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Basic Financial Statements, 2005

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

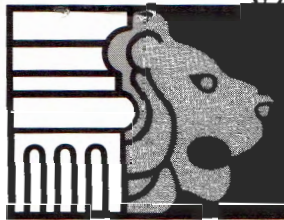
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Immediate Past Chair

J. Patrick Dougherty

Executive Director

Claire McCaskill
State Auditor
BOX 869
Jefferson City, MO 65102

Dear Ms. McCaskill:

Enclosed please find the annual report for the History Museum Subdistrict. The auditors from KPMG along with the attorneys for the Subdistrict required additional time in restating the report.

If additional information is required, please contact me directly.

Sincerely,

Sharon L. Wilcutt
Deputy Director

47061



**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, 2005

(With Independent Auditors' Report Thereon)

**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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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
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 discretely presented component unit, and the major 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, 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 governmental activities, the discretely presented component unit, and the major 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 as of December 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As disclosed in note 11 to the basic financial statements, the net assets of the governmental activities and the fund balance of the general fund of the Subdistrict as of December 31, 2004 have been restated.

The Management's Discussion and Analysis, on pages 2 through 7, and the Budgetary Comparison Information, on pages 21 and 22, are not a required part of the 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.

KPMG LLP

St. Louis, Missouri
April 20, 2006

**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, 2005

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 \$9.0 million in 2004 to \$9.6 million in 2005. This represents an increase of 6.7%. The increase results from the growth in the assessed valuations of properties within the District.
- The Subdistrict restated its December 31, 2004 net assets and fund balance as a result of a correction discussed in note 11 to the financial statements, which resulted in an increase to the December 31, 2004 net assets and fund balance of \$5,033,536 and \$4,266,054, respectively.
- The year-end balance of Due from the Metropolitan Zoological Park and Museum District increased from \$3.3 million in 2004 to \$3.7 million in 2005. 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.

**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, 2005

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
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, 2005

Financial Analysis of the Subdistrict as a Whole

Net assets

On a government-wide basis, the Subdistrict's net assets were approximately \$8.8 million at December 31, 2005 and 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
Schedule of Net Assets
December 31, 2005 and 2004**

| | 2005 | 2004 (as restated)* |
|-----------------------------------|--------------|------------------------|
| Assets: | | |
| Current and other assets | \$ 8,279,235 | 8,315,797 |
| Capital assets, net | 546,546 | 565,008 |
| Total assets | 8,825,781 | 8,880,805 |
| Liabilities: | | |
| Long-term liabilities outstanding | - | - |
| Other liabilities | - | - |
| Total liabilities | - | - |
| Net assets: | | |
| Invested in capital assets | 546,546 | 565,008 |
| Unrestricted | 8,279,235 | 8,315,797 |
| Total net assets | \$ 8,825,781 | 8,880,805 |

* Refer to note 11 to the financial statements for additional information on the restatement of the 2004 amounts.

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the Subdistrict, assets exceeded liabilities by \$8.8 million at the close of the current fiscal year.

Approximately 6.1% of the Subdistrict's net assets reflects its investment of \$546,546 in capital assets. The Subdistrict uses these capital assets to provide services; consequently, these assets are not available for future spending.

(Continued)

**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, 2005

Governmental activities

The following schedule shows the revenues and expenses for the Subdistrict's activities for the years ended December 31, 2005 and 2004.

**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 Changes in Net Assets
For the years ended December 31, 2005 and 2004**

| | 2005 | 2004 (as restated)* |
|--|-------------|------------------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 20 | 20 |
| General revenues: | | |
| Support from the Metropolitan Zoological Park and Museum District | 9,557,993 | 8,966,461 |
| Unrestricted investment earnings | 804 | 149 |
| Total revenues | 9,558,817 | 8,966,630 |
| Expenses: | | |
| General government | 182,956 | 203,534 |
| Payments to Missouri Historical Society—History museum services | 9,430,885 | 8,202,910 |
| Total expenses | 9,613,841 | 8,406,444 |
| Change in net assets | (55,024) | 560,186 |
| Net assets, beginning of year, as restated | 8,880,805 | 8,320,619 |
| Net assets, end of year | \$8,825,781 | 8,880,805 |

* Refer to note 11 to the financial statements for additional information on the restatement to 2004 amounts.

