



*Founded in 1967 as the  
Hidalgo County Historical Museum*

***Financial Statements  
and  
Auditor's Report***

***December 31, 2015***

**Financial Statements  
And  
Independent Auditor's  
Report**

**MUSEUM OF SOUTH TEXAS HISTORY**

**December 31, 2015**

**LONG CHILTON, LLP**  
*Certified Public Accountants*  
**4100 North Twenty-Third Street**  
**McAllen, Texas 78504**  
**(956) 686-3701**

MUSEUM OF SOUTH TEXAS HISTORY  
For the Year Ended December 31, 2015

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## Independent Auditor's Report

Board of Directors  
Museum of South Texas History  
Edinburg, Texas

We have audited the accompanying financial statements of the Museum of South Texas History (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statement of activities, statements of activities for individual funds (Operating, Plant, Endowment, Save Our Jail) and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Museum of South Texas History as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Long Chilton, LLP". The script is cursive and fluid.

LONG CHILTON, LLP

*Certified Public Accountants*

McAllen, Texas

May 3, 2016

## **FINANCIAL STATEMENTS**

MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF FINANCIAL POSITION  
December 31, 2015

ASSETS	Operating	Plant	Endowment	Legacy Park	Save Our Jail	Eliminations	Total
Current Assets							
Cash and cash equivalents	\$ 417,168	\$ 31,007	\$ 455,616	\$ 27,215	\$ 353,040	\$ -	\$ 1,284,047
Investments	420,645	-	2,874,581	-	1,568,667	-	4,863,893
Interest receivable	3,169	-	8,972	-	-	-	12,141
Accounts and pledges receivable (net)	23,376	-	1,141	-	21,632	-	46,149
Inventory	38,847	-	-	-	-	-	38,847
Other current assets	27,867	-	-	-	-	-	27,867
Due from other funds	2,000	-	-	-	1,500	(3,500)	-
Total Current Assets	933,072	31,007	3,340,309	27,215	1,944,838	(3,500)	6,272,943
Noncurrent Assets							
Fixed assets (net of accumulated depreciation)	-	6,032,264	-	-	48,111	-	6,080,375
Total Noncurrent Assets	-	6,032,264	-	-	48,111	-	6,080,375
TOTAL ASSETS	\$ 933,072	\$ 6,063,271	\$ 3,340,309	\$ 27,215	\$ 1,992,949	\$ (3,500)	\$ 12,353,318

The accompanying notes are an integral part of these financial statements.

(Continued)

MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF FINANCIAL POSITION (Continued)  
December 31, 2015

LIABILITIES AND NET ASSETS						
	Operating	Plant	Endowment	Legacy Park	Save Our Jail	Total
Current liabilities						
Accounts payable	\$ 15,622	\$ -	\$ -	\$ -	\$ -	\$ 15,622
Accrued expenses	43,021	-	-	-	-	43,021
Due to other funds	1,500	-	-	-	2,000	-
Deferred revenue	148,633	-	-	-	-	148,633
Total Current Liabilities	<u>208,777</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>207,277</u>
Total Liabilities	<u>208,777</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>207,277</u>
Net Assets						
Unrestricted						
Other unrestricted	339,291	6,043,860	-	-	48,111	6,431,263
Board designated	327,354	-	1,237,142	-	-	1,564,496
Temporarily restricted	57,650	19,411	461,176	27,215	1,942,838	2,508,290
Permanently restricted	-	-	1,641,991	-	-	1,641,991
Total Net Assets	<u>724,295</u>	<u>6,063,271</u>	<u>3,340,309</u>	<u>27,215</u>	<u>1,990,949</u>	<u>12,146,040</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 933,072</u>	<u>\$ 6,063,271</u>	<u>\$ 3,340,309</u>	<u>\$ 27,215</u>	<u>\$ 1,992,949</u>	<u>\$ 12,353,318</u>

The accompanying notes are an integral part of these financial statements.

MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF ACTIVITIES  
Year Ended December 31, 2015

	Operating	Plant	Endowment	Legacy Park	Save Our Jail	Eliminations	Total
Operating revenue, gains, and other support							
Donations	\$ 11,089	\$ 845	\$ 13,946	\$ 150	\$ 1,032,649	\$ -	\$ 1,058,679
In-kind contributions	51,949	-	-	-	-	-	51,949
Grants from government agencies	615,150	-	-	-	200,000	-	815,150
Fundraising events	182,616	-	-	-	-	-	182,616
Annual donations	380,239	-	-	-	-	-	380,239
Investment income	(3,171)	104	(15,547)	-	365	-	(18,249)
Admission charges	59,857	-	-	-	-	-	59,857
Auxiliary activities	151,450	-	-	-	-	-	151,450
Rents and royalties	14,091	-	29,360	-	-	-	43,451
Other	4,204	-	-	-	-	-	4,204
Total Operating Revenues, Gains, and Other Support	\$ 1,467,473	\$ 949	\$ 27,760	\$ 150	\$ 1,233,014	\$ -	\$ 2,729,346

The accompanying notes are an integral part of these financial statements.

