grants	286	165
Accounts	145	190
Prepaid expenses	327	345
Inventory held for resale	314	451
Capital assets, net	20,441	18,606
Total assets	73,022	68,681
Liabilities:		
Current liabilities	2,967	2,409
Noncurrent liabilities	1,401	1,758
Total liabilities	4,368	4,167
Net Assets:		
Invested in capital assets	20,441	18,606
Restricted net assets	10,370	7,491
Unrestricted	37,843	38,417
Total net assets	\$ 68,654	64,514

* Refer to note 12 to the financial statements for additional information on the restatement of the 2004 amounts.

Analysis:

- Investments decreased in 2005 due to overall spending in association with increased capital assets.
- Capital assets increased during 2005 due to renovations and upgrades related to building improvements.
- Restricted net assets consist of assets specifically designated by donors primarily for art acquisition. The increase in 2005 is due to deaccession sales of \$2.7 million. When art is deaccessioned, the funds realized maintain the restricted character of the original donor gift.

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Management's Discussion and Analysis
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Table 2 – Subdistrict Schedule of Changes in Net Assets

	In thousands	
	2005	2004, as restated*
Operating revenues:		
Merchandise sales and admissions	\$ 1,781	1,661
Memberships	17	23
Proceeds from deaccessions of collections	2,742	711
Other earned revenue	639	798
Total operating revenue	<u>5,179</u>	<u>3,193</u>
Operating expenses:		
Program services	9,792	10,873
Gallery operations	6,376	5,935
Management and general	6,629	6,139
Fundraising	1,812	1,434
Total operating expenses	<u>24,609</u>	<u>24,381</u>
Nonoperating revenues (expenses):		
Support from Zoo-Museum District	18,290	17,419
Contributions and bequests	1,083	2,275
Grants	217	149
Investment income	1,097	793
Contributions to Forest Park	(161)	(379)
Payment from the Foundation	3,044	3,151
Total nonoperating revenues (expenses)	<u>23,570</u>	<u>23,408</u>
Change in net assets	4,140	2,220
Beginning net assets, as restated	64,514	62,294
Ending net assets	<u>\$ 68,654</u>	<u>64,514</u>

* Refer to note 12 to the financial statements for additional information on the restatement of the 2004 amounts.

Analysis:

- Operating revenues increased in 2005 due to deaccession revenue from collection items being sold. Increase in operating revenue also due to increased sales and admissions.
- Operating expenses remained relatively constant between 2005 and 2004. Program services spending includes spending for art purchases, exhibitions and conservation.
- Overall fluctuation in change in net assets from 2004 to 2005 is due to increased proceeds from sales of collection items in 2005.

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Management's Discussion and Analysis
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Table 3 – Subdistrict Schedule of Capital Assets, net (\$ in thousands)

	<u>2005</u>	<u>2004, as restated*</u>
Nondepreciable:		
Construction in process	\$ 1,368	586
Depreciable:		
Building improvements	18,299	17,411
Furniture, fixtures, and equipment	774	609
Total capital assets	<u>\$ 20,441</u>	<u>18,606</u>

* Refer to note 12 to the financial statements for additional information on the restatement of the 2004 amounts.

The Subdistrict has invested \$20,441,116 in capital assets (net of accumulated depreciation) as of the close of the fiscal year. These capital assets consist of construction in process, building improvements, and furniture, fixtures, and equipment.

Significant capital asset additions during 2005 was due primarily to HVAC system upgrades and the renovation of the Print Study Room. In addition, construction in process increased as a result of design work performed in conjunction with the Saint Louis Art Museum expansion efforts.

Note Payable

The Subdistrict had an outstanding note payable in the amount of \$656,667 and \$980,000 as of December 31, 2005 and 2004, respectfully. The Subdistrict incurred no new long-term debt during the year ended December 31, 2005, and made all regularly scheduled payments.

Requests for Information

These basic financial statements are designed to provide a general overview of the Subdistrict's finances. Questions concerning any information provided in this report should be addressed to the Finance Department, Saint Louis Art Museum, One Fine Arts Drive, Forest Park, St. Louis, Missouri, 63110-1380.

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Statements of Net Assets

December 31, 2005

	Business- Type Activities Museum Subdistrict	Discretely Presented Component Unit Foundation	Total
Assets:			
Current assets:			
Cash and cash equivalents:			
Unrestricted	\$ 5,857,221	736,961	6,594,182
Restricted	2,186,210	624,782	2,810,992
Due from the Metropolitan Zoological Park and Museum District	6,821,752	—	6,821,752
Investments:			
Unrestricted	10,456,755	36,264,022	46,720,777
Restricted	—	28,344,967	28,344,967
Receivables:			
Support from the Metropolitan Zoological Park and Museum District, net	8,470,508	—	8,470,508
Restricted contributions	227,742	3,052,762	3,280,504
Interest and investment proceeds	208,374	210,127	418,501
Grants	285,921	—	285,921
Accounts	144,532	872	145,404
Prepaid expenses	326,660	—	326,660
Inventory held for resale	315,135	—	315,135
Total current assets	35,300,810	69,234,493	104,535,303
Noncurrent assets:			
Receivables:			
Restricted contributions	87,613	9,874,905	9,962,518
Investments:			
Unrestricted	9,324,019	—	9,324,019
Restricted	7,868,729	17,422,842	25,291,571
Capital assets, net:			
Nondepreciable:			
Construction in process	1,368,086	—	1,368,086
Depreciable:			
Building improvements	18,298,567	—	18,298,567
Furniture, fixtures, and equipment	774,463	—	774,463
Total noncurrent assets	37,721,477	27,297,747	65,019,224
Total assets	73,022,287	96,532,240	169,554,527
Liabilities:			
Current liabilities:			
Accounts payable	1,852,265	51,646	1,903,911
Accrued expenses	707,927	—	707,927
Obligations under split-interest agreements	—	20,000	20,000
Note payable due within one year	323,334	10,000	333,334
Other liabilities	83,398	—	83,398
Total current liabilities	2,966,924	81,646	3,048,570
Noncurrent liabilities:			
Obligations under split-interest agreements	—	156,098	156,098
Note payable due in more than one year	333,333	—	333,333
Other liabilities	1,067,769	—	1,067,769
Total noncurrent liabilities	1,401,102	156,098	1,557,200
Total liabilities	4,368,026	237,744	4,605,770
Net assets:			
Invested in capital assets	20,441,116	—	20,441,116
Restricted:			
Expendable:			
Art acquisition and other	6,079,612	6,090,965	12,170,577
Capital campaign	—	27,993,764	27,993,764
Term endowment principal	256,796	3,322	260,118
Nonexpendable:			
Endowment principal	4,033,886	25,232,207	29,266,093
Unrestricted	37,842,851	36,974,238	74,817,089
Total net assets	\$ 68,654,261	96,294,496	164,948,757