**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, 2005

The Subdistrict's total revenue on a government-wide basis was \$9.6 million. Support from the Metropolitan Zoological Park and Museum District, net of assessments, accounted for all but \$824 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 98.1% of the Subdistrict's total expenses, while the Subdistrict's general government expenses comprised only 1.9% of the total.

Governmental activities decreased the Subdistrict's net assets by \$55 thousand. The key factor influencing the decrease is the increased level of history museum services provided to the Missouri Historical Society.

Financial Analysis of the Subdistrict's Governmental Fund

As previously mentioned, the purpose and focus of the Subdistrict's governmental fund is different from 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 \$6.5 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 68%.

The total fund balance in the Subdistrict's general fund decreased by \$1.0 million, or by 13.4%. 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 2005; therefore, the original budget and the final budget are identical. Revenues exceeded budgetary estimates by 16.7% and expenditures totaled 112.3% of budget.

**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, 2005

Capital Assets

The Subdistrict has invested \$546,546 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, 2005**

| | <u>Governmental Activities</u> |
|----------------------|------------------------------------|
| Land | \$ 105,000 |
| Building | 441,546 |
| Total capital assets | <u>\$ 546,546</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, 2005

| | Primary Government Governmental Activities | Discretely Presented Component Unit Missouri Historical Society |
|--|---|--|
| ASSETS | | |
| Cash | \$ 6,476 | 75,451 |
| Due from the Metropolitan Zoological Park and Museum District | 3,728,252 | - |
| Investments at fair market value | - | 24,799,209 |
| Receivables: | | |
| Support from the Metropolitan Zoological Park and Museum District | 4,544,507 | - |
| Grants and accounts receivables | - | 389,400 |
| Note receivable | - | 1,009,825 |
| Pledges receivable, net | - | 454,417 |
| Accrued investment income | - | 126,453 |
| Prepaid expenses | - | 230,859 |
| Inventories | - | 410,739 |
| Capital assets, net: | | |
| Nondepreciable—land | 105,000 | - |
| Nondepreciable—construction in progress | - | 32,508 |
| Depreciable: | | |
| Building | 441,546 | - |
| Leasehold improvements | - | 27,448,272 |
| Furnitures, fixtures, and equipment | - | 173,319 |
| Total assets | 8,825,781 | 55,150,452 |
| LIABILITIES | | |
| Accounts payable and other liabilities | - | 1,085,761 |
| Long-term liabilities: | | |
| Due within one year | - | 85,659 |
| Due in more than one year | - | 880,839 |
| Total liabilities | - | 2,052,259 |
| NET ASSETS | | |
| Invested in capital assets | 546,546 | 27,654,099 |
| Restricted: | | |
| Expendable | - | 1,381,681 |
| Nonexpendable | - | 7,605,308 |
| Unrestricted | 8,279,235 | 16,457,105 |
| Total net assets | \$ 8,825,781 | 53,098,193 |

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, 2005

| <u>Functions/Programs</u> | <u>Program Revenues</u> | | | | <u>Net (Expense) Revenue and Changes in Net Assets</u> | |
|--|-------------------------|---------------------------------|---|---|---|--|
| | <u>Expenses</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 | \$ 182,956 | 20 | - | - | (182,936) | - |
| Museum services: | | | | | | |
| Payments to Missouri Historical Society— History museum services | <u>9,430,885</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(9,430,885)</u> | <u>-</u> |
| Total primary government | <u>\$ 9,613,841</u> | <u>20</u> | <u>-</u> | <u>-</u> | <u>(9,613,821)</u> | <u>-</u> |
| Discretely Presented Component Unit: | | | | | | |
| Missouri Historical Society | <u>\$ 14,038,759</u> | <u>1,331,696</u> | <u>2,577,539</u> | <u>-</u> | <u>-</u> | <u>(10,129,524)</u> |
| General revenues: | | | | | | |
| Support from the Metropolitan Zoological Park and Museum District | | | | \$ 9,557,993 | | - |
| Unrestricted investment earnings | | | | 804 | | 1,064,771 |
| Support provided by Missouri History Museum Subdistrict | | | | <u>-</u> | | <u>9,430,885</u> |
| Total general revenues | | | | <u>9,558,797</u> | | <u>10,495,656</u> |
| Change in net assets | | | | (55,024) | | 366,132 |
| Net assets—beginning of year, as restated (note 11) | | | | <u>8,880,805</u> | | <u>52,732,061</u> |
| Net assets—end of year | | | | <u>\$ 8,825,781</u> | | <u>53,098,193</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, 2005