(Continued)

MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF ACTIVITIES (Continued)  
Year Ended December 31, 2015

	Operating	Plant	Endowment	Legacy Park	Save Our Jail	Eliminations	Total
Operating expenses							
Program services							
Archives, exhibits and collections	\$ 23,784	\$ 124,204	\$ -	\$ -	\$ -	\$ -	\$ 147,988
Education programs	19,471	-	-	-	-	-	19,471
General program services	976,451	164,618	-	-	1,742	-	1,142,812
Total Program Services	1,019,706	288,823	-	-	1,742	-	1,310,271
Supporting services							
Management and general	257,366	1,646	-	-	15	-	259,028
Costs of direct donor benefits	43,780	-	-	-	-	-	43,780
Fundraising	160,768	690	-	-	303	-	161,761
Auxiliary service	88,553	845	-	-	-	-	89,398
Total Supporting Services	550,467	3,181	-	-	318	-	553,966
Total Operating Expenses	1,570,173	292,004	-	-	2,060	-	1,864,238
Change in Net Assets from Operations	(102,700)	(291,056)	27,760	150	1,230,954	-	865,108
Other changes							
Transfers out	(686)	-	(96,438)	-	(250,000)	347,124	-
Transfers in	96,360	686	250,000	-	78	(347,124)	-
Total Other Changes	95,674	686	153,562	-	(249,922)	-	-
Increase/(Decrease) in Net Assets	(7,026)	(290,370)	181,322	150	981,032	-	865,108
Beginning net assets	731,321	6,353,641	3,158,987	27,065	1,009,917	-	11,280,932
Ending net assets	\$ 724,295	\$ 6,063,271	\$ 3,340,309	\$ 27,215	\$ 1,990,949	\$ -	\$ 12,146,040

The accompanying notes are an integral part of these financial statements.

MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF ACTIVITIES-OPERATING FUND  
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Operating revenue, gains, and other support			
Donations	\$ 11,089	\$ -	\$ 11,089
In-kind donations	51,949	-	51,949
Grants from government			
agencies	513,990	101,160	615,150
Fundraising events	182,616	-	182,616
Annual donations	380,239	-	380,239
Investment income	(3,197)	26	(3,171)
Admission charges	59,857	-	59,857
Auxiliary activities	151,450	-	151,450
Rents and royalties	14,091	-	14,091
Other	4,204	-	4,204
Satisfaction of program/use restrictions	102,014	(102,014)	-
Total Operating Revenues, Gains, and Other Support	<u>1,468,301</u>	<u>(828)</u>	<u>1,467,473</u>
Operating expenses			
Program services			
Archives, exhibits and collections	23,784	-	23,784
Education programs	19,471	-	19,471
General program services	976,451	-	976,451
Total Program Services	<u>1,019,706</u>	<u>-</u>	<u>1,019,706</u>
Supporting services			
Management and general	257,366	-	257,366
Costs of direct donor benefits	43,780	-	43,780
Fundraising	160,768	-	160,768
Auxiliary service	88,553	-	88,553
Total Supporting Services	<u>550,467</u>	<u>-</u>	<u>550,467</u>
Total Operating Expenses	<u>1,570,173</u>	<u>-</u>	<u>1,570,173</u>
Changes in Net Assets from Operations	(101,871)	(828)	(102,700)
Other Changes			
Transfers out	(686)	-	(686)
Transfers in	96,360	-	96,360
Total Other Changes	<u>95,674</u>	<u>-</u>	<u>95,674</u>
Increase/(Decrease) in Net Assets	(6,197)	(828)	(7,026)
Beginning net assets	672,843	58,478	731,321
Ending net assets	<u>\$ 666,645</u>	<u>\$ 57,650</u>	<u>\$ 724,295</u>

The accompanying notes are an integral part of these financial statements.

MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF ACTIVITIES-PLANT FUND  
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Operating revenue, gains, and other support			
Donations	\$ -	\$ 845	\$ 845
Investment income	29	75	104
Satisfaction of program/use restrictions	<u>984</u>	<u>(984)</u>	<u>-</u>
Total Operating Revenues, Gains, and Other Support	<u>1,013</u>	<u>(64)</u>	<u>949</u>
Operating expenses			
Program services			
Archives, exhibits and collections	124,204	-	124,204
General program services	<u>164,618</u>	<u>-</u>	<u>164,618</u>
Total Program Services	<u>288,823</u>	<u>-</u>	<u>288,823</u>
Supporting services			
Management and general	1,646	-	1,646
Fundraising	690	-	690
Auxiliary service	<u>845</u>	<u>-</u>	<u>845</u>
Total Supporting Services	<u>3,181</u>	<u>-</u>	<u>3,181</u>
Total Operating Expenses	<u>292,004</u>	<u>-</u>	<u>292,004</u>
Changes in Net Assets from Operations	(290,992)	(64)	(291,056)
Other Changes			
Transfers in	<u>686</u>	<u>-</u>	<u>686</u>
Total Other Changes	<u>686</u>	<u>-</u>	<u>686</u>
Increase/(Decrease) in Net Assets	(290,306)	(64)	(290,370)
Beginning net assets	<u>6,334,166</u>	<u>19,475</u>	<u>6,353,641</u>
Ending net assets	<u>\$ 6,043,860</u>	<u>\$ 19,411</u>	<u>\$ 6,063,271</u>

The accompanying notes are an integral part of these financial statements.

MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF ACTIVITIES-ENDOWMENT FUND  
Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenue, gains, and other support				
Contributions	\$ 12,196	\$ -	\$ 1,750	\$ 13,946
Investment income	-	(15,547)	-	(15,547)
Royalties	14,197	15,164	-	29,360
Satisfaction of program/use restrictions	<u>151,873</u>	<u>(151,873)</u>	<u>-</u>	<u>-</u>
Total Operating Revenues, Gains, and Other Support	<u>178,266</u>	<u>(152,256)</u>	<u>1,750</u>	<u>27,760</u>
Changes in Net Assets from Operations	178,266	(152,256)	1,750	27,760
Other Changes				
Transfers out	(96,360)	(78)	-	(96,438)
Transfers in	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>250,000</u>
Total Other Changes	<u>(96,360)</u>	<u>(78)</u>	<u>250,000</u>	<u>153,562</u>
Increase/(Decrease) in Net Assets	81,906	(152,334)	251,750	181,322
Beginning net assets	<u>1,155,236</u>	<u>613,510</u>	<u>1,390,241</u>	<u>3,158,987</u>
Ending net assets	<u>\$ 1,237,142</u>	<u>\$ 461,176</u>	<u>\$ 1,641,991</u>	<u>\$ 3,340,309</u>

The accompanying notes are an integral part of these financial statements.

MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF ACTIVITIES-SAVE OUR JAIL FUND  
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue, gains, and other support			
Donations	\$ -	\$ 1,032,649	\$ 1,032,649
Grants from government agencies	-	200,000	200,000
Investment income	-	365	365
Satisfaction of program/use restrictions	<u>50,171</u>	<u>(50,171)</u>	<u>-</u>
Total Operating Revenues, Gains, and Other Support	<u>50,171</u>	<u>1,182,843</u>	<u>1,233,014</u>
Operating expenses			
Program services			
General program services	<u>1,742</u>	<u>-</u>	<u>1,742</u>
Total Program Services	<u>1,742</u>	<u>-</u>	<u>1,742</u>
Supporting services			
Management and general	15	-	15
Fundraising	<u>303</u>	<u>-</u>	<u>303</u>
Total Supporting Services	<u>318</u>	<u>-</u>	<u>318</u>
Total Operating Expenses	<u>2,060</u>	<u>-</u>	<u>2,060</u>
Other Changes			
Transfers out	-	(250,000)	(250,000)
Transfers in	<u>-</u>	<u>78</u>	<u>78</u>
Total Other Changes	<u>-</u>	<u>(249,922)</u>	<u>(249,922)</u>
Increase/(Decrease) in Net Assets	48,111	932,921	981,032
Beginning net assets	<u>-</u>	<u>1,009,917</u>	<u>1,009,917</u>
Ending net assets	<u>\$ 48,111</u>	<u>\$ 1,942,838</u>	<u>\$ 1,990,949</u>

The accompanying notes are an integral part of these financial statements.

MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF CASH FLOWS  
Year Ended December 31, 2015

	Operating	Plant	Endowment	Legacy Park	Save Our Jail	Eliminations	Total
Cash flows from operating activities:							
Change in net assets	\$ (102,700)	\$ (291,056)	\$ 27,760	\$ 150	\$ 1,230,954	\$ -	\$ 865,108
Adjustments to reconcile change in net assets to net cash provided by/(used in) operating activities:							
Depreciation and amortization	-	291,021	-	-	-	-	291,021
Unrealized loss on investments	8,130	-	142,251	-	-	-	150,381
(Increase)/decrease in pledges and accounts receivable (net)	(10,730)	-	11,727	-	(3,932)	-	(2,936)
(Increase)/decrease in prepaid expenses and other current assets	(6,226)	-	-	-	-	-	(6,226)
(Increase)/decrease in inventories	(1,475)	-	-	-	-	-	(1,475)
(Increase) decrease in due from other funds	13,000	70	-	-	3,584	-	16,654
(Decrease)/increase in accounts payable	(24,488)	-	-	-	(13,000)	-	(37,488)
(Decrease)/increase in accrued expenses	(328)	-	-	-	-	-	(328)
(Decrease)/increase in due to other funds	(3,654)	-	-	-	-	-	(3,654)
(Decrease)/increase in deferred revenue	29,002	-	-	-	-	-	29,002
Net cash provided by (used in) operating activities	(99,469)	35	181,738	150	1,217,606	-	1,300,059
Cash flows from investing activities:							
Proceeds from investment sales	100,985	-	612,021	-	-	-	713,006
Purchase of investments	(118,675)	-	(923,198)	-	(1,243,687)	-	(2,285,560)
Acquisition of fixed assets	(686)	-	-	-	(27,559)	-	(28,244)
Net cash provided by (used in) investing activities	(18,375)	-	(311,177)	-	(1,271,246)	-	(1,600,798)

The accompanying notes are an integral part of these financial statements.