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Assets
Year ended December 31, 2005

	Business- Type Activities Museum Subdistrict	Discretely Presented Component Unit Foundation	Total
Operating revenues:			
Merchandise sales and admissions	\$ 1,780,841	—	1,780,841
Members' contributions	16,708	2,598,079	2,614,787
Proceeds from deaccessions of collections	2,742,200	—	2,742,200
Other earned revenue	639,155	—	639,155
Total operating revenue	<u>5,178,904</u>	<u>2,598,079</u>	<u>7,776,983</u>
Operating expenses:			
Program services:			
Curatorial and conservation	2,650,925	—	2,650,925
Exhibitions	2,259,250	—	2,259,250
Education and library	3,112,320	—	3,112,320
Accessions of art for collections	1,770,273	—	1,770,273
Gallery operations:			
Building operations and maintenance	4,344,818	—	4,344,818
Protective services	2,030,702	—	2,030,702
Management and general:			
Administration	5,679,916	366,692	6,046,608
Museum shop	949,121	—	949,121
Fundraising:			
Development	1,811,756	—	1,811,756
Total operating expenses	<u>24,609,081</u>	<u>366,692</u>	<u>24,975,773</u>
Operating income (loss)	<u>(19,430,177)</u>	<u>2,231,387</u>	<u>(17,198,790)</u>
Nonoperating revenues (expenses):			
Support from the Metropolitan Zoological Park and Museum District	18,290,048	—	18,290,048
Contributions and bequests	1,082,804	14,064,084	15,146,888
Grants	217,036	—	217,036
Investment income	1,097,319	6,109,493	7,206,812
Change in value of split-interest agreements	—	(21,275)	(21,275)
Contributions to Forest Park	(160,559)	—	(160,559)
Payments from the Foundation (Payments to the Subdistrict)	3,044,114	(3,044,114)	—
Total nonoperating revenue	<u>23,570,762</u>	<u>17,108,188</u>	<u>40,678,950</u>
Income before additions to permanent endowment	4,140,585	19,339,575	23,480,160
Additions to permanent endowment	—	408,021	408,021
Total additions to permanent endowment	<u>—</u>	<u>408,021</u>	<u>408,021</u>
Change in net assets	4,140,585	19,747,596	23,888,181
Net assets at beginning of year, as restated (note 12)	64,513,676	76,546,900	141,060,576
Net assets at end of year	<u>\$ 68,654,261</u>	<u>96,294,496</u>	<u>164,948,757</u>

See accompanying notes to financial statements.

**ART MUSEUM SUBDISTRICT
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Statements of Cash Flows
Year ended December 31, 2005

	Business- Type Activities Museum Subdistrict	Discretely Presented Component Unit Foundation	Total
Cash flows from operating activities:			
Receipts from patrons	\$ 1,840,585	2,639,819	4,480,404
Receipts from deaccessions of collections	2,742,200	—	2,742,200
Other operating cash receipts	321,665	—	321,665
Payments to suppliers of goods and services	(9,393,272)	(377,155)	(9,770,427)
Payments to employees	(12,959,590)	—	(12,959,590)
Net cash (used in) provided by operating activities	<u>(17,448,412)</u>	<u>2,262,664</u>	<u>(15,185,748)</u>
Cash flows from noncapital financing activities:			
Cash collections of support from Zoo Museum District	17,382,195	—	17,382,195
Proceeds from contributions	1,323,459	13,590,052	14,913,511
Investment subject to split-interest agreements	—	89,772	89,772
Payment of note payable	(323,333)	(10,000)	(333,333)
Payments on split-interest agreements	—	(18,683)	(18,683)
Payments from the Foundation (Payments to the Subdistrict)	3,044,114	(3,044,114)	—
Net cash provided by noncapital financing activities	<u>21,426,435</u>	<u>10,607,027</u>	<u>32,033,462</u>
Cash flows from investing activities:			
Purchase of investments	(6,802,788)	(31,499,115)	(38,301,903)
Investment income	1,431,140	1,442,327	2,873,467
Proceeds from sale of investments	9,063,275	15,855,568	24,918,843
Net cash (used in) provided by investing activities	<u>3,691,627</u>	<u>(14,201,220)</u>	<u>(10,509,593)</u>
Cash flows from capital and related financing activities:			
Cash collections of grant support	96,248	—	96,248
Other financing activities:			
Contributions to Forest Park	(160,559)	—	(160,559)
Purchase of property and equipment	(3,091,154)	—	(3,091,154)
Net cash used in capital and related financing activities	<u>(3,155,465)</u>	<u>—</u>	<u>(3,155,465)</u>
Net increase (decrease) in cash and cash equivalents	4,514,185	(1,331,529)	3,182,656
Cash and cash equivalents at beginning of year	3,529,246	2,693,272	6,222,518
Cash and cash equivalents at end of year	<u>\$ 8,043,431</u>	<u>1,361,743</u>	<u>9,405,174</u>
Cash and cash equivalents are included within the following captions on the statements of net assets:			
Cash and cash equivalents:			
Unrestricted	\$ 5,857,221	736,961	6,594,182
Restricted	2,186,210	624,782	2,810,992
Cash and cash equivalents	<u>\$ 8,043,431</u>	<u>1,361,743</u>	<u>9,405,174</u>
Reconciliation of operating income (loss) to net cash (used in) provided by operating activities:			
Operating income (loss)	\$ (19,430,177)	2,231,387	(17,198,790)
Adjustments to reconcile operating income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	1,255,696	—	1,255,696
Changes in assets and liabilities:			
Accounts receivable	45,637	41,740	87,377
Prepaid expenses	19,098	4,000	23,098
Inventory held for resale	136,507	—	136,507
Accounts payable	425,272	(14,463)	410,809
Accrued expenses	38,987	—	38,987
Other liabilities	60,568	—	60,568
Total adjustments	<u>1,981,765</u>	<u>31,277</u>	<u>2,013,042</u>
Net cash (used in) provided by operating activities	<u>\$ (17,448,412)</u>	<u>2,262,664</u>	<u>(15,185,748)</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