| | | <u>General Fund</u> |
|---|----|-------------------------|
| ASSETS | | |
| Cash | \$ | 6,476 |
| Due from the Metropolitan Zoological Park and Museum District | | 3,728,252 |
| Support from the Metropolitan Zoological Park and Museum District receivable | | <u>4,544,507</u> |
| Total assets | \$ | <u><u>8,279,235</u></u> |
| LIABILITIES AND FUND BALANCE | | |
| LIABILITIES | | |
| Deferred revenue | \$ | <u>1,741,115</u> |
| Total liabilities | | <u>1,741,115</u> |
| FUND BALANCE | | |
| Fund balance—unreserved | | <u>6,538,120</u> |
| Total fund balance | | <u>6,538,120</u> |
| Total liabilities and fund balance | \$ | <u><u>8,279,235</u></u> |
| Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Assets: | | |
| Total fund balance—governmental fund—balance sheet | \$ | 6,538,120 |
| 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 | | 546,546 |
| Property taxes levied by the Metropolitan Zoological Park and Museum District (the District) are assessed on January 1 of each calendar year, but are not due until December 31. Support from the District that is based upon delinquent taxes assessed on January 1, 2005 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. | | <u>1,741,115</u> |
| Total net assets—governmental activities—statement of net assets | \$ | <u><u>8,825,781</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, 2005

| | <u>General Fund</u> |
|--|-------------------------|
| REVENUES | |
| Support from the Metropolitan Zoological Park and Museum District | \$ 8,584,360 |
| Total receipts | 8,584,360 |
| Interest income | 804 |
| Rental income | 20 |
| Total revenues | <u>8,585,184</u> |
| EXPENDITURES | |
| Payments to the Missouri Historical Society— | |
| History museum services | 9,430,885 |
| General government | 164,494 |
| Total expenditures | <u>9,595,379</u> |
| Net change in fund balance | (1,010,195) |
| Fund balances: | |
| Beginning of year, as restated (note 11) | <u>7,548,315</u> |
| End of year | <u>\$ 6,538,120</u> |
| 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 | \$ (1,010,195) |
| 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. | <u>973,633</u> |
| Change in net assets—governmental activities—statement of activities | <u>\$ (55,024)</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**

Notes to Basic Financial Statements

December 31, 2005

(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, which are currently provided by the Missouri Historical Society (the Society). The Subdistrict has no employees and all of the Subdistrict's general government services are provided through various contractual arrangements.

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 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
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, 2005

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 that are levied by the District, net of management fees.

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(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 2005 amounted to \$1,189,854.

(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) Long-term Liabilities

The Society's long-term liabilities represent obligations under split-interest agreements, accrued vacation and other liabilities.