(Continued)

MUSEUM OF SOUTH TEXAS HISTORY  
STATEMENT OF CASH FLOWS (Continued)  
Year Ended December 31, 2015

Cash flows from financing activities:									
Transfers in	96,360	-	250,000	-	78	(346,438)	-		
Transfers out	-	-	(96,438)	-	(250,000)	346,438	-		
Net cash provided by (used in) financing activities	<u>96,360</u>	<u>-</u>	<u>153,562</u>	<u>-</u>	<u>(249,922)</u>	<u>-</u>	<u>-</u>		
Net increase (decrease) in cash and cash equivalents	(21,484)	35	24,123	150	(303,562)	-	(300,738)		
Cash and cash equivalents at beginning of year	<u>438,653</u>	<u>30,973</u>	<u>431,493</u>	<u>27,065</u>	<u>656,602</u>	<u>-</u>	<u>1,584,786</u>		
Cash and cash equivalents at end of year	<u>\$ 417,168</u>	<u>\$ 31,007</u>	<u>\$ 455,616</u>	<u>\$ 27,215</u>	<u>\$ 353,040</u>	<u>\$ -</u>	<u>\$ 1,284,047</u>		
Supplemental schedule of non-cash financing activities:									
Transfers in		\$ 686							

The accompanying notes are an integral part of these financial statements.

MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

**NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**A. Nature of Activities**

On February 20, 1967, the Hidalgo County Historical Museum (Museum) was chartered by the Texas Secretary of State as a nonprofit education organization. On June 18, 2002, the Board voted to change the name to the Museum of South Texas History (MOSTH) to better reflect the scope of work done at the Museum. MOSTH is located at 200 North Closner Boulevard, Edinburg, Texas. The Museum of South Texas History received its accreditation from the American Alliance of Museums in 2013. MOSTH's purpose is to increase and diffuse knowledge and appreciation of history and to that end establish and maintain, in the City of Edinburg, a museum and reference library to collect and preserve objects of historic interest, to protect historic sites from needless destruction, to provide facilities for research and publication, and to offer popular instruction and opportunities for aesthetic enjoyment. The charter evolved from the efforts of the Hidalgo County Historical Survey Committee. MOSTH is governed by an appointed Board of Trustees (The Board). The mission statement adopted by the Board is, "To preserve and present the borderland heritage of South Texas and Northeastern Mexico." The current vision statement adopted by the Board is, "The Museum of South Texas History will utilize its resources to be a trusted, internationally recognized interpretative and research center. We will share the blended and unique heritage of South Texas and Northeastern Mexico through exhibits, programs and activities—seeking to promote dialogue, educate our communities and inspire the people of our region and beyond."

Funding is primarily provided by public contributions, program and exhibit fees, investment income, special fundraising events, and government grants and contributions. In 2015, approximately 21.7% of the Museum's support came from the County of Hidalgo and the City of Edinburg.

**B. Basis of Accounting and Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Codification (ASC) 958-205 (Not for Profit Entities – Presentation of Financial Statements). In Accordance with ASC 958-205, MOSTH is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. From time to time MOSTH's board will choose to place limitations on unrestricted net assets. These are denoted in the financial statements as board designated net assets.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of MOSTH and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)**

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by MOSTH. Generally, the donors of these assets permit MOSTH to use all or part of the income earned on any related investments for general or specific purposes.

To ensure observance of limitations and restrictions placed on the use of resources available, MOSTH's accounts are maintained in accordance with the principles of fund accounting. Accordingly, resources are classified for accounting and reporting purposes into funds established according to their nature and purpose. The assets, liabilities, and net assets of MOSTH are reported in the following funds:

*Operating Fund* - The Operating Fund consists of resources that are available for the support of MOSTH's general operations. Alternatively, the Board may transfer unrestricted funds to any restricted fund with the approval of a majority of the Board members present at a properly convened meeting.

*Plant Fund* - Plant Fund resources are utilized for land, buildings, and equipment acquisitions. The cost of these acquisitions and accumulated depreciation is recorded in this fund.

*Endowment Fund* - Endowment Fund resources are subject to certain MOSTH policies and Board restrictions, which require the principal to be invested and the income derived from such investments to be utilized for MOSTH's operations.

*Will Looney Legacy Park* - Memorials and contributions given to MOSTH following the death of Will Looney in 2003 were used to begin the Will Looney Legacy Park on adjacent property purchased from Olivia (Mrs. Raul) Rios. This property was acquired for conversion to green space to feature a bronze sculpture, windmill, and "education stations" to be incorporated into MOSTH's programs. Phase one of this project was completed in 2008. Funds currently accumulated will be used for phase two of the park.

*Save Our Jail Fund* - This fund is used to account for donations and expenditures for the purpose of renovating the historic 1910 Hidalgo County Jail.

**C. *Estimates***

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Disclosures About Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash, accounts receivable, accounts payable and accrued liabilities: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of these instruments.