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(1) Summary of Significant Accounting Policies

The Art Museum Subdistrict (the Subdistrict) was established by an act of the Missouri State Legislature in 1971. The Subdistrict operates the Saint Louis Art Museum, and is supported by private contributions and support from the Metropolitan Zoological Park and Museum District of the City of St. Louis and St. Louis County (the Zoo-Museum District). Support from the Zoo-Museum District represents a continuous appropriation of an allocation of property tax revenues from the City of St. Louis and St. Louis County, which are levied on behalf of the Subdistrict by the Zoo-Museum District. The Subdistrict has no authority to levy taxes on its own.

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

(a) Reporting Entity

The Subdistrict's financial reporting entity has been determined in accordance with governmental accounting 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 St. Louis Art Museum Foundation (the Foundation).

The Foundation, a separate legal entity, was incorporated as a Missouri not-for-profit organization to act as an organization for certain of the Saint Louis Art Museum's fundraising activities. The income and resources generated by the Foundation support the efforts of the Art Museum Subdistrict. Additionally, members of the Board of Commissioners for the Subdistrict appoint the members of the Board of Directors for the Foundation. Consequently, the Foundation is included as a discretely presented component unit of the Subdistrict. The financial activity of the Foundation is presented in a separate column in the accompanying basic financial statements to emphasize that it is legally separate from the Subdistrict. The accompanying basic financial statements include the financial statements of the Foundation. Separate financial statements of the Foundation are not prepared.

(b) Basis of Accounting

The Subdistrict and Foundation prepare their financial statements in accordance with U.S. generally accepted accounting principles for business-type activities. Accordingly, the economic resource measurement focus and the accrual basis of accounting are used whereby revenues are recorded when earned and expenses are recorded when incurred.

In reporting their financial activity, the Subdistrict and Foundation apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedures. The Subdistrict and Foundation have elected not to apply FASB pronouncements issued after November 30, 1989.

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Business-type activities distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a business-type activities ongoing operations. Revenues from merchandise sales and admissions, proceeds from deaccessions of collections, and members' contributions are reported as operating revenues. All expenses related to operating the Subdistrict or Foundation are reported as operating expenses. Transactions which are capital, financing, or investing related are reported as nonoperating revenues.

(c) *Revenue Recognition*

The Subdistrict recognizes merchandise sales as revenue at the point of sale. The Subdistrict and Foundation recognize members' contributions as revenue when received.

Support from the Zoo-Museum District represents a continuous appropriation to the Subdistrict by the Zoo-Museum District. Accordingly, the Subdistrict recognizes support from the Zoo-Museum District based on an allocation of property taxes which are levied by the Zoo-Museum District, net of the Zoo-Museum District management fee and an allowance for uncollectible accounts.

The Subdistrict and Foundation recognize contributions, including unconditional promises to give due in future periods, when the contribution is received and all eligibility requirements, including time requirements, are met.

(d) *Cash and Cash Equivalents*

For purposes of the statements of cash flows, cash and cash equivalents consists of cash on hand and in banks, and overnight sweep repurchase agreements.

(e) *Investments*

The Subdistrict and Foundation's investments are stated at fair value. Fair value of all debt and equity securities with a readily determinable fair value is based on quotations obtained from national securities exchanges.

The Foundation has its international portfolio invested in the Silchester International Investors International Value Equity Trust (the Silchester Investment Trust). The funds are combined with other investors in the Silchester Investment Trust, and the Foundation owns shares of the trust. The Silchester Investment Trust is not a publicly traded security. Units in the Silchester Investment Trust can be redeemed on a monthly basis, as of the first business day of each month.

Despite these restrictions, the Foundation considers the units invested in the Silchester Investment Trust as marketable because it is primarily invested in non-US publicly traded equity securities. For example, 99.7% of the underlying investments are invested in 115 different securities that are traded on non-US stock exchanges. The remaining value of the Silchester Investment Trust as of December 31, 2005 consisted of non-USD cash (held in Euros), dividends, withholding tax reclaims and unrealized forward currency gains/losses. All securities held by the Silchester Investment Trust are

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valued using their closing market prices as reported on the relevant stock exchange. Cash, dividends, other accruals, and spot and forward currency transactions are valued using exchange trades that are publicly disseminated by WM/Reuters (the exact rate is the 4:00PM London closing rate).

Silchester outsources the custodianship of the assets to Northern Trust Company and is not involved in the calculation of the Silchester Investment Trust's unit prices and/or preparation/distribution of client statements. The Northern Trust Company acts as the independent custodian and record keeper for the Silchester Investment Trust. Northern Trust independently values all assets held by the Silchester Investment Trust.