(j) 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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(k) 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, 2005, the carrying amount of the Subdistrict's cash deposits was \$6,476 and the bank balance was \$7,553. 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 generally related to governmental entities. At December 31, 2005, the Society's investments are comprised of the following:

| | Cost | Carrying value |
|--|---------------|-------------------|
| Money market funds and cash equivalents | \$ 1,927,965 | 1,927,965 |
| Repurchase agreement | 2,500,000 | 2,500,000 |
| Certificates of deposit | 435,630 | 435,630 |
| Corporate stocks | 2,839,243 | 3,192,188 |
| Corporate papers | 1,000 | 1,000 |
| Corporate bonds and debentures | 1,015,790 | 1,000,668 |
| U.S. Government obligations | 9,083,581 | 8,947,114 |
| Mutual funds | 6,277,549 | 6,738,559 |
| Real estate | 56,085 | 56,085 |
| | \$ 24,136,843 | 24,799,209 |

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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, 2005:

| | <u>Balance January 1, 2005</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance December 31, 2005</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 | 278,466 | 18,462 | — | 296,928 |
| Total accumulated depreciation | <u>278,466</u> | <u>18,462</u> | <u>—</u> | <u>296,928</u> |
| Total capital assets being depreciated, net | <u>460,008</u> | <u>(18,462)</u> | <u>—</u> | <u>441,546</u> |
| Capital assets, net | <u>\$ 565,008</u> | <u>(18,462)</u> | <u>—</u> | <u>546,546</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, 2005:

| | |
|--|----------------------|
| Leasehold improvements | \$ 36,787,159 |
| Furniture, fixtures, and equipment | 756,124 |
| | <u>37,543,283</u> |
| Less accumulated depreciation and amortization | (9,921,692) |
| Construction in progress | 32,508 |
| | <u>\$ 27,654,099</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 3.76 cents per \$100 of assessed valuation for 2005. 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, 2005 is represented by the following sources:

| | Year ended December 31, 2005 | |
|----------------------------|-------------------------------------|-------------------------|
| | Governmental activities | General fund |
| Revenue from the District: | | |
| Support from the District | \$ 9,632,336 | 8,658,703 |
| Interest earned | 74,029 | 74,029 |
| Less assessments, net | (148,372) | (148,372) |
| Revenue from the District | \$ 9,557,993 | 8,584,360 |

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.

(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 recognizes expenditures/expenses for history museum services at the time eligible expenditures are submitted to and approved by the Subdistrict.

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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 Society's 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 \$267,716 for the Society for the year ended December 31, 2005.

(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 Society's value of these plan assets was \$138,701 at December 31, 2005.

(8) Commitments

At December 31, 2005, the Society was committed for certain equipment under noncancelable operating leases, which expire at various dates through the year 2010. Additionally, the Society leases the Missouri History Museum and the Library and Research Center from the Subdistrict. 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. The annual lease payment is \$10 for each facility. The following is a schedule by years of future minimum rental payments required, by the Society, under these leases:

| Years ending December 31 | |
|--------------------------|-------------------|
| 2006 | \$ 49,682 |
| 2007 | 47,602 |
| 2008 | 15,365 |
| 2009 | 20 |
| 2010 | 20 |
| | <u>112,689</u> |
| | <u>\$ 112,689</u> |

(9) Note Receivable

The Society has entered into a promissory note with the Lewis and Clark National Bicentennial Council (the Council) to provide financing for the Council's activities. This note allows the Society to provide a maximum amount of funding to the Council of \$845,000; however, in no event shall the amount of funding provided to the Council under the note exceed \$307,500 in any calendar year. All principal and interest on the note was due December 15, 2005. The note bears interest at a rate per annum equal to the 10-year U.S. Treasury Note yield, which is adjusted the first day of January. The note bore interest at a rate of 4.21% at December 31, 2005. In 2005, the Society amended the note to increase the maximum funding provided to \$1,045,000 and increased the note not to exceed funding to \$400,000 in any calendar year. The maturity date of the note was extended to December 15, 2006. All other provisions of the note agreement remained

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the same. The Society's note receivable balance was \$1,009,825 at December 31, 2005. The president of the Society also serves as president of the 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 these risks of loss. Settled claims did not exceed commercial coverage in the past three years.