**E. Contributions**

MOSTH accounts for contributions in accordance with the recommendations of the FASB Accounting Standards Codification (ASC) 958-605 (Not-for Profit Entities – Revenue Recognition).

In accordance with ASC 958-605, contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**F. Promises to Give**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Conditional promises to give are not included as support until the conditions are substantially met.

**G. Cash and Cash Equivalents**

For the purpose of the statement of cash flows, MOSTH considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

MUSEUM OF SOUTH TEXAS HISTORY  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

H. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Investments in the Operating and the Save Our Jail Fund are certificates of deposit in financial institutions and marketable securities. In accordance with the endowment investment policy of MOSTH, a portion of the Endowment Funds are invested under the guidance of a third party investment manager. These investments consist of marketable securities.

I. Property, Plant, and Equipment

It is MOSTH's policy to capitalize property and equipment over \$500 with a useful life exceeding one year. Lesser amounts are expensed. Plant Fund resources are utilized for the acquisition of land, buildings, and equipment. Any Operating Fund amounts used to acquire property, plant, or equipment with an extended life are accounted for as transfers to the Plant Fund. Property, plant, and equipment are depreciated or amortized using the straight line-method over the estimated useful lives of the asset classes below:

Website	3 years
Furniture and fixtures	5-10 years
Buildings and improvements	10-40 years
Intangible assets	10 years
Permanent exhibits	20 years

Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, MOSTH reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. MOSTH reclassifies temporarily restricted net assets to unrestricted net assets at that time.

MUSEUM OF SOUTH TEXAS HISTORY  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)**

Depreciation and amortization are charged against current operations. Expenditures for major additions and improvements are capitalized. Routine maintenance, repairs, and replacement costs are expensed. When equipment or other property is disposed of, the cost and related accumulated depreciation is removed from the respective accounts, and any gain or loss is reflected in the results of operations.

**J. Collections**

MOSTH maintains permanent collections pertaining to Northeastern Mexico and South Texas. These holdings are both two and three-dimensional artifacts ranging from prehistoric materials to items of contemporary culture. Collection strengths include numerous artifacts pertaining to farming and ranching with a large photographic archive. MOSTH maintains, separate from the permanent collection, a collection of items used for hands-on-activities or other educational purposes.

In conformity with industry standards, historical objects purchased and donated are not included as assets in the financial statements. Exhibits constructed are recorded at the cost of construction. Staff and trained volunteers use professionally recognized practices and archival quality materials to care for the collections. MOSTH provides storage and display environments that safeguard the artifacts from deleterious conditions.

**K. Inventories**

Inventories are tracked perpetually and stated using weighted average cost. Inventories consist primarily of MOSTH store merchandise and publications.

**L. Deferred Revenues**

Deferred revenue represents revenues collected but not earned as of December 31, 2015. This is primarily composed of revenue from governmental agencies and other customers.

**M. Operations**

Operations include all activity of the organization with the exception of transfers between funds.

**N. Expense Allocation**

The cost of providing various programs and supporting services have been summarized on a functional basis in the statement of activities and the notes to the financial statements.

MUSEUM OF SOUTH TEXAS HISTORY  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)**

Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases.

**O. Federal Income Tax Status**

MOSTH is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. However, rental income and earnings from certain activities not directly related to MOSTH's tax-exempt purpose are subject to taxation as unrelated business income. In addition, MOSTH qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

MOSTH's federal income tax returns for 2015, 2014, and 2013 remain open to examination by the Internal Revenue Service.

**P. Contributed Services**

Contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized.

**Q. Fair Value Measurements**

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principle market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that MOSTH has the ability to access.

MUSEUM OF SOUTH TEXAS HISTORY  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the assets or liabilities, which are typically based on the entity's own assumptions, as there is little, if any, related market value.

**NOTE 2 – CONCENTRATIONS OF CREDIT RISK RELATED TO CASH DEPOSITS**

MOSTH maintains cash balances at multiple financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2015, MOSTH did not have any cash balances which were uninsured.

**NOTE 3 – INVESTMENT SECURITIES- FAIR VALUE AND UNREALIZED GAIN**

Investment securities are presented at fair value to more accurately reflect their current values. The fair value of investment securities is provided by the custodian of MOSTH's investment accounts, Charles Schwab. Values used are based on the closing prices of securities traded on various exchanges and bond markets. All investments held by MOSTH are considered to have level 1 inputs and are therefore included within the level 1 hierarchy.

Fair values of investments held by the Operating and Endowment Funds are as follows:

	Market Value 12/31/2015
Equity securities	\$ 2,197,964
Certificates of deposit	1,568,667
Bonds:	
Corporate	300,062
Municipal	797,200
	<u>\$ 4,863,893</u>

Total investment return for all funds was \$(18,249) and consists of the following:

Interest and dividends	\$ 80,931
Realized gain/(loss)	76,666
Unrealized gain/(loss)	<u>(146,918)</u>
Subtotal	10,679
Less: Investment expenses	<u>(28,929)</u>
Total Investment Return	<u>\$ (18,249)</u>

MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

**NOTE 3 – INVESTMENT SECURITIES- FAIR VALUE AND UNREALIZED GAIN**  
*(Continued)*

Investment expenses consist of fees paid to the investment manager as well as transaction fees for purchases and sales of investment securities. No excise tax was due related to investment income.