The Foundation has its small capitalization portfolio invested in a pooled fund managed by Wellington Trust Company, NA (Wellington Investment Trust). The Wellington Investment Trust values investments in portfolio securities on the basis of valuations furnished by pricing services authorized by the Wellington Trust Company, as Trustee. For fixed income securities, these services determine valuations for normal, institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships between securities that are generally recognized by institutional traders. Equity and other portfolio securities are normally valued based on their closing sales price or, in the absence of a sale, at their reported bid price. In the absence of readily ascertainable market values, the Trustee shall determine such values in accordance with the provisions of the Plan and Declaration of Trust. Domestic time deposits, discount notes, and commercial paper with maturities of 60 days or less are valued at amortized cost, which approximates market value. Investments in regulated investment companies or other Wellington Trust pooled funds are valued at the net asset value per share/unit on the valuation date. Futures contracts are generally valued at closing settlement prices. Foreign investments are translated into U.S. dollars based on exchange rates prevailing at the valuation date. Exchange traded options are valued at the last sales price or, if no sales are reported, the last bid price for purchased options and the last ask price for written options. Options traded over the counter are valued using prices supplied by dealers.

As of December 31, 2005, the Foundation was invested in the Wellington Trust Company-CTF Small Cap 2000 Portfolio, which was made up of 174 securities. State Street Bank is Wellington's custodian for the Wellington Trust Company-CTF Small Cap 2000 Portfolio, and 172, or 98.9%, of the total securities in the pool were valued through vendors who provide closing market prices as reported on respective relevant exchanges. The fair value of one security, or 0.6%, of the total securities in the portfolio was determined by the Wellington Trust Company. The remaining security is an investment in another Wellington Trust Company pool, and accordingly valued at the net asset value per share/unit on the valuation date.

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(f) Capital Assets

Capital assets of the Subdistrict are recorded at original cost or, if donated, at fair market value at date of donation. Capital assets are defined as assets with an initial, individual cost of \$250 or more and an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to five years for furniture and equipment, 10 years for certain building improvements, and 30 years for buildings.

(g) Prepaid expenses

At December 31, 2005, prepaid expenses represents \$211,505 of payments to vendors for insurance costs, \$49,000 of payments to other Museums for exhibition costs, and \$66,155 of other payments to vendors and contractors applicable to future accounting periods.

(h) Inventory Held for Resale

Inventory held for resale by the Subdistrict's Museum Shop is stated at the lower of cost (determined on a first-in, first-out basis) or market.

(i) Collections

The Subdistrict collects works of art representing many periods and cultures. The Subdistrict's collections, as permitted by U.S. generally accepted accounting principles, is not capitalized in the accompanying financial statements because it meets the following criteria:

- The collections are held for public exhibition.
- The collection is cataloged, preserved, and cared for, with activities verifying the existence and condition of the collection performed annually.
- The Subdistrict's collections' policy requires the proceeds from the sales of deaccessioned items, which are items removed from the collection, to be used to acquire other objects for the collections.

The Subdistrict preserves, collects, and interprets the collection through curatorial research and educational outreach. The Subdistrict's curatorial, conservation, library, and registrarial staff work to interpret and present the permanent collections in the historic galleries of the Beaux Art building constructed at the time of the 1904 World's Fair.

Objects can be acquired, or accessioned, by purchase or by outright gift. Items acquired by outright gift are recorded as other revenue and accessions of art for collections at their estimated fair market value in the year of donation.

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A summary of the Subdistrict's deaccessions and accessions for the year ended December 31, 2005 is as follows:

Proceeds from deaccessions of collections	\$	<u>2,742,200</u>
Accessions of art for collections:		
Value of objects acquired by gift	\$	363,127
Purchase of accessions of art for collections		<u>1,407,146</u>
	\$	<u>1,770,273</u>

(j) Accounts Payable

The Subdistrict and Foundation's accounts payable balances of as of December 31, 2005 represents \$1,852,265 and \$51,646, respectfully, of amounts due to vendors and contractors.

(k) Accrued Expenses

The Subdistrict's accrued expenses balance of as of December 31, 2005 represents \$204,163 of accrued salaries due to employees, \$21,408 of accrued contributions to the Employee Retirement System of the City of St. Louis, and \$482,356 of accrued vacation due to employees. Vacation is granted to all full-time employees based on years of continuous service.

(l) Other Liabilities

The Subdistrict's other liabilities of as of December 31, 2005 represent \$1,133,365 of amounts due under deferred compensation plans, and \$10,080 of amounts due to employees, and \$7,722 of deferred revenue to be recognized in future periods.

(m) Net Assets

The Subdistrict and Foundation's net assets are classified for financial reporting purposes in the following net asset categories:

Invested in capital assets – This component of net assets includes capital assets, net of accumulated depreciation.

Restricted –

Expendable – This component of net assets includes net assets whose use by the Subdistrict or the Foundation is subject to externally imposed stipulations that can be fulfilled by actions of the Subdistrict or the Foundation.

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Nonexpendable – This component of net assets includes net assets subject to externally imposed stipulations that the assets be maintained permanently by the Subdistrict or the Foundation. Such assets include the Subdistrict or the Foundation’s permanent endowment fund. The Subdistrict and the Foundation’s policy permits the excess of total investment return exclusive of unrealized gains and losses on investments, over the amount computed by applying the approved stated spending rate, 4.5% to a 5 year trailing market average for 2005 (i.e., harvest policy), to the market value of permanently restricted endowment principal, to be reinvested as a component of permanently restricted net assets. Depending on the presence or absence of donor stipulations as to use, the amount harvested is recorded as a part of unrestricted or restricted – expendable net assets.

Unrestricted – For the Subdistrict, this component of net assets includes net assets that are not subject to externally imposed stipulations. For the Foundation, this component of net assets includes net assets that are restricted for the support of the Subdistrict, but that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Commissioners of the Subdistrict or the Board of Directors of the Foundation. When an expense is incurred that can be paid using either restricted or unrestricted resources, the Subdistrict and the Foundation’s policy is to first apply the expense towards restricted resources, and then towards unrestricted resources.

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Subdistrict and Foundation 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 and expenses during the reporting period. Actual results could differ from those estimates.