(11) Restatement of Beginning of Year Net Assets and Beginning of Year Fund Balance

In prior years, the Subdistrict recognized support from the District when property taxes were collected by the District and deposited within the Subdistrict's account with the District (on the cash basis of accounting). During 2005, the Subdistrict's management determined that support from the District should be recorded on the modified accrual basis of accounting in the governmental fund financial statements and on the accrual basis of accounting in the government-wide financial statements, in conformity with U.S. generally accepted accounting principles. Under the cash basis of accounting, revenue recognition for support from the 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 District. Under the accrual basis of accounting, support from the District represents a continuous appropriation, and accordingly, revenue recognition is based on an allocation of property taxes, which are levied by the District. However, under the modified accrual basis of accounting, revenues are recorded within the period of availability (60 days for the Subdistrict) when both measurable and available.

Consequently, an adjustment to the Subdistrict's December 31, 2004 governmental activities net assets was made in the amount of \$5,033,536, and an adjustment to the Subdistrict's general fund December 31, 2004 fund balance was made in the amount of \$4,266,054, as noted below:

| | Subdistrict— December 31, 2004 | |
|--|---|-------------------------------|
| | Governmental activities— net assets | General fund— fund balance |
| December 31, 2004, as previously reported | \$ 3,847,269 | 3,282,261 |
| Adjustment: | | |
| Support from the Metropolitan Zoological Park and Museum District | 5,033,536 | 4,266,054 |
| December 31, 2004, as restated | \$ 8,880,805 | 7,548,315 |

(Continued)

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The Subdistrict's effect of the above noted item on the governmental activities change in net assets and the general fund change in fund balance, respectively, for the year ended December 31, 2004 would have been as follows:

| | Subdistrict— For the year ended December 31, 2004 | |
|--|--|---|
| | Governmental activities— change in net assets | General fund— change in fund balance |
| Change in net assets/fund balance for the year ended December 31, 2004, as previously reported | \$ 1,412,927 | 1,431,389 |
| Effect on change in net assets/fund balance for the year ended December 31, 2004: Support from the Metropolitan Zoological Park and Museum District | (852,741) | (425,549) |
| Change in net assets/fund balance for the year ended December 31, 2004 | \$ <u>560,186</u> | <u>1,005,840</u> |

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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, 2005

| | <u>Original Budget</u> | <u>Final Revised Budget</u> | <u>Actual (Budget Basis)</u> | <u>Variance with Final Budget Positive (Negative)</u> |
|--|----------------------------|-------------------------------------|--------------------------------------|---|
| REVENUES | | | | |
| Receipts from the Metropolitan Zoological Park and Museum District: | | | | |
| Support from the Metropolitan Zoological Park and Museum District | \$ 8,500,000 | 8,500,000 | 9,915,686 | 1,415,686 |
| Total receipts | <u>8,500,000</u> | <u>8,500,000</u> | <u>9,915,686</u> | <u>1,415,686</u> |
| Interest income | 180 | 180 | 804 | 624 |
| Rental income | <u>20</u> | <u>20</u> | <u>20</u> | <u>-</u> |
| Total revenues | <u>8,500,200</u> | <u>8,500,200</u> | <u>9,916,510</u> | <u>1,416,310</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Payments to the Missouri Historical Society—History museum services | 8,400,000 | 8,400,000 | 9,430,885 | (1,030,885) |
| General government | <u>30,675</u> | <u>30,675</u> | <u>33,158</u> | <u>(2,483)</u> |
| Total expenditures | <u>8,430,675</u> | <u>8,430,675</u> | <u>9,464,043</u> | <u>(1,033,368)</u> |
| Excess of revenues over expenditures | <u>\$ 69,525</u> | <u>69,525</u> | <u>452,467</u> | <u>382,942</u> |

See accompanying independent auditors' 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, 2005

(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, 2005, expenditures exceeded appropriations in the General fund by \$1,033,368. The over expenditure occurred due to increased payments to the Missouri Historical Society and additional general government expenditures. The over expenditure was funded by greater than anticipated support from the District and the General fund's unreserved fund balance.

(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 | \$ | 452,467 |
| Increase (decrease) due to: | | |
| Revenue accruals | | (1,331,326) |
| Expenditure accruals | | (131,336) |
| GAAP basis | \$ | (1,010,195) |

See accompanying independent auditors' report.