Investment categories fluctuate periodically due to active portfolio management. The investment portfolios are managed by a third party investment manager who manages the portfolio within the constraints of the investment policies of MOSTH.

**NOTE 4 – ACCOUNTS AND PLEDGES RECEIVABLE**

MOSTH conducts an annual campaign each year to raise funds needed for daily operations. An allowance of \$34,998 has been established for estimated uncollectible pledges.

Accounts and pledges receivable for the Operating, Endowment and the Save Our Jail Funds totaled \$81,147 as of December 31, 2015 and are expected to be collected as follows:

Receivable in less than one year	\$ 81,147
Less allowance for doubtful accounts	<u>(34,998)</u>
Total receivable at December, 31, 2015	<u><u>\$ 46,149</u></u>

**NOTE 5 – INVENTORIES**

At December 31, 2015, MOSTH's inventories consisted of the following:

Books	\$ 9,876
Other store merchandise	<u>28,970</u>
Total	<u><u>\$ 38,847</u></u>

Shipping and handling costs are excluded from the value of items included in inventory.

MUSEUM OF SOUTH TEXAS HISTORY  
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**NOTE 6 – PROPERTY, PLANT, AND EQUIPMENT**

Property, plant, and equipment in the Plant Fund consist of the following:

Land and improvements	\$ 1,793,176
Furniture, fixtures, and equipment	180,401
Permanent exhibits	2,485,566
Buildings and improvements	<u>5,510,493</u>
	9,969,636
Less: Accumulated depreciation and amortization	<u>(3,937,372)</u>
Total	<u>\$ 6,032,264</u>

In June 1988, MOSTH acquired the building and land adjacent to the original structure (1910 Hidalgo County Jail) from Noble Walker and Associates of Austin. H. E. Butt Grocery (H-E-B) had owned and operated a grocery store on this property which was subsequently converted for use as governmental offices. Since that time, MOSTH has been raising funds and making significant capital expenditures for the purpose of expanding, improving, and modifying the facility and surrounding property.

In 2002, a new two story wing was added on the site of the parking lot. Renovations of the H-E-B building and installation of the exhibits were completed in 2003. The archive renovation was completed in 2004. These capital expenditures are classified according to their nature and depreciated pursuant to the lives described in Note 1.

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

Depreciation for 2015 was \$291,020.

The \$48,111 reflected in the Save Our Jail Fund is the cumulative total of construction in progress through December 31, 2015. Once the renovation is completed, the construction costs will be transferred to the Plant Fund and depreciated.

Some artifacts and pieces of furniture are loaned to MOSTH. Since these assets are not owned, their values are not reflected in the financial statements.

MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7 – DEFERRED REVENUE**

Revenue not earned at December 31, 2015 and thus reflected as deferred consists of:

City of McAllen	\$ 31,050
Prepayments for 2016 operations	81,122
School contracts	35,542
Other	<u>919</u>
	<u>\$ 148,633</u>

**NOTE 8 – UNRESTRICTED – DESIGNATED NET ASSETS**

MOSTH's Board of Directors has designated net assets in the Operating and Endowment Funds as follows:

Operating Fund	
Reserve	\$ 327,354
Endowment Fund	
McFadden	500,000
O'Leary	399,946
White	<u>337,196</u>
	<u>\$ 1,237,142</u>

**NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS**

Temporary restrictions in the Operating Fund at December 31, 2015 are as follows:

Archives	\$ 20,367
Hotel/Motel	<u>37,283</u>
	<u>\$ 57,650</u>

The City of Edinburg distributes a portion of its hotel occupancy tax to MOSTH. The use of these funds is restricted to expenditures that directly enhance and promote tourism, the convention and hotel industry, and historical preservation. This resource is maintained in a separate bank account.

Temporary restrictions in the Plant Fund at December 31, 2015 are as follows:

Memorial bricks	\$ 2,586
South Texas Heritage	<u>16,825</u>
	<u>\$ 19,411</u>

MUSEUM OF SOUTH TEXAS HISTORY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 9 – TEMPORARY RESTRICTED NET ASSETS** *(Continued)*

Net assets for Legacy Park are reflected as temporarily restricted since these projects have not been completed and funds have yet to be expended. Save Our Jail net assets are reflected as unrestricted for funds spent on construction costs and temporarily restricted for funds not yet expended on the renovation project.

**NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS**

The Endowment Fund was established with a restricted donation from Margaret and Argyle McAllen in the amount of \$10,000. The Campaign of Discovery capital campaign, which expanded the existing facility and the permanent exhibit sequence, specified that \$1,000,000 would be added to the Endowment Fund. Pledges of \$154,350 were received for a named endowment in honor of Mrs. Rafael A. (Carmen) Guerra. In the current year, \$250,000 was received from Edinburg Foundation, Inc. Together with other restricted contributions, these make up the corpus of the \$1,641,991 endowment.