(o) Contributed Services

A substantial number of unpaid volunteers contribute services to the Subdistrict. The estimated value of this contributed time for the year ending December 31, 2005 is \$185,311. The value of contributed services is not reflected in the accompanying statement of revenues, expenses, and changes in net assets.

(p) Federal Income Tax

The Subdistrict is exempt from federal income taxes under Sections 115(a) and 501(c)(3) of the Internal Revenue Code, except for any unrelated business income activities.

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for any unrelated business income activities.

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(2) Investments

All investment decisions of the Subdistrict and Foundation are recommended by Investment Committee, and made in accordance with the Investment Policy Statement adopted by the Subdistrict and the Foundation on March 22, 1999.

Repurchase agreements are classified as cash and cash equivalents on the statements of net assets and statements of cash flows, but as investments for the following risk disclosures.

Subdistrict

The Subdistrict's investment policies require the investments of the Subdistrict be maintained in accordance with all State and Federal laws, rules and regulations, and any applicable trust restrictions. The Subdistrict's Investment Committee has the responsibility of ensuring compliance with the existing investment policy, monitoring management's compliance with state laws, and also responsible for recommending any changes to investment custodians, managers or changes to the policy.

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be adversely affected by a change in interest rates. The Subdistrict's investment policy provides that the Subdistrict's investment pool, excluding assets related to deferred compensation plans or which were donated, should consist entirely of fixed income securities, specifically U.S. Treasury and U.S. Agency securities, with maturity dates staggered over approximately a five year maturity.

As of December 31, 2005 the Subdistrict had the following investments and maturities:

	Fair value	Investment maturities (in years)				No maturity
		Less than one	1-5	6-10	More than ten	
Investment type:						
U.S. Treasuries	\$ 1,594,917	1,111,662	405,699	77,556	—	—
U.S. Agencies	22,916,585	6,232,347	12,172,375	2,464,676	2,047,187	—
Corporate bonds	25,254	—	—	—	25,254	—
Stocks	792,546	—	—	—	—	792,546
Money market accounts	2,039,579	—	—	—	—	2,039,579
Repurchase agreements	6,272,276	6,272,276	—	—	—	—
Other investments:						
Silchester Investment Trust	280,622	—	—	—	—	280,622
Total	\$ 33,921,779	13,616,285	12,578,074	2,542,232	2,072,441	3,112,747

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(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured using credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Standard & Poor's and Moody's.

The Subdistrict's investment policy requires that the average credit quality of the portfolio of investments be maintained at AA- or higher, and that corporate fixed income securities be limited to quality ratings of BBB or above, as rated by Moody's and/or Standard and Poor's. The policy dictates that split-rated issues in which one of the ratings is below investment grade are not permissible.

The following table lists the credit quality ratings per Moody's and/or Standard and Poor's of the Subdistrict's investments as of December 31, 2005:

	Fair value	Quality ratings		
		AAA	A	Unrated
Investment type:				
U.S. Treasuries*	\$ 1,594,917	—	—	1,594,917
U.S. Agencies	22,916,585	22,916,585	—	—
Corporate bonds	25,254	—	25,254	—
Stocks	792,546	—	—	792,546
Money market accounts	2,039,579	—	—	2,039,579
Repurchase agreements	6,272,276	6,272,276	—	—
Other investments:				
Silchester Investment Trust	280,622	—	—	280,622
Total	\$ 33,921,779	29,188,861	25,254	4,707,664

* U.S. Treasuries are explicitly guaranteed by the U.S. government, and therefore do not require a rating.

(c) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a counterparty, the Subdistrict will not be able to recover the value of the investments, collateral securities, or deposits that are in the possession of the counterparty. The Subdistrict does not have a formal policy related to custodial credit risk of investments or deposits. At December 31, 2005, all of the Subdistrict's investments are insured and registered, and are held by the counterparty's trust department or agent in the Subdistrict's name. At December 31, 2005, \$100,629 of the Subdistrict's bank balance of \$1,648,542 were uninsured and uncollateralized, and thus exposed to custodial credit risk.

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(d) Concentration of Credit Risk

The Subdistrict's investment policy provides that the Subdistrict's investment pool, excluding assets related to deferred compensation plans or which were donated, should consist entirely of fixed income securities, specifically U.S. Treasury and U.S. Agency securities.

At December 31, 2005, the concentration of the Subdistrict's investments was as follows:

Investment type:	
U.S. Treasuries	4.70%
U.S. Agencies	67.60%
Corporate bonds	0.10%
Stocks	2.30%
Money market accounts	6.00%
Repurchase agreements	18.50%
Other investments:	
Silchester Investment Trust	0.80%
Total	100.00%

Investments are included within the Subdistrict's accompanying statement of net assets as of December 31, 2005 as follows:

Cash and cash equivalents:	
Unrestricted	\$ 5,857,221
Restricted	415,055
Current investments – unrestricted	10,456,755
Noncurrent investments:	
Unrestricted	9,324,019
Restricted	7,868,729
Total investments	\$ 33,921,779

Foundation

The Foundation is incorporated as a Missouri not-for-profit organization organized under Chapter 355 of the Missouri revised Statutes, and as such, is not subject to the restrictions on investments of governmental subdivisions contained in Article 6, Section 23 of the Missouri Constitution. Specifically, not-for-profit corporations are not restricted under Missouri law from investing in corporate stock and similar investments.

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The Foundation uses investment trusts to diversify its portfolio in international and small capitalization stocks. While there are no ticker symbols for either the Silchester Investment Trust, an international portfolio, or the Wellington Investment Trust, a small capitalization portfolio, over 99% of the underlying investments for these investment trusts are traded on public exchanges for which market prices are readily determinable. The Foundation has the option to liquidate its investments in these investment trusts once per month at a price determined based upon this readily available public information.

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be adversely affected by a change in interest rates. The Foundation does not have a formal investment policy related to interest rate risk.

As of December 31, 2005 the Foundation had the following investments and maturities:

	Fair value	Investment maturities (in years)				
		Less than one	1-5	6-10	More than ten	No maturity
Investment type:						
U.S. Treasuries	\$ 2,480,441	799,200	927,169	295,685	458,387	—
U.S. Agencies	16,031,441	2,918,245	10,691,323	640,166	1,781,707	—
Corporate bonds	2,561,491	170,106	549,859	832,541	1,008,985	—
Taxable municipal bonds	237,020	—	89,155	123,428	24,437	—
Stocks	20,461,169	—	—	—	—	20,461,169
Mutual funds	11,781,455	—	—	—	—	11,781,455
Money market accounts	4,987,497	—	—	—	—	4,987,497
Other investments:						
Silchester Investment Trust	11,871,409	—	—	—	—	11,871,409
Wellington Investment Trust	11,541,608	—	—	—	—	11,541,608
Other	78,300	—	—	—	—	78,300
Total	\$ 82,031,831	3,887,551	12,257,506	1,891,820	3,273,516	60,721,438

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is measured using credit quality ratings of investments in debt securities as described by nationally recognized rating agencies such as Standard & Poor's and Moody's.

The Investment Policy requires that the average credit quality of the portfolio of investments be maintained at AA- or higher, and that corporate fixed income securities be limited to quality ratings of BBB or above, as rated by Moody's and/or Standard and Poor's. The policy dictates that split-rated issues in which one of the ratings is below investment grade are not permissible.

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The following table lists the credit quality ratings per Moody's and/or Standard and Poor's of the Foundation's investments as of December 31, 2005:

	Fair value	Quality Ratings				
		AAA	AA+	AA	AA-	A+
Investment type:						
U.S. Treasuries*	\$ 2,480,441	—	—	—	—	—
U.S. Agencies	16,031,441	16,031,441	—	—	—	—
Corporate bonds	2,561,491	776,316	101,391	150,165	33,154	362,879
Taxable municipal bonds	237,020	237,020	—	—	—	—
Stocks	20,461,169	—	—	—	—	—
Mutual funds	11,781,455	—	—	—	—	—
Money market accounts	4,987,497	—	—	—	—	—
Other investments:						
Silchester Investment Trust	11,871,409	—	—	—	—	—
Wellington Investment Trust	11,541,608	—	—	—	—	—
Other	78,300	—	—	—	—	—
Total	\$ 82,031,831	17,044,777	101,391	150,165	33,154	362,879

	Fair value	Quality Ratings				
		A	A-	BBB+	BBB	BBB-
Investment type:						
U.S. Treasuries*	\$ —	—	—	—	—	2,480,441
U.S. Agencies	—	—	—	—	—	—
Corporate bonds	256,428	144,795	176,222	139,600	12,737	407,804
Taxable municipal bonds	—	—	—	—	—	—
Stocks	—	—	—	—	—	20,461,169
Mutual funds	—	—	—	—	—	11,781,455
Money market accounts	—	—	—	—	—	4,987,497
Other investments:						
Silchester Investment Trust	—	—	—	—	—	11,871,409
Wellington Investment Trust	—	—	—	—	—	11,541,608
Other	—	—	—	—	—	78,300
Total	\$ 256,428	144,795	176,222	139,600	12,737	63,609,683

* U.S. Treasuries are explicitly guaranteed by the U.S. government, and therefore do not require a rating.

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(c) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a counterparty, the Foundation will not be able to recover the value of the investments or collateral securities that are in the possession of the counterparty. The Foundation does not have a formal policy related to custodial credit risk of investments or deposits. At December 31, 2005, \$85,784 of the Foundation's investments were uninsured and uncollateralized, and thus exposed to custodial credit risk. At December 31, 2005, \$1,169,779 of the Foundation's bank balance of \$1,269,779 were uninsured and uncollateralized, and thus exposed to custodial credit risk.

(d) Concentration of Credit Risk

The Investment Policy provides that no more than 35% of the Foundation's investments can be invested with one investment manager. Additionally, the Foundation's Investment Policy includes an asset allocation policy, which includes the following target investment allocations with a permissible variance of +/-5%:

Investment type:	
Equity investments:	
Large capitalization	40.00%
Small capitalization	15.00%
International	15.00%
Fixed income investments	30.00%
Total	100.00%

At December 31, 2005, the concentration of the Foundation's investments was as follows:

Investment type:	
U.S. Treasuries	3.02%
U.S. Agencies	19.55%
Corporate bonds	3.12%
Taxable municipal bonds	0.29%
Stocks	24.94%
Mutual funds	14.36%
Money market accounts	6.08%
Other investments:	
Silchester Investment Trust	14.47%
Wellington Investment Trust	14.07%
Other	0.10%
	100.00%

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Investments are included within the Foundation's accompanying statement of net assets as of December 31, 2005 as follows:

Current investments:		
Unrestricted	\$	36,264,022
Restricted		28,344,967
Noncurrent investments - restricted		17,422,842
Total investments	\$	<u><u>82,031,831</u></u>

(3) Contributions Receivable

At December 31, 2005, the present value of the Subdistrict's contributions receivable are expected to be collected in the future as follows:

Year ended December 31:		
2006	\$	227,742
2007		100,000
		<u>327,742</u>
Less unamortized discount		<u>(12,387)</u>
	\$	<u><u>315,355</u></u>

At December 31, 2005, the present value of the Foundation's contributions receivable are expected to be collected in the future as follows:

Year ended December 31:		
2006	\$	3,052,762
2007		3,007,794
2008		3,107,796
2009		1,757,264
2010		1,091,975
2011-2013		2,836,925
		<u>14,854,516</u>
Less unamortized discount		<u>(1,926,849)</u>
	\$	<u><u>12,927,667</u></u>

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(4) Beneficial Interest in Perpetual Trusts

At December 31, 2005, the fair value of the Subdistrict's beneficial interest in perpetual trusts was \$2,432,433. Due to time restrictions, these funds are not available to the Subdistrict and are not included in the accompanying statement of net assets. Income earned and distributed to the Subdistrict for the year ended December 31, 2005 was \$151,162.