As mentioned in Note 8, MOSTH has several board designated endowments (quasi-endowments). These were contributions or bequests that were received by MOSTH and designated by the board as being part of the Endowment Fund. These are considered to be unrestricted net assets, since the restriction on such funds was created internally. However, these amounts are captioned within the financial statements as board designated in order to demonstrate the commitment to treating these as permanent endowments. The total amount of quasi-endowments reflected as unrestricted and board designated net assets as of December 31, 2015 is \$1,237,142.

In May of 2010, MOSTH executed an oil and gas lease with Newfield Production Company for a mineral interest (.01%) in Uintah County, Utah received as part of the Mary Ellen McFadden Endowment. Newfield requested and received approval in 2011 to establish 40-acre drilling and spacing units and to pool all interests in the Green River Formation included in this lease. Producing wells have been developed. Royalties received in 2015 amounted to \$29,360 which represented production through October 2015 for most wells. In the prior year, the Board approved the reclassification of all past, current, and future royalty income up to \$500,000, including the initial contribution, to the McFadden board designated endowment. The current year reclassification consisted of \$55,513 of past royalty earnings.

The temporarily restricted portion of the Endowment Fund consists of earnings on endowments. At December 31, 2015, total temporarily restricted net assets totaled \$461,176.

Effective September 1, 2007, the State of Texas adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which governs Texas charitable institutions with respect to the management, investment, and expenditure of donor-restricted endowment funds.

The Board of Directors has interpreted Texas' adoption of UPMIFA as requiring MOSTH to adopt investment and spending policies that preserve the fair value of the original gift as of the date of the gift, absent donor stipulations to the contrary. Although MOSTH has a long-term fiduciary duty to

MUSEUM OF SOUTH TEXAS HISTORY  
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**NOTE 10 – PERMANENTLY RESTRICTED NET ASSETS** *(Continued)*

the donor (and others) for a fund of perpetual duration, the preservation of the endowment's purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment's original gift may be appropriated for expenditure in support of the restricted purposes of the endowment, if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, MOSTH classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Net earnings (realized and unrealized) on the investment of endowment assets are classified as temporarily restricted until those amounts are appropriated for expenditure by the Museum in a manner consistent with the purpose or time restriction, if any, imposed by the donor. Any investment return classified as permanently restricted represents only those amounts required to be retained permanently as a result of explicit donor stipulations.

Permanently restricted endowments are not reduced by investment losses, unless permitted by donor stipulations. Additionally, permanently restricted net assets are not reduced by any expenditures appropriated by the Museum. Instead, investment losses or expenditures for restricted purposes are deducted from temporarily restricted assets to the extent available. Any losses or expenditures that remain are then deducted from unrestricted net assets.

The objectives of the investment policy for the endowment assets are to preserve the purchasing power while protecting the principal against permanent loss, to generate a sufficient return to provide sustainable funding for current needs and to grow the principal of the endowment to protect from inflation. Risk parameters are specified to prohibit total equity investments from exceeding 75 percent of assets with no single position exceeding 5 percent. The annual spending objective is to use up to 4 ½ percent of a five year rolling market value of average assets. Approval of 80 percent of the Board is required if principal invasion is required to meet the spending objective.

**NOTE 11 – GRANTS FROM GOVERNMENT AGENCIES**

Grant revenue in the Operating Fund from government agencies in 2015 is as follows:

City of Edinburg	\$ 213,750
Hidalgo County	360,000
City of McAllen	<u>41,400</u>
	<u>\$ 615,150</u>

The City of Edinburg committed (subject to availability of appropriations) to provide \$50,000 for six years to be used in the renovation of the historic jail. The City, since September 2010, has

MUSEUM OF SOUTH TEXAS HISTORY  
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**NOTE 11 – GRANTS FROM GOVERNMENT AGENCIES** *(Continued)*

approved \$150,000 which has been reflected in prior financial statements. The City approved \$100,000 in their budget for fiscal year 2015, which is reflected in the current financial statements.

Similarly, Hidalgo County approved (subject to availability of appropriations) a \$500,000 award payable in \$100,000 annual installments for use in the jail renovation. The first and second installments were received during the years ended December 31, 2012 and December 31, 2013, and December 31, 2014, respectively, totaling \$300,000. The fourth installment of \$100,000 is reflected in the current financial statements.

**NOTE 12 – RELATED PARTY TRANSACTIONS**

Certain members of the Board are officers at local financial institutions. Deposits at these institutions were \$1,743,256 at December 31, 2015.

**NOTE 13 – SPECIAL EVENTS**

MOSTH has traditionally had two annual special events. The revenue generated from these events and the corresponding expenses are as follows:

	<u>Heritage Gala</u>	<u>Fandango</u>	<u>Total</u>
Revenue	\$ 17,415	\$ 165,201	\$ 182,616
Cost of direct donor benefits	-	(43,780)	(43,780)
Direct expenses	<u>(50,678)</u>	<u>(4,902)</u>	<u>(55,580)</u>
	<u>\$ (33,263)</u>	<u>\$ 116,519</u>	<u>\$ 83,256</u>

Heritage Gala is held at the conclusion of the Heritage Associate portion of the Annual Campaign to recognize donors to MOSTH's Operating Fund contributing \$1,250 or more. Funds raised by the annual Campaign are reflected as annual donations in the Statement of Activities. Thus, the revenue and expenses reflected above for the Heritage Gala must be linked to the \$380,239 raised in the annual campaign to reflect the true impact of this effort. Benefits given to donors are for the designated calendar year.