(5) Capital Assets

The following is a summary of changes in capital assets for the Subdistrict for the year ended December 31, 2005:

	<u>Balance January 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance December 31, 2005</u>
Capital assets not being depreciated:				
Construction in process	\$ 585,131	993,551	(210,596)	1,368,086
Total capital assets not being depreciated	<u>585,131</u>	<u>993,551</u>	<u>(210,596)</u>	<u>1,368,086</u>
Capital assets being depreciated:				
Building improvements	31,971,472	1,743,386	—	33,714,858
Furniture, fixtures, and equipment	3,893,379	564,614	(14,435)	4,443,558
Total capital assets being depreciated	<u>35,864,851</u>	<u>2,308,000</u>	<u>(14,435)</u>	<u>38,158,416</u>
Less accumulated depreciation for:				
Building improvements	(14,560,146)	(856,145)	—	(15,416,291)
Furniture, fixtures, and equipment	(3,283,611)	(399,551)	14,067	(3,669,095)
Total accumulated depreciation	<u>(17,843,757)</u>	<u>(1,255,696)</u>	<u>14,067</u>	<u>(19,085,386)</u>
Total capital assets being depreciated, net	<u>18,021,094</u>	<u>1,052,304</u>	<u>(368)</u>	<u>19,073,030</u>
Capital assets, net	<u>\$ 18,606,225</u>	<u>2,045,855</u>	<u>(210,964)</u>	<u>20,441,116</u>

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Depreciation expense for 2005 was allocated to the following functions of the Subdistrict:

Building operations and maintenance	\$	736,986
Administration		423,040
Museum Shop		95,670
		95,670
	\$	1,255,696

(6) Support from the Zoo-Museum District

Support from the Zoo-Museum District represents property tax revenues from the following sources:

City of St. Louis, Missouri	\$	2,271,448
St. Louis County, Missouri		15,755,601
Zoo-Museum District excess operating fund revenues		262,999
		262,999
	\$	18,290,048

Zoo-Museum District excess operating fund revenues represent the portion of tax revenues withheld for operations over actual expenses incurred by the Zoo-Museum District during the year, which has been allocated and credited to the Subdistrict's account with the Zoo-Museum District.

(7) Noncurrent Liabilities

Following is a summary of the changes in noncurrent liabilities of the Subdistrict for the year ended December 31, 2005:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
Note payable	\$ 980,000	—	(323,333)	656,667	323,334
Other liabilities	1,090,599	122,540	(61,972)	1,151,167	83,398
	\$ 2,070,599	122,540	(385,305)	1,807,834	406,732

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Following is a summary of the changes in noncurrent liabilities of the Foundation for the year ended December 31, 2005:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Obligations under split-interest agreements	\$ 105,009	89,772	(18,683)	176,098	20,000
Note payable	20,000	—	(10,000)	10,000	10,000
	<u>\$ 125,009</u>	<u>89,772</u>	<u>(28,683)</u>	<u>186,098</u>	<u>30,000</u>

Note Payable

In 2002, the Subdistrict and the Foundation entered into an agreement for the acquisition of certain prints of works of Max Beckmann. As part of this agreement, the Subdistrict and the Foundation entered into a promissory note in the amount of \$1,666,667 payable over a five-year period in equal annual installments of \$333,333, with the first annual installment being due October 2003. The promissory note has no stated accrual interest on the unpaid principal balance. The outstanding balance of the note payable at December 31, 2005 is \$666,667.

Following is the scheduled maturity of the note payable:

	<u>Museum Subdistrict</u>	<u>Foundation</u>	<u>Total</u>
Year ending December 31:			
2006	\$ 323,334	10,000	333,334
2007	333,333	—	333,333
	<u>\$ 656,667</u>	<u>10,000</u>	<u>666,667</u>

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(8) Operating Lease Commitment

In December 2004, the Subdistrict entered into an operating lease agreement for warehouse space. The operating lease agreement specifies that the Subdistrict is to pay, on a monthly basis, their pro rata share of base rent, utilities, maintenance, real estate taxes, and insurance premium expenses for the leased warehouse space. For the year ended December 31, 2005, the Subdistrict incurred operating lease expenses of \$102,996. The amount of base rent and utilities expense is fixed for the term of the lease agreement and is shown as the annual aggregate minimum lease payments remaining under the terms of the lease agreement. Minimum lease payments are as follows:

Year ending December 31:		
2006	\$	62,000
2007		62,000
2008		62,000
2009		56,834
		<u>242,834</u>
	\$	<u>242,834</u>

(9) Split-interest Agreements

The Foundation administers gift annuities subject to obligations to pay fixed amounts periodically to the respective donor or designated beneficiaries during their lifetimes. Assets held under these split-interest agreements are included in investments and long-term investments. Contribution revenue is recorded at the inception date of each split-interest agreement, net of the related obligation under split-interest agreement, which is recorded at present value utilizing discount rates ranging between 4.37% and 5.00%, for estimated future payments to be made to the donors or designated beneficiaries during their lifetimes. The obligations under split-interest agreements are adjusted over the term of the agreements for changes in the fair value of the assets, accretion of the discount, and other changes in estimates of future benefits.

(10) Pension Plan

The Subdistrict provides retirement benefits to substantially all regular employees through participation in the Employee Retirement System of the City of St. Louis (Employee Retirement System), a cost-sharing multiple-employer public defined benefit retirement plan. Responsibility for the operation and administration of the Employee Retirement System is vested with the Employee Retirement System's Board of Trustees.

The Employee Retirement System issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to the Employee Retirement System of the City of St. Louis; 1300 Convention Plaza, Suite 217; St. Louis, Missouri 63103-1935.

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The Employee Retirement System provides for defined benefit payments for retirement, death, or disability to eligible employees or their beneficiaries based upon creditable service, final average compensation, and a benefit compensation base. Benefits vest to employees covered by the Employee Retirement System after the employee has attained five years of creditable service. Employees retire with full retirement benefits after the age of 65, or if an employee's age and creditable service combined equal or exceed 85. Employees may retire and receive a reduced benefit after age 60 with five years of creditable service, age 55 with at least 20 years of creditable service, or any age with 30 years of creditable service.

Contributions to the Employee Retirement System represent a level percentage of covered compensation of eligible employees, which is computed annually based on actuarially determined amounts required to fund the normal cost of the plan and completely amortize prior service costs by no later than December 31, 2011. Contributions to the Employee Retirement System were \$1,054,787, \$906,401, and \$668,625 for the years ended December 31, 2005, 2004, and 2003, respectively, which were equal to the required contributions each year. This amount was recorded to the appropriate functional expense line as a cost of operations in the accompanying Subdistrict's statement of revenues, expenses, and changes in net assets. There is no separately determined actuarial information with respect to the Subdistrict's participation in the Employee Retirement System.

(11) Risk Management

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

(12) Restatement of Beginning of Year Net Assets

In prior years, for financial reporting purposes, the Subdistrict and the Foundation were combined and reported as a single not-for-profit organization under financial reporting standards prescribed by Financial Accounting Standards Board (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. During 2005, management reevaluated the financial reporting entity in accordance with U.S. generally accepted accounting principles. In doing so, the Subdistrict was determined to be a governmental entity for financial reporting purposes. This determination was a result of the appointment of the Board of Commissioners of the Subdistrict by the City of St. Louis, Missouri and St. Louis County, Missouri, as established within Missouri Revised Statutes, Section 184.358, and the consideration of the potential for unilateral dissolution of the Subdistrict, as established within Missouri Revised Statutes, Section 184.355. The Foundation, a separate legal entity, was also determined to be a governmental entity for financial reporting purposes as a result of the appointment of the Board of Directors of the Foundation by the Board of Commissioners of the Subdistrict. The Foundation is included as a discretely presented component unit of the Subdistrict because its Board is appointed by the Board of Commissioners of the Subdistrict and because its fundraising efforts support the activities of the Subdistrict.

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The Subdistrict and the Foundation recognize revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As a result of differences between revenue recognition of GASB pronouncements and revenue recognition of FASB pronouncements, the Subdistrict has restated its December 31, 2004 net assets to eliminate beneficial interest in perpetual trusts, which have not met eligibility requirements associated with time restrictions, and are therefore not eligible for recognition within the accompanying financial statements. Consequently, an adjustment to the Subdistrict's December 31, 2004 net assets was made in the amount of \$2,117,780. There would have been a corresponding decrease on the change in net assets of \$197,552 for the year ended December 31, 2004.

As a result of differences between revenue recognition of GASB pronouncements and revenue recognition of FASB pronouncements, the Foundation has restated its December 31, 2004 net assets to eliminate contributions receivable that are restricted for investment in the Foundation's permanent endowment, which have not met eligibility requirements associated with time restrictions, and are therefore not eligible for recognition within the accompanying financial statements. Consequently, an adjustment to the Foundation's December 31, 2004 net assets was made in the amount of \$1,937,465. There would have been a corresponding decrease on the change in net assets of \$82,909 for the year ended December 31, 2004.

In prior years, the Subdistrict included certain land improvements as nondepreciable capital assets. During 2005, the Subdistrict's management determined these land improvements represented improvements that were subject to depreciation, and which would have been fully depreciated as of December 31, 2003. Consequently, an adjustment to the Subdistrict's December 31, 2004 net assets was made in the amount of \$896,252. There would have been no corresponding impact on the change in net assets for the year ended December 31, 2004.

In prior years, the Subdistrict recorded support from the Zoo-Museum District on the cash basis of accounting. During 2005, the Subdistrict's management determined that support from the Zoo-Museum District should be recorded on the accrual basis of accounting, in conformity with U.S. generally accepted accounting principles. Under the cash basis of accounting, revenue recognition of support from the Zoo-Museum District was dependent upon the timing of deposits of property tax revenues from the City of St. Louis, Missouri and St. Louis County, Missouri to the Zoo-Museum District. However, under the accrual basis of accounting, support from the Zoo-Museum District represents a continuous appropriation, and accordingly revenue recognition is based on an allocation of property taxes which are levied by the Zoo-Museum District. Consequently, an adjustment to the Subdistrict's December 31, 2004 net assets was made in the amount of \$9,932,865. There would have been a corresponding increase on the change in net assets of \$329,557 for the year ended December 31, 2004.

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The Subdistrict's and Foundation's December 31, 2004 net assets have been restated as follows:

	December 31, 2004		
	Combined net assets, as previously reported	Museum Subdistrict net assets	Foundation net assets
Net assets at December 31, 2004, as previously reported \$	136,079,208	—	—
Adjustments:			
Change in financial reporting entity	(136,079,208)	57,594,843	78,484,365
Beneficial interest in perpetual trust	—	(2,117,780)	—
Contributions receivable	—	—	(1,937,465)
Capital assets	—	(896,252)	—
Support from the Zoo-Museum District	—	9,932,865	—
Net assets at December 31, 2004, as restated \$	<u>—</u>	<u>64,513,676</u>	<u>76,546,900</u>

The effect of the above noted items on the change in net assets for the year ended December 31, 2004 of the Subdistrict and the Foundation would have been as follows:

	For the year ended December 31, 2004		
	Combined change in net assets, as previously reported	Museum Subdistrict change in net assets	Foundation change in net assets
Change in net assets for the year ended December 31, 2004, as previously reported \$	24,944,783	—	—
Effect on change in net assets for the year ended December 31, 2004:			
Change in financial reporting entity	(24,944,783)	2,087,913	22,856,870
Beneficial interest in perpetual trust	—	(197,552)	—
Contributions receivable	—	—	(82,909)
Support from the Zoo-Museum District	—	329,557	—
Change in net assets for the year ended December 31, 2004 \$	<u>—</u>	<u>2,219,918</u>	<u>22,773,961</u>