**NOTE 14 – AUXILIARY ACTIVITIES**

Additional revenue is earned by providing services and through the sale of merchandise and publications related to MOSTH's mission.

MUSEUM OF SOUTH TEXAS HISTORY  
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**NOTE 14 – AUXILIARY ACTIVITIES (Continued)**

Revenues from these activities for the year were as follows:

Student, school, and class fees	\$ 82,602
General merchandise sales	59,076
Book sales	<u>9,772</u>
	<u>\$ 151,450</u>

**NOTE 15 – IN-KIND DONATIONS**

As described in Note 1, volunteers contributed substantial services to MOSTH in various capacities. Operating Fund donations that had values assigned and met the requirements of generally accepted accounting principles are as follows:

Professional services	\$ 39,746
Rental of facility and other items for Gala	1,030
Advertising	10,050
Other	<u>1,123</u>
	<u>\$ 51,949</u>

**NOTE 16 – LEASES**

MOSTH leases the land on which its original building is located under a non-cancellable operating lease with Hidalgo County. The lease agreement has a term of 99 years, and commenced on June 12, 1968. The lease requires an annual payment of \$1 and the fulfillment of certain covenants, such as payment for improvements and maintenance, as consideration.

**NOTE 17 – EMPLOYEE BENEFIT PLAN**

The following description of the Museum of South Texas Simplified Employee Pension Plan (the Plan) provides only general information. Participants should refer to the Summary Plan Description for a more thorough description of the Plan's provisions. The Plan is a defined contribution plan covering all employees of MOSTH who have completed six months of employment. An employee may enter the Plan in the quarter beginning after the date on which an employee meets the eligibility requirement.

During the Plan year ended December 31, 2015, MOSTH elected to contribute five percent of the employee's base salary to the Plan. Contributions were \$30,656. The plan is self-directed by the individual employee. The trustee is Wells Fargo Advisors or another agent if the employee so designates.

MUSEUM OF SOUTH TEXAS HISTORY  
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**NOTE 18 – RECLASSIFICATION OF NET ASSETS**

The Schaleben Corpus of \$83,891 was determined to be a true endowment. Therefore, the Schaleben Corpus was reclassified from board designated net assets to permanently restricted net assets.

**NOTE 19 - ALLOCATION OF FUNCTIONAL EXPENSES**

Allocation of expenses for the Operating Fund to functional categories for the year ended December 31, 2015 are as follows:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Auxiliary Services</u>	<u>Total</u>
Salaries	\$ 395,634	\$ 137,620	\$ 79,200	\$ 12,218	\$ 624,673
Employee benefits	83,868	29,173	16,789	2,590	132,421
Payroll taxes	<u>32,005</u>	<u>11,133</u>	<u>6,407</u>	<u>988</u>	<u>50,533</u>
Total salaries and related expenses	511,507	177,926	102,397	15,797	807,626
Advertising and public relations	64,834	-	-	-	64,834
Archives and exhibits	23,784	-	-	-	23,784
Bad debts	12,248	-	-	-	12,248
Bank charges	3,231	603	-	3,231	7,065
Cost of goods sold	-	-	-	34,942	34,942
Contract labor	69,153	-	-	34,060	103,213
Dues and subscriptions	7,230	-	-	-	7,230
Education programs	19,471	-	-	-	19,471
Fundraising (direct)	-	-	55,580	-	55,580
Insurance	73,001	1,880	728	224	75,833
Miscellaneous	425	7,440	425	-	8,290
Professional fees	-	60,801	-	-	60,801
Postage/supplies	10,563	5,963	511	-	17,037
Printing/publications	3,093	-	-	-	3,093
Repair and maintenance	78,797	673	290	67	79,827
Travel	1,751	822	301	105	2,979
Conferences and meetings	126	59	22	8	215
Utilities	<u>140,492</u>	<u>1,199</u>	<u>516</u>	<u>120</u>	<u>142,327</u>
Total expenses	<u>\$ 1,019,706</u>	<u>\$ 257,366</u>	<u>\$ 160,768</u>	<u>\$ 88,553</u>	<u>\$ 1,526,393</u>

Advertising costs are expensed as incurred. Total advertising costs incurred for 2015 amounted to \$64,834 which includes in kind contributions of \$10,050.

MUSEUM OF SOUTH TEXAS HISTORY  
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**NOTE 20 – SUBSEQUENT EVENTS**

For purposes of reporting subsequent events, management has considered events occurring up to May 3, 2016, the date the report was available to be issued.

The Museum transferred a total of \$250,000 on February 24, 2016 and March 30, 2016 from the Save Our Jail Fund to the Endowment Fund for the purpose of meeting requirements set by Edinburg Foundation, Inc. regarding the matching portion of an endowment grant.